utmost™
LIFE AND PENSIONS

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Utmost Life and Pensions Limited

Principles & Practices of Financial Management
Effective from 1 April 2022

www.utmost.co.uk

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1. Introduction

Purpose of the PPFM

1.1. All firms that carry out with-profits business in the UK are required by the Financial Conduct Authority ("FCA") to define, and make publicly available, the Principles and Practices of Financial Management ("PPFM") that are applied in the management of their with-profits business. The FCA prescribes the areas that the PPFM document must cover.

1.2. This document is the PPFM for Utmost Life and Pensions ("the Company"), and it applies to the four with-profits funds of the Company. It does not apply to the with-profits fund of Equitable Life, a subsidiary of the Company.

1.3. Throughout this document a distinction is drawn between the **Principles** and the **Practices** of Financial Management.

1.4. **The Principles** describe enduring statements of standards followed by the Company in managing its with-profits business.

1.5. **The Practices** are more detailed statements of the Company's current approach to managing its with-profits business and are expected to adapt to changes both in economic conditions and in the Company's business, while continuing to reflect the underlying Principles.

1.6. The Principles and Practices may be amended in the future to:

- Respond to changes in the business or economic environment;
- Protect the interests of policyholders;
- Better achieve a Principle; or
- Improve the clarity of, or correct an error or omission in, the PPFM.

1.7. In normal circumstances the Company will give policyholders 3 months' notice of any change to the Principles. In unusual circumstances the Company may, after applying for and being granted permission by the FCA, make changes to the Principles without providing the 3 months' notice. A proposed change to a Principle would be approved by the Board after receiving advice from the With-Profits Committee ("WPC") and the With-Profits Actuary ("WPA").

1.8. The Company may change the Practices set out in this PPFM from time to time for any of the reasons set out above. Policyholders will be notified in a reasonable period after such a change comes into force. A proposed change to a Practice would be approved by the Board after receiving advice from the WPC and the WPA.

1.9. Changes to the methods, assumptions and parameters used to implement the Principles will be made as and when they are considered to be appropriate and must be consistent with treating customers fairly. Proposals for such changes may be initiated by the Board, the WPC, and/or the WPA. In any case, the implications of the proposed changes will be reported to the Board, who will then decide whether the changes should be implemented.

1.10. Some practices will differ by with-profits sub-fund as a result of the history and business in that sub-fund. Where specific Practices only apply to some with-profits sub-funds they are set out separately for each sub-fund.

Company Information

Background

1.11. Utmost Life and Pensions Limited, which was previously known as Reliance Life (the "Company") is a shareholder owned company which was authorised in 2017. The Company is owned by Utmost Life and Pensions Holdings Limited which is incorporated in England.

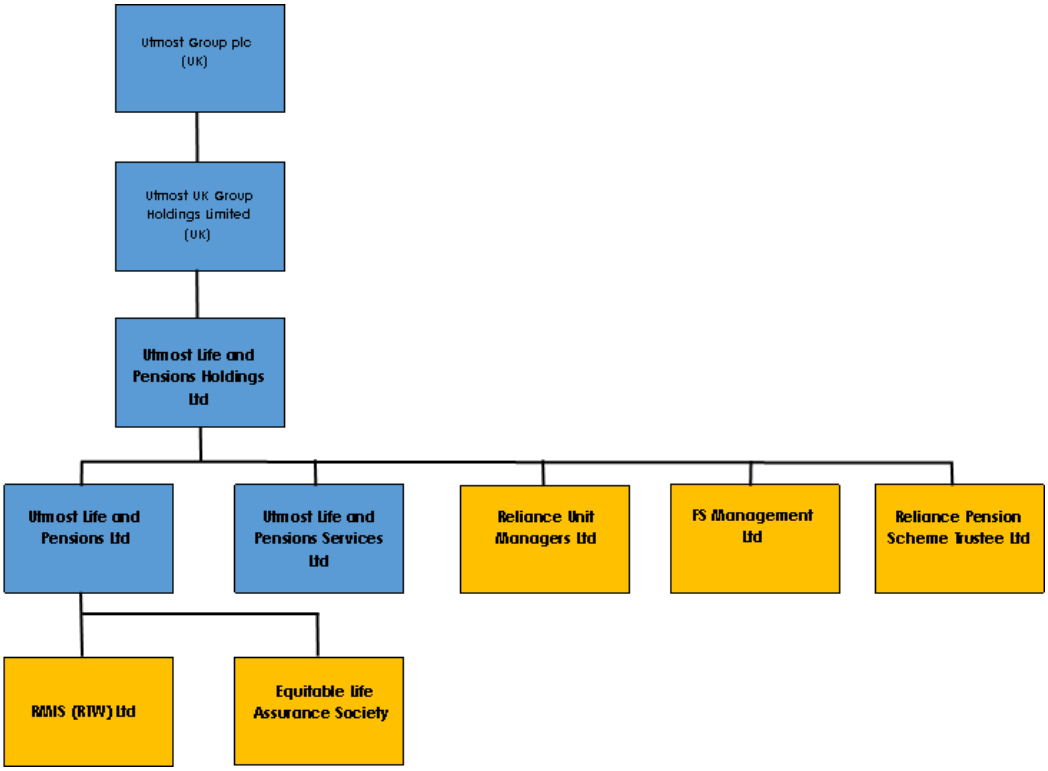
1.12. The Company was authorised shortly prior to the transfer of all of the business (both with-profits and non-profit) of Reliance Mutual Insurance Society ("RMIS") in 2018. RMIS was a mutual insurance company and as such had no shareholders. The business was transferred from RMIS to the Company by way of a Part VII transfer, the "Transfer Scheme". RMIS traced its origins back to 1911 and wrote and acquired a variety of both with-profits and non-profit business.

1.13. As a result of various acquisitions by RMIS prior to the Transfer Scheme, the with-profits business is currently divided across 4 sub-funds (WPSF1, WPSF2, WPSF4 and WPSF6). There is also a small amount of Unitised With-Profits business which is written in the Company's Non-Profit Fund "NPF"; the with-profit element of this business is invested in WPSF6. There is no new Unitised With-Profits investment as further switches were stopped following the original transfer of the business to RMIS.

1.14. In 2020 the Company acquired the majority of the business of Equitable Life Assurance Society (ELAS) by way of a Part VII transfer. Immediately prior to that transfer, a Scheme of Arrangement converted all of the with-profits business of ELAS to unit-linked, with the exception of German with-profits business. Most of the ELAS policies transferred to the Company, but the Irish and German business remained as ELAS policies, with ELAS becoming a wholly owned subsidiary of the Company. A separate PPFM exists in respect of the German with-profits business in ELAS.

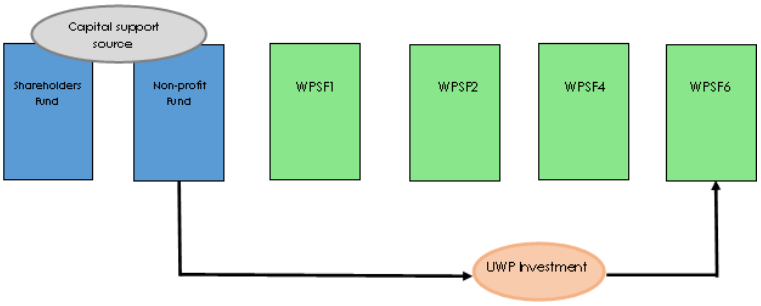
1.15. Diagram 1 illustrates where the Company sits within its UK group structure. Only the UK companies in the group are shown. The companies shown in blue have direct links to the management of the Company's with-profits business. Utmost Group plc, the top company shown, is ultimately 100% owned by Utmost Topco Limited in Guernsey, through a series of intermediate holding companies. Utmost Topco Limited is in shared ownership and the majority shareholder is OCM Utmost Holdings Limited in the Cayman Islands.

Diagram 1: UK Company structure



1.16. The structure of the sub-funds within the Company is illustrated in Diagram 2. This Diagram shows a split between the shareholders fund and NPF, which is consistent with the presentation in the accounts. This split is not recognised for the purpose of the calculation of regulatory capital requirements. The diagram illustrates that capital support is provided (where required) by the NPF, with recourse to the shareholder fund of the Company. It also illustrates the investment of some parts of unit-linked contracts from NPF into WPSF6 as a unitised with-profits investment.

Diagram 2: Fund structure



1.17. The same Principles apply to each of the four with-profits sub-funds.

1.18. The with-profits sub-funds are all now closed to new business with the exception of increments on existing plans, policyholders' exercise of options contained in their contracts, new members of existing group schemes and with-profits annuity contracts on vesting pensions business.

1.19. Because of their different history and composition, there are a number of areas where different Practices apply to each sub-fund. The composition of each sub-fund is summarised below.

Non-Profit Fund ("NPF")

1.20. Business from RMIS was transferred into this fund in 2018. The transferred business included:

- non-profit unit-linked;
- non-linked business written or acquired by RMIS;
- business that converted to a non-profit basis following the closure of a with-profits sub-fund; and
- some unit-linked policies with an option to invest in WPSF6 on a unitised with-profits basis.

1.21. The investment risks for the unitised with-profits policies sits in WPSF6 as a result of an intra-fund arrangement originally put in place when the business was transferred to RMIS and replicated when the business was transferred to the Company. There are provisions to apply market value reduction factors.

1.22. The business transferred to the Company from ELAS in 2020 is in the NPF.

1.23. Further business written or acquired by Utmost Life and Pensions Limited may be in this fund or new sub-funds.

With-Profits Sub-Fund 1 ("WPSF1")

1.24. This sub-fund contains:

- All the with-profits business originally written by RMIS; and
- The with-profits business, principally in the industrial branch, that was originally written by other companies, all of which were acquired by RMIS prior to 1972.

1.25. This business was transferred to the Company in 2018.

1.26. WPSF1 includes with-profits business in both industrial and ordinary branches. The industrial branch was closed to new business at the end of 1987. With-profits business continued to be written in the ordinary branch until the end of 1999, although only a low volume of with-profits business was written after 1987.

1.27. Any new annuity contracts arising out of vesting with-profits savings contracts in WPSF1 are written into the NPF. No business in WPSF1 has been written on a unitised basis, or with a guaranteed method of calculating early surrender values.

With-Profits Sub-Fund 2 ("WPSF2")

1.28. This sub-fund contains all the business previously contained in the Criterion Life Assurance with-profits fund. This business was transferred to RMIS in June 2004 and subsequently transferred to the Company in 2018.

1.29. Criterion Life Assurance Limited wrote with-profits policies for both life assurance and pensions business. No new with-profits policies have been written since June 1975. A few policies commenced sharing in profits after this date following the exercise of options contained in existing policies. Some policies in the sub-fund ceased to participate in profits in accordance with the policy conditions on, for example, ceasing

to pay premiums. The with-profits business was originally written by a number of insurance companies, including principally Lifeguard Assurance Limited. Lifeguard Assurance Limited changed its name to Criterion Life Assurance Limited in 1984.

1.30. No business in WPSF2 has been written on a unitised basis or with a guaranteed method of calculating early surrender values.

With-Profits Sub-Fund No. 4 ("WPSF4")

1.31. This sub-fund contains the business previously contained in the Family Assurance Time Retirement Annuity Fund. This business was transferred to RMIS in September 2004 and subsequently transferred to the Company in 2018.

1.32. The Family Assurance Time Retirement Annuity Fund was originally part of Time Assurance Society. The Retirement Annuity Fund contained with-profits and non-profits pensions business, but no life assurance business. In 1990 Time Assurance Society converted from a friendly society to a private limited company named Templeton Life Assurance Ltd and was acquired by Templeton Global Investors Ltd. The Retirement Annuity Fund was closed to new business at the conversion date. In 1994 Family Assurance Friendly Society acquired Templeton Life Assurance Ltd and transferred its business into Family Assurance.

1.33. No business in WPSF4 has been written on a unitised basis or with a guaranteed method of calculating early surrender values.

With-Profits Sub-Fund No. 6 ("WPSF6")

1.34. This sub-fund contains the with-profits business from the Hearts of Oak Friendly Society. This business was transferred to RMIS in July 2007 and subsequently transferred to the Company in 2018.

1.35. Hearts of Oak Friendly Society was originally founded as Hearts of Oak Benefit Society. The Society wrote a wide range of life assurance pensions and sickness policies on both a with-profits and a non-profit basis. During the 1970s, 1980s and 1990s, Hearts of Oak was the recipient of transfers of engagements from a number of other smaller friendly societies. No new business has been written since 2000.

1.36. The non-profit business of Hearts of Oak is held in the NPF. Some unit-linked business in the NPF has unitised with-profits investment, the investment risk for the unitised with-profits investment is transferred to WPSF6, through an inter-fund arrangement. Thus WPSF6 effectively has unitised business with provisions to apply market adjustments when a claim arises. This business also has a guaranteed method of calculating early surrender values at set dates. No new unitised with-profits investments are permitted.

1.37. Practices relating to unitised with-profits business are set out under WPSF6.

What business is covered by this PPFM?

1.38. This PPFM covers all the with-profits business transferred from RMIS in 2018 including any with-profits annuities that were written in WPSF4 or WPSF6 as a result of an option on a contract that was transferred from RMIS.

2. Overarching Principles

Introduction

2.1. The Board may change the Overarching Principles in this section if it is believed to be necessary (as set out in the Transfer Scheme), and following the Board having obtained appropriate actuarial advice from the WPA and WPC. The regulators must be notified prior to making a change, with their approval being sought where necessary.

2.2. The Principles listed in paragraphs 2.3 to 2.9 set out the standards and high level objectives used by the Company in managing the Company's with-profits business and determining payouts for with-profits policyholders. These Principles apply across all the with-profits sub-funds and will be retained for the life of those with-profits sub-funds.

Principles

2.3. The Principles that must be considered above any of the other Principles and Practices in this document are:

- To meet contractual obligations to policyholders in all reasonably foreseeable circumstances.
- To treat policyholders fairly.
- To manage each WPSF in a sound financial manner with the aim that each WPSF should cover its own capital requirements excluding any amounts in relating to operational risk (capital requirements and associated liabilities), which are covered by the NPF.

2.4. The Company aims to treat all its customers fairly, having regard to statements made in marketing literature and communications to policyholders.

2.5. As part of treating customers fairly, the Company aims to manage any conflicts of interest that might arise between different groups of policyholders or between policyholders and shareholders.

2.6. Bonuses should be set with the aim of distributing the assets of a with-profits sub-fund to its with-profits policyholders over time.

2.7. The Company's investment strategy for the with-profits sub-funds aims to maximise the returns to with-profits policyholders provided always that:

- Sufficient liquid assets should be available to meet cash outgo on liabilities as they fall due;
- Exposure to investment risk should be consistent with the overall risk appetite of the with-profits sub-fund having regard to the currency, nature and outstanding duration of the liability profile of the with-profits sub-fund;
- The strategy should be consistent with principles of sound financial management, which includes meeting the with-profits sub-fund's capital requirements other than amounts relating to operational risk (capital requirements and associated liabilities); and
- Regard should be had to any statements made to policyholders.

2.8. Charges to the with-profits sub-funds should be made in accordance with the terms of the Transfer Scheme. Where there are discretionary elements of the charges, these will be reviewed by the WPA and WPC and will only be applied where they are considered to be fair.

2.9. Where the Board determines that there should be a transaction between the with-profits sub-funds and the NPF or other third parties, including on the vesting of annuities or transfer or reinsurance of any of the business in a with-profits sub-fund, these will be reviewed by the WPA and WPC. Any material transaction will only be carried out with the approval of the WPA and WPC that the terms are fair.

3. The amount payable under a with-profits policy

Introduction

3.1. For each of the with-profits sub-funds of the Company, the surplus available for distribution to the with-profits policyholders is determined twice each year by the Board of the Company.

3.2. This surplus is distributed to with-profits policyholders by means of bonuses which are declared from time to time as annual bonuses and final bonuses at the time of claim. The Board may also, from time to time, declare a one-off "extraordinary bonus".

3.3. Bonuses become contractual rights only at the point at which they are added to a policy.

3.4. At any point in time a policy has attaching guaranteed benefits. These generally consist of the initial sum assured plus attaching annual bonuses and extraordinary bonuses already declared and hence allocated to that policy. WPSF6 has some annual bonuses, declared from December 2001, that are not guaranteed and therefore do not increase the guaranteed benefits. For deferred annuities the guaranteed benefits are annuity amounts which have a similar structure of an initial guarantee plus bonuses.

3.5. Annual bonuses generally increase the guaranteed benefits payable under a policy and are assessed at least once a year. For ordinary branch business, annual bonuses are expressed as a percentage of the current guaranteed benefits under the policy. For industrial branch business, annual bonuses are expressed as a percentage of the initial sum assured.

3.6. Extraordinary bonuses may be declared from time to time and result in a one-off increase to the guaranteed benefits payable under a policy. The Company reviews whether it would be appropriate to declare an extraordinary bonus as part of its bonus review process.

3.7. Final bonus is added to the policy when a claim is made. Final bonus rates are assessed at least twice a year. They are generally expressed as a percentage of the current guaranteed benefits under the policy (as defined above).

3.8. The rates of bonus vary according to the type of policy and between the different with-profits sub-funds. This section of the PPFM sets out the Principles and Practices used by the Company when setting bonus rates.

3.9. There are some areas where the unitised with-profits business is operated in a different manner from the other types of with-profits policies. Where appropriate separate Practices are set out for this business.

Principles

3.10. As part of treating customers fairly, the Company aims to manage any conflicts of interest that might arise between different groups of policyholders or between policyholders and shareholders. The Company aims to ensure that:

- Payouts on maturity and death are fair between different groups of policyholders in the same fund. A group may be defined by one or several of the following: contract type, duration in force, age at entry, premium size

- Payouts on surrender strike a reasonable balance between the policyholders leaving the fund and those remaining in the fund.

- Payouts are set at such a level that the ongoing solvency of the with-profits sub-fund, is not threatened.

- Any transactions between the NPF and a with-profits sub-fund strike an appropriate balance between the interests of the with-profits policyholders and the shareholders.

3.11. The Company is prepared to allow a degree of approximation in implementing the Practices set out below, to achieve an acceptable balance between any conflicting interests that may arise.

3.12. The Board determines the amount of surplus that it is appropriate to distribute to each group of with-profits policyholders through the declaration of bonuses, bearing in mind that it may be necessary for some surplus to be retained within a particular sub-fund to ensure the continued sound financial management of the ongoing business within that sub-fund.

3.13. The bonus policy aims to:

- Provide a fair return on premiums paid by with-profits policyholders, reflecting the return on the underlying investments smoothed to reduce the effects of volatility in the investment markets; and additionally

- Distribute all of the surplus arising in each sub-fund equitably among the with-profits policyholders in that sub-fund, over the remaining term of their policies. These surpluses are distributed as final bonus as an enhancement to policyholder benefits. The final value of these enhancements is not guaranteed as it will include any future surpluses or deficits and final bonuses will be changed to reflect future surpluses (or deficits) as they emerge.

3.14. In order to provide an element of stability in returns to policyholders, the Company smooths payouts by spreading profits and losses from one year to the next. Smoothing is implemented by adjusting final bonus rates so that, in normal investment conditions, the change in payout values from year to year lies within a pre-determined range. A similar approach to smoothing applies to all types of claim, i.e. maturities, deaths and surrenders.

3.15. The Company's intention is that the cost of smoothing is neutral to policyholders over the medium term although this will not necessarily be the case over the shorter term. There is no specific principle relating to the maximum short-term cost of smoothing other than that implied by the principles of fairness and sound economic management set out above.

3.16. Any changes in bonus policy required to fulfil the above Principles should be implemented gradually unless this would conflict with the continued sound financial management of the ongoing business within a sub-fund.

3.17. Final bonuses are determined so that when a claim is made the total payout on a policy is consistent with the Principles set out above.

Practices

Amount Payable (all funds) – bonus reserve valuation

3.18. Amounts payable to with-profits policyholders are set with reference to a bonus reserve valuation of liabilities and the value of the entire assets of the sub-fund.

3.19. Under the bonus reserve valuation, the current value of future liabilities, such as payments to policyholders and future expenses, is calculated using a realistic basis set by the Board.

3.20. Rates of final bonus are set so that the value of liabilities of the sub-fund, including final bonuses, equals the value of the assets in the sub-fund. Calculations are carried out for the sub-fund as a whole, and are designed to fulfil the aim that all emerging surplus is distributed within the lifetime of the existing policies.

3.21. If experience suggests that a proportion of policies in a sub-fund will not lead to a claim, for instance if contact has been lost with policyholders and benefits have not been paid out as expected, then such liabilities may be allowed for when setting final bonuses. In this way, all the assets of the sub-fund will be distributed over time to those policies which are paid out.

3.22. The key assumptions used in the bonus reserve valuation methodology are:

- The valuation interest rate is based on a risk-free rate, adjusted where appropriate.
- Future management and investment expenses are allowed for at the rates charged to the sub-fund (as set out in Appendix B), with allowance for future indexation of management expenses and tax relief if appropriate. Other direct expenses (as set out in Appendix B) would only be included if expected to be material.
- The mortality assumptions are based on industry experience modified to take into account the actual experience of the portfolio, where there is sufficient data for the experience to be credible.
- There is no allowance for early termination of policies, or other business risks that may fall on the fund.
- The amount of tax charged to the sub-fund is allowed for where appropriate and is set as if the sub-fund was a stand-alone mutual (as set out in Appendix B).
- Future annual bonuses are allowed for, set to be consistent with the current method for calculating them.
- Where the with-profits sub-fund contains business with options, an assumption is made about the take up of that option. These assumptions are derived from a review of actual experience (e.g. the age at which policies in WPSF4 take retirement benefits and the proportion of contracts that take guaranteed annuity options) with regard to how such experience is expected to alter in the light of any changes in the regulatory or tax environment.

3.23. The bonus reserve valuation is used in different ways (as set out below), for some purposes only the guaranteed benefits (such as sum assured and annual bonuses) are included in the valuation, whereas for other purposes other bonuses (such as future final bonuses) are also included.

3.24. Under this approach, the principal factor that drives whether a change in policy values (for the whole with-profits sub-fund) is appropriate is the difference between the investment return on the assets held in the sub-fund and the adjusted risk-free rate used in the valuation basis described in paragraph 3.22.

3.25. Other items such as differences between actual mortality experience and the valuation basis assumption, surrender surpluses, surpluses from non-profit business and business risks also contribute to the experience that is recognised in determining policy values.

3.26. The bonus reserve valuation method explicitly allows for the building up of guarantees from the basic guaranteed benefit and accumulating annual bonuses.

Amount Payable (WPSF4) – bonus reserve valuation

3.27. As WPSF4 only contains pensions business, there is no allowance for tax in the valuation basis.

Amount Payable (WPSF6) – bonus reserve valuation

3.28. The valuation explicitly allows for the restructure of benefits, described in paragraph 3.29 - 3.31, that was carried out when the business was transferred to RMIS.

Amount Payable (WPSF6) – benefit restructure

3.29. At the time that the business in WPSF6 was transferred into RMIS, benefits were restructured. The High Court approved a scheme that reduced guaranteed benefits by 12.5% for the majority of policies. For some policies a smaller reduction was implemented. These amounts became non-guaranteed and are called the "special final bonus".

3.30. Non-guaranteed final bonus may be payable at the time of a claim, equal to a proportion of the accrued benefits excluding final bonus.

3.31. Benefits on unitised with-profits business and with-profits annuities in payment were not altered.

Annual bonus (all funds)

3.32. Annual bonus rates for with-profits business are reviewed at least annually.

3.33. An interim bonus is paid on claims arising before the next declaration of bonus. In normal investment conditions interim bonus rates will be close to the last declared annual bonus rate. Movements in interim bonus rates can be used to signal a possible change in annual bonuses at the forthcoming declaration.

3.34. It is not envisaged that it will be necessary to change the methods of calculating annual bonus rates within the lifetime of the existing with-profits policies. However, they may be changed, if required, in order to facilitate the ongoing sound financial management of the sub-fund.

Annual bonus (WPSF1)

3.35. Current practice is to preserve the structure and rates of annual bonus established prior to the transfer of the business to the Company unless this is inconsistent with the principle of fairness.

Annual bonus (WPSF2)

3.36. For most classes of policy, policyholders have the option to take annual bonuses in cash. A rate of 55% of the premiums paid since the last valuation has been paid for many years. Where this option is not exercised, or is not available, 55% of premiums paid since the last bonus declaration is calculated and converted to a bonus addition to the guaranteed benefits.

3.37. The basis for this conversion is not guaranteed, but the same basis has been used for many years, and the only reason for altering it would be to satisfy the principle of sound financial management of the sub-fund. Policies not subject to a regular premium throughout the policy term are assessed on the basis of a notional regular premium that the Chief Actuary considers to be equivalent to the premiums actually paid.

Annual bonus (WPSF4)

3.38. Current practice is to preserve the structure and rates of annual bonus established prior to the transfer of the business to the Company unless this is inconsistent with the principle of fairness.

Annual bonus (WPSF6)

3.39. As noted in the introduction, annual bonuses on WPSF6 policies were awarded on a non-guaranteed basis in the past. These historically declared amounts were subsequently set to zero for some years and are currently being paid in full. The level of these non-guaranteed, historically declared, bonuses to pay is reviewed annually.

3.40. Where the non-guaranteed, historically declared, annual bonuses have been reduced, the practice is to reinstate them in full before declaring any additional annual bonuses in respect of the current year. Policyholders were advised prior to the benefit restructure that it was not the intention to declare any further annual bonuses, on a guaranteed or non-guaranteed basis. As the fund is now in a stronger position than when it was originally transferred from Hearts of Oak Friendly Society, this may change and will be considered as part of the annual bonus review.

Final bonus (all funds)

3.41. Final bonus rates for with-profits business are determined by adjusting a base final bonus scale so that the bonus reserve valuation of the liabilities, including final bonus on with-profits policies, equals the assets of the fund. The calculation of the bonus reserve valuation is set out in paragraphs 3.18 to 3.21 above.

3.42. Calculations are carried out for the each of the with-profits sub-funds as a whole, and are designed to fulfil the aim that all emerging surplus is distributed within the lifetime of the existing policies.

3.43. Changes to final bonus rates may be smoothed as described in the smoothing section.

3.44. The base final bonus scale is left unaltered when rates change, with the adjustments set so that policy payouts change by the same rate. This maintains any historical differences in policy payouts, including final bonus, between different product types and different years of inception.

3.45. Final bonus rates are usually determined twice a year. Significant changes in investment market conditions or other unexpected events could trigger an interim review of final bonus rates.

3.46. The same final bonus rates are used in the determination of surrender values or when a policy is made paid up. This means that the amounts received when a policy is altered or surrender will be updated when the maturity or death benefit for that policy are updated, following a bonus review.

Final bonus (WPSF1)

3.47. The final bonus rates are expressed as a percentage of guaranteed benefits plus attaching annual bonus, based on year of inception.

3.48. The base final bonus scales used are derived from the work carried out in 2012, when a Scheme of Arrangement was implemented by RMIS.

3.49. There are six final bonus scales, which apply depending on the class and source of the business.

Final bonus (WPSF2)

3.50. The final bonus rates are expressed as a percentage of guaranteed benefits plus attaching annual bonus, based on year of inception.

3.51. Policies that commenced participating in profits after 1 July 1975 receive a given percentage of guaranteed benefits plus attaching annual bonus.

3.52. Policies that commenced participating in profits before 1 July 1975 receive an additional percentage for each year that the policy shared in profits prior to the year 1975/6.

3.53. Pension policies are not entitled to any final bonus.

Final bonus (WPSF4)

3.54. The final bonus rates for deferred annuities are expressed as a percentage of guaranteed benefits plus attaching annual bonus.

3.55. For deferred annuities there are two terminal bonus rates that depend on the class of with-profits contract. The final bonus is paid in the same manner as the guaranteed benefits.

3.56. When a deferred annuity comes into payment, the terminal bonus element accrued during the deferred period is only guaranteed for the first year of annuity payments.

3.57. The amount of terminal bonus on annuities in payment may be varied for subsequent years to ensure fair treatment of the different classes of policy in the fund, consistent with the practices on smoothing below.

Final bonus (WPSF6)

3.58. The final bonus rates are expressed as a percentage of all the accrued benefits excluding final bonus.

3.59. WPSF6 contains some annuities in payment that are with-profits policies. These annuities have both guaranteed and non-guaranteed elements. The non-guaranteed element of the annuities in payment may be varied or removed depending on the performance of the fund.

Smoothing (all funds)

3.60. If the result of a review of final bonus for both conventional and unitised with-profits would result in very small changes in the value of similar policies, the final bonus rates may be kept unchanged. In addition final bonus rates are adjusted so that the maximum change in the value of similar policies from one bonus review to the next is normally restricted to 15%.

3.61. Smoothing is expected to be neutral over the medium term. If the operation of the smoothing process in paragraph 3.60 is not expected to remove any overpayments or underpayments compared with the unsmoothed level of policy values within a three-year period, the maximum change in policy values from one bonus review to the next can be increased to 20%. The structure of final bonus rates for conventional with-profits business leads to amounts payable on with-profits business that are a smooth progression between policies of varying durations.

3.62. In very adverse circumstances, where operation of the smoothing policy would be inconsistent with securing the sound financial management of the sub-fund, the restrictions on annual changes would be reviewed. This restriction would typically be relaxed if one or more of the following occurred:

- The value of the assets held by the fund changes significantly over the year;
- Experience is significantly different to that expected in the projections;
- The long-term expectations of the investment performance of the assets held by the fund changes significantly; or
- Capital support is being provided as a result of low solvency within the sub-fund.

3.63. Where capital support is being provided as a result of low solvency, smoothed payouts (set for all the policies in the with-profits sub-fund) would be expected to change by an additional amount equal to the expected outgo on the capital support charge in the next twelve months.

Surrender Values

3.64. Surrender values are calculated using a formula based approach, which uses the initial sum assured, the annual bonuses and any extraordinary bonuses declared and the smoothed final bonus rates set for contracts of the appropriate type and duration in force. The final bonus rates are reviewed at least twice a year.

3.65. Other elements of the surrender basis are reviewed at least annually and any changes to this basis are designed to reflect fairly any changes in underlying policy values so as to maintain equity between surrendering policyholders and those that remain in the fund.

Practices - Unitised With-Profits Business

3.66. The Practices that follow set out the areas where the unitised with-profits business is operated in a different manner from the other types of with-profits policies.

3.67. The only risks that unitised with-profits policies are exposed to are investment risks. They do not share in any surplus or strain relating to insurance risks in the fund (or to the risks associated with specific assets bought to protect the fund against those insurance risks such as derivative or reinsurance arrangements).

3.68. Certain unitised with-profits pension policies have a guaranteed rate of growth in price of 3% per annum. All policies have a discretionary growth rate that has been declared from time to time. It is possible for the discretionary additions added since 2001 to be removed retrospectively.

3.69. All unitised with-profits pension policies provide that a market value reduction can be applied on termination other than on death or at the contractual vesting date (if any). Life assurance policies provide that a market value reduction can be applied on surrender or partial encashment of units, except where a scheme of partial encashment was set up at the time the policy commenced, in which case no reductions can be applied unless the scheme is varied. Market value reductions cannot be applied on death.

3.70. Market value reductions ("MVRs") depend both on policy type and vary by calendar year. The value of units purchased by premiums in any one calendar year are reduced by the MVR for that year. If premiums were paid over a number of years, the actual termination value would be the sum of these components. The amount of such reduction is at the discretion of the Company, having taken advice from the WPA. The MVRs will normally be determined by the WPA with the bonus review.

3.71. UWP discretionary growth rates and bonuses payable on exit are set with reference to the growth in the investments underlying the policies, with appropriate allowance made for tax.

4. Investment Strategy

Principles

4.1. The Board is responsible for setting the investment strategy of the Company, and manages this strategy as part of its overall risk management of the Company.

4.2. Implementation of the investment strategy, including maximum exposure to any counterparty, is governed by investment guidelines established by the Board. The Board has appointed a sub-committee, the Investment Committee ("IC"), to consider the investment strategy of the Company.

4.3. The Company's investment strategy for the with-profits sub-funds aims to maximise the returns to with-profits policyholders in line with the Overarching Principles set out in Section 2 and provided always that:

- Sufficient liquid assets should be available to meet cash outgo on liabilities as they fall due;
- Exposure to investment risk should be consistent with the overall risk appetite of the with-profits sub-fund having regard to the currency, nature and outstanding duration of the liability profile of the with-profits sub-fund;
- The strategy should be consistent with the sound financial management of the sub-fund, which includes meeting the sub-fund's capital requirements; and
- Regard should be had to any statements made to policyholders.

4.4. The assets in the with-profits sub-funds are managed such that each of the sub-funds is able to fully cover its respective policyholder and other liabilities. Where appropriate, notional asset allocations may be used within a particular sub-fund to back different types of liability within that sub-fund.

4.5. Derivatives and similar instruments may be used as part of the investment strategy, provided their use is approved by the Board and is consistent with the above Principles and that adequate documentation of the rationale for their use is maintained.

4.6. The Board issues investment guidelines to the IC in respect of each appropriate block of with-profits business, following advice from the WPC, Chief Actuary and WPA. These guidelines set out various high level investment recommendations with respect to the nature, duration, level of guarantees, and desired volatility of the relevant policyholder payouts.

Practices – (all funds)

4.7. A review of the actuarial constraints on investment policy is carried out annually and reported to the Board, the WPC and the IC. In addition the IC considers a six-monthly review of investment strategy and performance, operating within the actuarial constraints specified and six-monthly reports on compliance with the investment guidelines.

4.8. The bonus reserve value of with-profits policy liabilities excluding final bonus (and including liabilities on non-profit business), are backed by fixed interest securities of appropriate duration, and cash on deposit. The level of assets required for this purpose is assessed at least annually.

4.9. The balance of the with-profits sub-fund is invested in both assets which are expected to exhibit a low volatility of return, and equities for WPSF6, within the constraints set out in the investment guidelines. Direct investment in real property and any investment in new or novel investment instruments, including any loans made by the fund, must be approved by the Board before any such commitment is made.

4.10. Where there is a significant realistic surplus this allows for greater investment freedom, provided this is consistent with the volatility of benefits that is appropriate to the policies in the fund. In particular, it may allow the fund to depart from the asset allocation set out in paragraphs 4.8 and 4.9 above. The Company assesses the extent of this investment freedom by considering the regulatory solvency position of the sub-fund following a severe deterioration in investment conditions. The IC must agree the extent of departure from the constraints, and the duration of any such departure, having received input from the Chief Actuary and the WPA.

Practices – WPSF6

4.11. Reserves for guaranteed annuity rate options on certain policies are backed by a portfolio of assets specifically earmarked and designed to mitigate the risks associated with these options. The IC reviews the portfolio annually. It is adjusted if the benefits from an adjustment outweigh the costs of rearranging the portfolio. The portfolio consists of interest rate swaptions and similar market instruments and cash.

5. Business Risk

Principles

5.1. With-profits policyholders are exposed to all the business risks within their sub-fund, including any historic compensation costs associated with those risks (including historic mis-selling compensation even where a policy now resides in the NPF).

5.2. No with-profits sub-fund is exposed to risks associated with new ventures, or new business (other than new business resulting from options on existing contracts).

5.3. The key business risks arising from within a sub-fund relate to:

- Risks connected to the investment performance and counterparty risks associated with the particular assets held in the sub-fund. These are covered in Section 4 of this PPFM.

- Costs arising from the minimum guaranteed policy benefits and (in the short-term) the application of smoothing. The fund invests appropriately to meet the liabilities arising from the guaranteed benefits (see Section 4) and the fund is managed to minimize the need for smoothing.

- Losses arising from the early surrender of policies.

- Risks associated with the regulatory environment for UK with-profits business which may affect the management of such business and/or the capital requirements.

- Holding solvency capital (which restricts the Company's ability to distribute the surplus in its with-profits sub-funds fully) – the Company regularly reviews the level of regulatory capital required in respect of each of the with-profits sub-funds.

- WPSF1 is also exposed to risks associated with its share of regulatory and infrastructure costs (as set out in Appendix B), and also to risks arising from the nature of its Industrial Branch business which means contact with many policyholders has been lost.

5.4. The risk exposures for each of the Company's with-profits sub-funds are regularly monitored. The Board has responsibility for the control of these risks and to ensure that all risk exposures are consistent with the fair treatment of the with-profits policyholders and the risk appetite set for the with-profits sub-fund.

Capital Support

5.5. The Board manages the Company such that, in normal circumstances, each with-profits sub-fund can meet its own regulatory requirements in terms of its regulatory liabilities and solvency capital requirements other than requirements relating to operational risk (capital requirements and associated liabilities) which are covered by the NPF. However, in some circumstances, a sub-fund may be unable to meet these capital requirements and therefore require support from the NPF.

5.6. The Transfer Scheme prevents any capital support being provided from one of the with-profits sub-funds. It also sets out the terms on which capital support would be provided by the NPF (where required this would be supported by additional assets from the shareholders' fund).

5.7. The Board, with appropriate advice from the WPA and following the review of the WPC, is responsible for overseeing the provision of any such support and ensuring that the different groups of policyholders are treated fairly in all circumstances.

5.8. Support provided to cover a shortfall of assets compared to regulatory liabilities will be provided in the form of a contingent loan. Any amounts no longer required are repaid within a month of the calculation. Support provided to cover a shortfall compared to the capital requirements (including solvency capital) will be provided in the form of a notional allocation of capital in the NPF or shareholders' fund. Capital support requirements are assessed quarterly.

5.9. In the event that support, other than amounts relating to operational risk (capital requirements and associated liabilities), is provided to a with-profits sub-fund, the sub-fund receiving the support will pay a charge to the NPF. Additional charges are applied to amounts provided as a contingent loan, reflecting the fact that any interest on the loaned assets, would accrue to the with-profits sub-fund that receives the loan.

5.10. The following charges apply:

- Support in respect of capital requirements relating to operational risks and liabilities associated with those requirements will be charged at a rate of 0%.

- Support to cover other capital requirements (where the support is not provided as a contingent loan) will be charged at an annual equivalent rate of 4%.

- Support provided as a contingent loan to ensure regulatory liabilities are covered will be charged at an annual equivalent rate of 4% + the prevailing yield on 10 year gilts.

5.11. In the event that one or more of the sub-funds requires capital support (other than in respect of operational capital requirements) or a transfer of assets, the Company will notify the regulators of the reasons for the support. Where practicable this notification will take place prior to the actual support being provided.

New Business

5.12. The only new business that can be written in the with-profits sub-funds is any new business resulting from options on existing contracts that has to be written in a with-profits fund. Annuities written on a non-profit basis on the vesting of a contract in one of the with-profits sub-funds are written in the NPF.

Practices – (all funds)

5.13. Business risks resulting in profits or losses to these with-profits sub-funds will be recognised through the annual bonus reserve valuation referred to in Section 3 above. This includes profits or losses from any non-profits policies in the sub-fund, where profits (or losses) on early termination are likely to accrue.

5.14. The assumptions made for the take up of options, which are used in setting the amounts payable, as discussed in Section 3, are unlikely to be borne out exactly in practice. This will generate profits or losses in the sub-fund with those options.

Practices – (WPSF2 & WPSF4)

5.15. Some policies in WPSF2 and 4 have been written with guaranteed annuity options or guaranteed cash options on annuity policies. These pose a potential risk to the sub-funds, for which the Board have established an appropriate provision. This may generate profits or losses to the sub-fund.

Practices – (WPSF6)

5.16. A significant number of policies in WPSF6 have been written with guaranteed annuity rate options. These pose a potential risk to the sub-fund. An appropriate provision has been established for these risks, and a portfolio of assets designed to mitigate the risks has been purchased to back the provision. This may generate profits or losses to the sub-fund. These profits or losses would not be shared with the unitised with-profits policies as they are associated with non-investment risks.

5.17. Some policies in NPF provide options for the policyholder to invest in either unit-linked investment funds or in the unitised with-profits fund. The terms of the policies and the marketing literature issued provide that the Company can cease to allow switches of investments or redirections of future premiums into the unitised with-profits fund. The original scheme used to transfer the business to RMIS prevented any new investments into the unitised with-profits fund other than future premiums on existing unitised with-profits business, this was retained when the business was transferred to Utmost Life and Pensions.

6. Charges, Expenses and taxation

Principles

6.1. The overall principle behind the Company's method of allocation of the expenses and costs of running the Company is to ensure that all allocations are fair between different groups of policyholders. Fairness implies that expenses are allocated in a consistent manner across the business, reflecting the nature of the cost and where (and to whom) the benefit of any service will arise.

6.2. All management expenses incurred by Utmost Life and Pensions Holdings are initially borne by Utmost Life and Pensions Services. Utmost Life and Pensions Services then charges the Company and other companies in the Utmost Life and Pensions Group with a share of the expenses incurred, based on the proportion of costs incurred and work done in respect of each company.

6.3. All management expenses attributable to the Company are initially allocated to the NPF. The NPF then receives charges from each of the with-profits sub-funds, the basis for these charges was fixed in the Transfer Scheme and is set out in Appendix B of this PPFM.

6.4. Tax charges are also initially allocated to the NPF. The NPF then receives charges from each of the with-profits sub-funds, the basis for these charges was fixed in the Transfer Scheme and is set out in Appendix B of this PPFM.

Practices – (all funds)

6.5. The expense agreement that determines the expense charges deducted from these with-profits sub-funds is set out in Appendix B. It defines investment, maintenance, new business and claim charges for each category of policy, separately for premium paying and non-paying policies.

6.6. These expense charges are used in the basis for the bonus reserve valuations that determine policy benefits set out in Section 3 above.

Practices – WPSF1

6.7. The expense agreement for WPSF1 (set out in Appendix B) additionally includes the basis on which some non-recurring costs such as regulatory and infrastructure costs may be charged to WPSF1. Such costs would only be charged by the Board and therefore allowed for in the bonus reserve valuations used to determine policy benefits, subject to the Board having taken advice of the Chief actuary and the WPA and having consulted the WPC.

6.8. The fairness of any allocation of regulatory and infrastructure costs is reviewed on an annual basis, by the Company's WPA and the WPC.

7. Management of the Inherited Estate and Closure of With-profits Sub-funds

Introduction

7.1. The Inherited Estate in respect of each individual with-profits sub-fund is defined as the market value of the assets less a realistic assessment of the amounts the Company expects to pay out to the with-profits policyholders or other creditors of that fund.

7.2. As set out in Section 3, the bonus policy is set to distribute all the surplus in each of the with-profits sub-funds, WPSF1, 2, 4 & 6, to the with-profits policyholders within each of those sub-funds. As a result none of the with-profits sub-funds has an Inherited Estate.

7.3. This section focuses on the principles and practices relating to how the assets in excess of guaranteed liabilities are managed as the policies remaining in each fund reduce with time. One key way in which this is achieved is by closing the with-profits sub-funds and converting the business to a non-profits basis. This is achieved by means of terms set out in the Transfer Scheme (which were replicated from previous schemes) where the surplus assets in excess of guaranteed liabilities (including future charges) are used to increase the guaranteed benefits of the with-profits policyholders.

7.4. Prior to the transfer of the business from RMIS, two with-profits funds were closed after they reduced to the level of the trigger points set out in legal schemes.

7.5. The Transfer Scheme sets out the following triggers after which the Company may (but need not) cease to maintain the with-profits sub-funds as separate sub-funds:

- WPSF1: total assets are valued at less than £25 million;
- WPSF2: total assets are valued at less than £10 million;
- WPSF4: total assets are valued at less than £25 million;
- WPSF6: total assets are valued at less than £25 million.

Principles

7.6. The Company aims to distribute all assets in a with-profits fund in excess of guaranteed liabilities (including future charges) to the with-profits policies in a sub-fund as final bonus. These amounts represent enhancements to policy benefits but the final value of these enhancements is not guaranteed as it will include any future surpluses or deficits.

7.7. Where a with-profits sub-fund is no longer maintained in line with the terms of the Transfer Scheme, the with-profits policies will be converted to a non-profits basis.

7.8. Where a with-profits sub-fund is no longer maintained, the non-profit benefits will be based on the existing guaranteed benefits plus additional guaranteed amounts in respect of other, non-guaranteed, with-profits benefits. The additional guaranteed amounts will be set so that the bonus reserve value of the with-profits sub-fund (including an allowance for expected future charges as set out in Appendix B), after conversion of the business to a non-profits basis, are equal to the assets of that with-profits sub-fund.

Practices

7.9. Distribution of all of the surplus in each of the with-profits sub-funds to the with-profits policyholders becomes more difficult as business in the with-profits sub-fund runs off. This can be managed by closing the funds at some point after they reach the target levels set out in paragraph 7.5.

7.10. When the level set out in the Transfer Scheme is reached, the WPA makes a recommendation to the Board as to whether the with-profits sub-fund should cease to be maintained at that time. If this does not happen, the WPA will make a subsequent recommendation at least annually.

7.11. Best estimates of assets and liabilities are used for assessing the value of benefits of the business converting from with-profits to non-profit when a with-profits fund ceases to be maintained. These estimates include allowance for expected future changes including unclaimed amounts (both in respect of policy benefits and from unpaid member distribution amounts arising from the Transfer Scheme).

8. Arrangements for taking on and ceasing new business

8.1. All the with-profits sub-funds are closed to new business so there are no Principles or Practices relating to arrangements for taking on or ceasing new business in this PPFM, other than those covered in Section 5.

9. Equity between the with-profits policyholders and shareholders

Principles

9.1. Under the terms of the Transfer Scheme, and prior to the Transfer under the terms of previous schemes, the entire surplus in a with-profits sub-fund is allocated to the with-profits policies in that sub-fund. No transfers of surplus can be made from the with-profits sub-fund to the NPF from which it could be transferred to shareholders.

9.2. In the event that capital outside a with-profits sub-fund is required to cover the capital requirements of that with-profits sub-fund, this will be provided by the NPF on the basis set out in the Transfer Scheme and Section 6 of this PPFM.

9.3. Decisions relating to the management of discretion which impact the with-profits sub-funds are referred to the WPA and WPC for review (unless they are immaterial).

9.4. Governance arrangements are in place which help to ensure that equity between with-profits policyholders, non-profit policyholders and shareholders is managed appropriately.

Practices

9.5. The Company maintains separate accounts for each of the sub-funds to enable the calculation of surplus arising in each sub-fund over the year.

9.6. Charges for expenses, tax and capital support are taken from each with-profits sub-fund in accordance with the terms of the Transfer Scheme as set out in Appendix B. Where there is discretion (for example with respect to regulatory costs charged to WPSF1) this is reviewed by the WPA and WPC.

9.7. The WPA makes recommendations on bonuses at least twice a year as set out in Section 3. These bonuses are set with the aim of extinguishing the assets of the with-profits sub-fund without requiring capital support to be provided.

9.8. The Transfer Scheme sets out levels for each with-profits sub-fund which trigger the option to cease to maintain the sub-fund as set out in Section 7. Once these trigger points have been reached, the WPA will make a recommendation regarding whether the with-profits sub-fund should cease to be maintained. If this has not happened, these recommendations will be reviewed at least annually.

9.9. The governance arrangements set out in Section 10 are followed.

10. Governance arrangements

Practices

10.1. The Board of the Company is responsible for the management of the business, including the establishment of distributable surplus and its distribution via bonuses to with-profits policies. It is the responsibility of the Board to ensure that the with-profits business is managed in accordance with this PPFM.

- The Board includes both executive and non-executive directors.

10.2. The Board of the Company has appointed a WPC which considers the management of the with-profits business:

- The WPC has a duty to make recommendations to the Board to ensure that all with-profits policyholders are treated fairly when financial management decisions are made.
- The Board must consult with the WPC when any financial management decisions are made that may affect the fair treatment of with-profits policyholders and in particular may have a material effect on their benefits and/or bonuses.
- The WPC should recommend bonus rates to the Board after suitable consultation with the Chief Actuary ("CA") and the WPA.
- The WPC must provide an independent judgement on compliance with this PPFM and on how any conflicting rights have been addressed.
- The WPC will have no more than six members and the Chair has a casting vote.
- A majority of the members (including the Chair) are independent of the Company and its group of companies, accepting that a member's independence shall not be diminished by having served as an independent director of RMIS or an independent director of the Company.
- At least one member of the WPC shall have recent and relevant financial experience and shall, preferably, hold a professional qualification from the professional actuarial body.
- The Chair of the Board shall not be a member of the WPC.

10.3. The Board has appointed a WPA to advise the WPC and the Board on the exercise of discretion in managing its with-profits business. The WPA should attend all meetings of the WPC.

10.4. The Company produces an annual report for the with-profits policyholders on its compliance with this PPFM and on the exercise of discretion in managing the with-profits business. The report is available on request and includes a report from the WPA.

10.5. The Company is a shareholder owned insurance company. Section 9 of this PPFM considers potential issues of equity between with-profits policyholders and shareholders.

Appendix A – Glossary

A

Annual bonus

The discretionary additions to the *guaranteed benefits* that are added to a *with-profits* policy typically once a year. Once declared, *annual bonuses* typically form part of the guaranteed benefits under that policy. WPSF6 has declared annual bonuses which do not form part of the guaranteed benefits.

B

Bonus reserve valuation

A method of determining the present value of future benefits under a life insurance policy. Future benefits, including *guaranteed benefits*, *annual bonuses*, any *extraordinary bonuses* and *final bonuses*, where appropriate, plus future expenses less future premiums are discounted at a rate of interest usually based on current market conditions.

Bonus reserve valuations are used in the determination of final bonuses in the sub-funds.

C

Capital adequacy

A measure of the Company's financial position in relation to its requirement to hold assets to cover its *capital requirements*.

Capital requirements

The sum of the regulatory liabilities and *solvency capital.*

Capital support

In the event that one of the Company's sub-funds is unable to cover its own *capital requirements*, financial support is provided by another sub-fund in return for a capital charge.

the Company

Utmost Life and Pensions Limited.

Contingent loan

A loan made by one of the Company's sub-funds to one of the other funds, in which interest payments and the repayment of capital are conditional on the sub-fund's financial condition, i.e. the sub-fund is only obliged to make payments in respect of the loan if it has sufficient free capital to do so.

D

Derivative

A financial instrument usually including an option to trade in securities at a fixed price at some future date.

Duration in force

The time since a particular policy of the Company was originally written.

E

Extraordinary bonus

A one-off addition to the *guaranteed benefits* that may be added to a with-profits policy in WPSF1 from time to time at the discretion of the Company – see Section 2. Once declared, *extraordinary bonuses* become guaranteed and cannot be taken away.

F

Final bonus

The bonus that is added to the *sum assured* plus attaching *annual bonuses* and any *extraordinary bonuses* on payment of a claim on a *with-profits* policy, whether by maturity, death, early termination, or vesting as a series of annuity payments.

Fixed interest asset

An asset such as a corporate bond or gilt that pays a guaranteed rate of return payable at known intervals for the life of the asset and, ultimately, repayment of the face value of the bond or gilt. Corporate bonds and gilts are essentially a loan by the investor to a company (corporate bond) or the government (gilt).

G

Guaranteed annuity option

An option granted on an insurance contract, whereby at maturity of the policy, the accumulated investment sum can be converted into an annuity at a rate guaranteed by the Company.

Guaranteed annuity rates

The rate at which a *guaranteed annuity option* holder is entitled to convert his or her investment sum into an annuity at the maturity of the contract.

Guaranteed benefit

The minimum amount payable when a claim arises under a *with-profits* policy. This is an amount determined when the policy is first taken out, supplemented by declarations of any guaranteed *annual bonus* and any *extraordinary bonus*.

Guaranteed cash option

An option granted on a pensions savings contract, whereby at maturity of the policy, a proportion of the annuity benefit can be converted into cash at a rate guaranteed by the Company.

H

High Court

The High Court of Justice for England and Wales which has the power to sanction insurance *schemes of transfer* and *schemes of arrangement*.

I

Industrial branch

These are policies written under the provisions of the Industrial Assurance Acts. When taken out, an agent, who called at least every four weeks, collected premiums in cash.

Inherited estate

The difference between the market value of the assets allocated to a particular *with-profits* sub-fund less a realistic assessment of the amounts the Company expects to pay out to the policyholders within that fund.

Initial sum assured

The initial minimum amount of benefit payable on death or maturity, contractually agreed at the outset of a policy.

Interim bonus

These are normally of similar structure to *annual bonuses*. They are paid when a claim occurs in respect of the period between the last declaration of *annual bonus* and the date of the claim.

Investment committee	A committee of the Board whose remit is to set the investment strategy of the company (subject to Board approval) and monitor the performance of the Company's investments.
Investment guidelines	A document agreed by the Board that sets out the types of asset in which various sub-funds within the company can invest. It includes limits on the proportion of various asset types, and restrictions on the maximum exposure to individual counterparties.

L

Liquid assets	Cash or assets that can be readily converted into cash at short notice, in particular UK government fixed interest securities.
Longevity	The term used to describe the survival experience on an annuity policy or block of annuities.

M

Market value reduction	A mechanism by which the Company can reduce the claim payment made on a *unitised with-profits* policy following a period of poor investment performance to ensure the payment fairly reflects the policy's value.

N

Non-linked	This is a type of policy where the benefit payable is not linked to the performance of a specified investment asset or to a portfolio of such assets.
Non-profit	This is a type of policy where the benefits payable on the contract are not subject to the application of discretion by the Company; the benefit payment or the method by which the benefit payment will be calculated is agreed at the outset of the contract.
NPF	The Non-Profit fund. The sub-fund that provides capital support if required and which can provide non-profit annuities where a vesting pensions policyholder elects to take a non-profit annuity with the Company.

O

Ordinary branch	All life insurance and pensions business other than that written in the *industrial branch*.

P

Paid-up	An in force policy upon which no further premium payments are being made by the policyholder.

R

Realistic surplus	The excess of the market value of the assets above a sub-fund's liabilities determined on a realistic basis.
Regulatory liabilities	The value of a policyholder liability or liability in respect of a group of policies calculated on a basis consistent with the prevailing regulatory requirements for UK insurers.

Reinsurance	A mechanism under which one insurance company transfers risk to another insurance company (the reinsurer) in return for a fee. In the event of a claim, where *reinsurance* is used on a policy or group of policies, typically the reinsurer will make a payment to the original insurer equal to a contractual share of the claim amount.
Risk appetite	The level and types of risk to which the Company is prepared to accept in respect of each of its sub-funds.
RMIS	Reliance Mutual Insurance Society Limited.

S

Scheme of Arrangement	With respect to UK insurance companies, a *Scheme of Arrangement* is a *High Court* approved agreement between the insurer (e.g. the Company) and its shareholders or creditors (e.g. policyholders) to restructure certain elements of the business. The provisions for affecting a *Scheme of Arrangement* are found in the Companies Act 2006.
Scheme of transfer	A court-approved arrangement in which a block of insurance business is transferred from one insurance company to another.
Smoothing	A means by which returns on *with-profits* policies are adjusted in order to avoid discontinuities in claim payouts. This applies between both policies of similar durations becoming claims, and also between claim values at successive points of time.
Solvency Capital	Legislation and regulation require an insurance company to maintain assets in excess of those required to cover their liabilities. Solvency capital is the capital that the company has available to meet these requirements.
Special final bonus	An additional non-guaranteed *final bonus* payable at the time of a claim on policies within WPSF6.
Regulatory solvency position	The excess of assets over liabilities when considered on a regulatory basis.
Sub-fund	One of a number of *with-profits* funds or the *non-profit* fund that together comprise the whole of the business of the Company.
Surplus arising	The excess of premiums and investment return over claims, expenses, taxation and the change in the provision for future liabilities, calculated using the *regulatory valuation* basis.
Surrender value	The claim value paid when a policy is voluntarily discontinued by the policyholder, prior to any maturity date.

T

Termination value	See *surrender value*.
Tontine	The scenario in which the last remaining policyholders within a *with-profits sub-fund* benefit disproportionately (relative to past generations) due to the need to increase bonuses in order to fully distribute the assets within the fund.

Transfer Scheme	The Scheme of Transfer in April 2018 under which all the business of RMIS was transferred to Utmost Life and Pensions (which was previously known as Reliance Life).

U

Unitised with-profits	A type of *with-profits* policy where the *guaranteed benefits* and accumulating *annual bonuses* are expressed in the form of a number of units.
Unit-linked	A type of policy where the benefit payable is linked to the performance of a specified investment asset or to a portfolio of such assets.
Utmost Life and Pensions Group	The group of Companies, owned by Utmost Life and Pensions Holdings Ltd and including both Utmost Life and Pensions Ltd and Utmost Life and Pensions Services Ltd.

W

With-profits	A type of policy where the *guaranteed benefits* are augmented from time to time, at the discretion of the insurance company, out of surplus emerging in the *with-profits sub-fund* which contains that policy.
With-Profits Actuary ("WPA")	The person holding the role of With-Profits Actuary as defined in the FCA Handbook.

Appendix B – Charging bases set in the Transfer Scheme

Expenses

B.1. The charges in the table below were established by the Transfer Scheme. For WPSF2, 4 & 6, these charges were initially set in the schemes which originally transferred the business to RMIS. These previous schemes included the transfer of business of Criterion Life Assurance Limited, effective from 30 June 2004, certain business of Family Assurance Friendly Company, effective 30 September 2004 and the business of Hearts of Oak Friendly Company, effective 31 July 2007.

B.2. The administration expense charges in Table B1, apply to the calendar year 2022 only. Charges increase each calendar year in line with the increase in the index of Average Weekly Earnings using the December index as a base. Charges are deducted quarterly at the end of each calendar quarter.

Table B1 – administration charges

Charge	Basis Element	Charging Unit	Charge (£ per quarter)			
			WPSF1	WPSF2	WPSF4	WPSF6
Policy maintenance (paid throughout the policy term)	Number of premium paying OB policies	Per policy	15.38	8.89	12.71	11.07
	Number of annuities in payment	Per annuity	N/A	N/A	12.71	11.07
	Number of other OB non-paying policies	Per policy	11.53	3.12	4.45	3.88
	Number of premium paying IB policies	Per policy	7.69	N/A	N/A	N/A
	Number of IB non-paying policies	Per policy	1.84	N/A	N/A	N/A
Claims administration (paid on exits within a quarter)	Number of life claims	Per claim	102.71	124.54	N/A	109.64
	Number of pension claims	Per claim	282.47	266.85	304.98	301.51
	Number of IP/PHI claims	Per claim	N/A	N/A	N/A	55.38
	Number of annuities set up at vesting (in addition to pension claim cost)	Per annuity	N/A	266.85	406.65	N/A
Additional business	Increments and new policies issued	Per policy	N/A	N/A	N/A	330.41

B.3. The investment management charges in Table B2 are deducted and paid at the end of each quarter, based on the average value of the charging units over the quarter.

Table B2 – investment management charges

Charge	Basis Element	Charging Unit	Charge (pence per quarter)			
			WPSF1	WPSF2	WPSF4	WPSF6
Investment Management	Charge on invested assets	Per £1000	17.1	62.5	70	52.5
	Additional charge on UWP assets	Per £1000	N/A	N/A	N/A	322.5

B.4. The costs of settling any policyholder compensation and redress relating to policies which are, or were, in a with-profit sub-fund will be charged to that with-profits sub-fund if it relates to an event which occurred before the policy transferred to RMIS (in the case of WPSF2 – 6) or to 31 July 2009 (in the case of WPSF1).

B.5. No costs of strategic or business development activities are charged to the with-profits sub-funds.

B.6. WPSF1 may take a share of regulatory and infrastructure costs where all or part of the costs incurred relate to business in WPSF1. Any costs of this sort will be subject to actuarial advice having been received and the WPC having been consulted.

B.7. As unitised with-profits policies are written in NPF and the investment element is transferred to WPSF6 through an intra-fund arrangement, all premiums are paid to and claims met by NPF. Each quarter an amount equal to 95% of premiums received in respect of unitised with-profits policies is paid by NPF to WPSF6. The unit value of any claims paid during the quarter is paid from WPSF6 to NPF, to finance the claims actually paid. The annual management charge of 1.5% per annum of the average value of units allocated to policies during the quarter described in Table B2 above is also be paid from WPSF6 to NPF.

B.8. Any costs which are not allocated to a with-profits sub-fund are borne by the NPF.

Taxation

B.9. The tax charged to each with-profits sub-fund is calculated for the sub-fund as if it was a standalone mutual.

B.10. In circumstances out of the normal course of events, or if there is a significant change in the taxation status of the Company, a different basis may be applied subject to the WPA agreeing that the change is fair and equitable.

B.11. Any taxation incurred in respect of amounts of member distribution credited to a with-profits sub-fund may be charged to that sub-fund.

Capital support

B.12. When capital support is provided to a with-profits sub-fund from the NPF, the with-profits sub-fund will be charged as set out below.

B.13. Support in respect of capital requirements relating to operational risks and liabilities associated with those requirements will be charged at 0%, support to cover regulatory capital requirements will be charged at an annual equivalent rate of 4%, and support provided to ensure regulatory liabilities are covered will be charged at an annual equivalent rate of 4% + the prevailing yield on 10 year gilts.