

The Equitable Life Assurance Society  
Principles and Practices of Financial Management  
Effective from 1 January 2022

January 2022

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## 1. Introduction

- 1.1. This document sets out the Principles and Practices of Financial Management (the “PPFM”) applied in the management of the With-Profits Fund of Equitable Life Assurance Society (“the Society”). The Principles and Practices are set out in sections 3 to 10 of this document, other sections provide context. The document has been approved by the Society’s Board of Directors (“the Board”).
- 1.2. The With-Profits Fund consists solely of contracts with discretionary benefits written under German Law.
- 1.3. Prior to the de-regulation of the German insurance market in 1994, discretionary benefits on all contracts written under German law had to be paid in accordance with a business plan approved by the German Regulator. Business written by the Society in Germany during this period was written under the Society’s “German Business Plan”. Policies with discretionary benefits covered by the German Business Plan receive a defined share of surplus in respect of investment, administration and insurance profits. Consequently, the discretionary benefits on this type of policy are not covered by this PPFM.
- 1.4. After the de-regulation of the German insurance market new policies with discretionary benefits were either:
  - a) covered by the German Business Plan; or
  - b) managed in the same way as the Society’s contracts written in the UK. These contracts are referred to as “UK Style” with-profits policies in this PPFM.
- 1.5. This PPFM covers the discretionary benefits on the UK Style with-profits policies.
- 1.6. Appendix A sets out the product names for the UK Style with-profits policies and policies with discretionary benefits covered by the German Business Plan.
- 1.7. The aims of this document are:
  - a) To set out the key features of the governance of the Society’s UK Style with-profits business, with particular reference to the use of discretion in managing that business; and
  - b) To provide information on the possible risks, rights and rewards attaching to the Society’s UK Style with-profits policies.
- 1.8. The document differentiates between “Principles” and “Practices”. The Principles are intended to be high-level statements that reflect the general approach adopted in managing the Society’s UK Style with-profits business and are expected to be enduring. If the Society feels it is appropriate to alter any of the Principles detailed in this document, UK Style with-profits policyholders will normally be notified, in writing, at least three months before any changes are implemented. The Principles in this PPFM can only be changed by the passing of a resolution of the Board.
- 1.9. The purpose of the Practices is to describe the Society’s current approach to managing its UK Style with-profits business and responding to changes in the business and economic environment in the shorter-term. These Practices may be changed to reflect changes in the circumstances of the Society, its With-Profits Fund or the business environment. Information about any changes to the Practices will be communicated to UK Style with-profits policyholders at the same time as annual

statements are distributed or, if this is considered appropriate by the Board, by way of separate correspondence.

- 1.10. The current version of the Society's PPFM can be found on the Society's website ([www.equitable.co.uk](http://www.equitable.co.uk)) and paper copies can be obtained, free of charge, by UK Style with-profits policyholders of the Society by contacting the Call Centre, on 01803 23 46 30.
- 1.11. None of the contents of this document is intended to form part of, or vary, the terms or conditions of any policy issued or to be issued by the Society. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.
- 1.12. This document is intended to assist knowledgeable observers to understand the way in which the UK Style with-profits business of the Society is conducted and the material risks and rewards involved in maintaining a UK Style with-profits policy with Equitable Life. It is not a comprehensive explanation either of the management of the UK Style with-profits business of the Society or of every matter which may affect that business. In addition, no part of the document should be read as a recommendation or advice to policyholders or their advisers in relation to maintenance of a UK Style with-profits policy. Accordingly, any person considering whether to maintain a UK Style with-profits policy with the Society should seek independent financial advice. A Glossary of terms used in this PPFM has been included in Appendix C for reference.
- 1.13. Statements in this document in relation to the risks and rewards involved in maintaining a UK Style with-profits policy with the Society are by their nature forward-looking statements that are subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.
- 1.14. The contents of this document may be amended as a result of a change in the circumstances of the Society, its With-Profits Fund or the business environment. The document may also be amended to reflect changes made by the Society to the management of the UK Style with-profits business. The Society intends to give notice of any such change as explained in paragraphs 1.8 and 1.9 above, although in exceptional circumstances (such as to preserve solvency), changes could be made without advance notice.
- 1.15. Readers of this document should read the whole document. Reading only selected sections or paragraphs in isolation may result in a misleading impression of the way in which the UK Style with-profits business of the Society is conducted and the material risks and rewards involved in effecting and maintaining a UK Style with-profits policy with the Society. The principles set out in this document and their associated practices should, in particular, be read together. Certain matters contained in this document are subject to continuing analysis and review by the Society and the regulators and may change as a result of that ongoing process.
- 1.16. The Society's Board has arrangements in place for an annual review to confirm that the With-Profits Fund has been managed in accordance with the Principles and Practices laid out in this document. The Board also produces an annual report for UK Style with-profits policyholders on the management of the With-Profits Fund. This can be found on the Society's website.

1.17. This version of the document is dated January 2022 and replaces the version dated January 2020.

## 2. Background

### 2020 Restructure

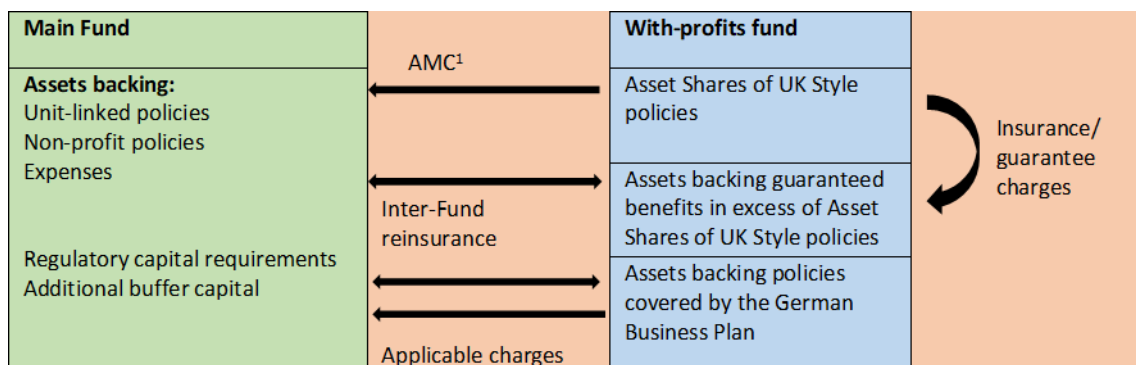
2.1. A major restructuring exercise was carried out on 1 January 2020. The key purpose of the restructuring was to facilitate the distribution of the available capital of the Society. This was carried out in line with the stated principle of the previous PPFM, that capital should be distributed “*as fairly and as soon as possible among the holders of its with-profits policies over the lifetime of those policies*”. Key changes that were implemented in the restructuring were:

- The majority of the Society’s with-profits policies converted to a unit-linked basis.
- With-profits policies written under German law were not converted to unit-linked. Such policies that are UK Style were covered by the PPFM of the Society prior to the 2020 Restructure and continue to be covered by this PPFM. Changes were made to the way that UK Style policies are managed to ensure that they could benefit from the distribution of capital in a similar way to the with-profits policies that converted to unit-linked, to ensure they were treated fairly.
- All Members of the Society gave up membership rights and Utmost Life and Pensions Limited, “Utmost Life”, became the sole Member of the Society.
- The majority of the business of the Society transferred to Utmost Life. All policies written under German or Irish law remained in the Society.
- The restructuring allowed all the available capital of the Society to be allocated to eligible policies in force immediately prior to the restructuring.
- UK Style with-profits policyholders received their share through the setting of an amount that represents their fair share of the With-Profits Fund on 1 January 2020, their “Asset Share”. The concept of Asset Share and the way it is calculated is described in paragraphs 2.11 to 2.17 and Section 4, where it is explained that pay-out levels for UK Style with-profits policies target 100% of Asset Share. This formalised the Capital Distribution Amount allocated to each UK Style policy. With-profits policies whose benefits are paid in line with the German Business Plan have never received an explicit capital distribution.
- Asset Shares form the basis of payouts under UK Style with-profits policies. These Asset Shares are backed by identified assets which are maintained for this purpose. Charges are taken from Asset Shares. These include a charge in respect of administration costs, the potential of a charge in respect of the cost of investment guarantees (currently zero) and charges in respect of insurance benefits on some policies as set out in their policy terms. Section 4 sets out more detail on the use of Asset Shares and the charges that are applied.

- All of the assets within the With-Profits Fund back liabilities of policies with discretionary benefits. This includes policies covered by the German Business Plan, guaranteed benefits on the UK Style with-profits policies and Asset Shares for the UK Style with-profits policies.
- Other assets and liabilities of the Society are in the Main Fund, which was formed by the restructuring.
- The non-profit and unit-linked policies of the Society are in the Main Fund which bears the cost of administering the Society’s business. The Main Fund also bears risks associated with the business with discretionary benefits covered by the German Business Plan and the risks associated with the guaranteed benefits on the UK Style with-profits policies, through the “Inter-Fund Reinsurance”.
- Capital to support risks associated with all the Society’s business is held in the Main Fund. Section 7 of this PPFM provides more detail on the business risks of the Society and the extent to which they are borne by UK Style with-profits policyholders.
- The fund structure in the Society was created by the legal scheme which transferred all business, other than that in respect of policies written under German or Irish law, to Utmost Life. This legal scheme sets out how Asset Shares of the UK Style policies are determined. Key terms from this legal scheme that impact UK Style with-profits policies have been included in Appendix B.

2.2. Details of the Inter-Fund Reinsurance put in place by the scheme that transferred business from the Society to Utmost is provided in Section 7 of this PPFM.

2.3. The fund structure and interaction between the funds is illustrated below:



<sup>1</sup> The “AMC” is the annual charge in respect of expenses.

### Constitution and membership of the Society

2.4. The Society is a mutual company and accordingly has no shareholders. Since the 2020 Restructure, the only member of the Society is Utmost Life.

2.5. Utmost Life’s rights as sole member are akin to the rights shareholders have in proprietary firms. The term “Owner” is used in this document to refer to the interest of Utmost Life in the Society. The potential for conflict between Utmost

Life as Owner and UK Style with-profits policyholders is explicitly considered in Section 10.

### Participation in the profits and losses of the Society

- 2.6. As a result of the 2020 Restructure, UK Style with-profits policyholders only participate in the profits and losses of the With-Profits Fund and the value of those profits and losses is reflected in their Asset Shares. Other profits or losses of the Society arise in the Main Fund and as such belong to Utmost Life as Owner of the Society. These other profits and losses include those on the with-profits policies covered by the German Business Plan and the Guaranteed Benefits on UK Style with-profits policies. These are borne by the Main Fund through the Inter-Fund Reinsurance, which was designed to protect the UK Style with-profits business from certain risks, facilitating the distribution of their share of capital and profits. The UK Style with-profits policies bear part of this risk, through the potential of future charges in respect of the investment guarantees on these policies.
- 2.7. Following the 2020 Restructure, the With-Profits Fund has no retained surplus and no inherited estate. There is no intention to accumulate a surplus within the With-Profits Fund. Profits or losses emerging are either allocated to Asset Shares of UK Style with-profits policies or removed by the Inter-Fund Reinsurance.

### Types of with-profits policy in the Society's With-Profits Fund

- 2.8. The Society closed to new business in 2000. This means that new policies are generally only issued where there is a regulatory or contractual obligation on the Society to do so in connection with existing policies. Since the 2020 Restructure, new policies would not be issued in the With-Profits Fund of the Society and would instead be allocated to the Main Fund, unless there was a regulatory or contractual obligation to issue a policy on a with-profits basis.
- 2.9. As noted in Section 1, the discretionary benefits on some with-profits policies are paid in line with the German Business Plan. These policies are not covered by this PPFM.
- 2.10. All the UK Style with-profits policies of the Society are recurrent single premium policies "RSP policies" which were written under German law through the former German branch of the Society. They are all denominated in Euros. Under these policies, each premium, after deduction of any charges, secures a guaranteed benefit. The aggregate of these guaranteed benefits plus any reversionary bonuses declared creates the "Guaranteed Fund" which is the minimum amount payable on the occurrence of specified events such as retirement or death.
- Some UK Style with-profits policies also have a guaranteed annuity rate which is applied at exit in line with the terms in the policy.
  - Some UK Style with-profits policies also have additional guaranteed benefits that are paid in specific instances, for example on the death of the policyholder. The terms of these policies set out the charge that is applied for this guaranteed benefit.

### The concept of Asset Share

- 2.11. The concept of Asset Share replaces the concepts of Policy Value and Capital Distribution Amount that were used in the management of the business prior to the 2020 Restructure.

- 2.12. Prior to the 2020 Restructure, the Society referenced a “Policy Value” when determining amounts payable to UK Style with-profits policies. Changes to Policy Value were primarily influenced by the Society’s outlook for long-term returns and the Society aimed to smooth the effect of the factors taken into account when determining changes to Policy Value.
- 2.13. In addition to this, a Capital Distribution Amount was used to distribute capital as policies exited. The aim was to set the Capital Distribution Amount low enough to result in an acceptably low likelihood of reducing pay-outs in future adverse scenarios and high enough to avoid an excessive accumulation of capital in the fund over time.
- 2.14. The 2020 Restructure meant that a share of available capital could be allocated to be part of the new Asset Share of each UK Style with-profits policy. An uplift was added to the existing Policy Value of each UK Style with-profits policy to set the new Asset Share. The share of capital allocated when the restructure was implemented was higher than the Capital Distribution Amount that was being added to Policy Values immediately before implementation. This reflected the terms of the agreement reached with Utmost Life.
- 2.15. For each UK Style with-profits policy, the initial value for Asset Share was set on 1 January 2020 as the Policy Value at that time, plus the primary uplift that would have been applied to the UK Style with-profits policies had they been included in the Scheme of Arrangement which converted most with-profits policies to a unit-linked basis.
- 2.16. The approach to setting Asset Share and the way it is used are set out in Section 4. Asset Shares are increased or decreased in line with actual investment returns earned on the assets backing Asset Shares, which may be volatile.
- 2.17. When policyholders take their benefits, pay-outs are targeted to be Asset Share. Any amount in excess of the Guaranteed Fund is not guaranteed.

### 3. Principles

- 3.1. The Society’s UK Style with-profits business is managed in accordance with the following principles:
- 3.2. The amount payable under a UK Style with-profits policy
  - 3.2.1 The Society aims to pay a fair share of UK Style with-profits assets to UK Style with-profits policies as they exit.
  - 3.2.2 Asset Shares will be maintained for all UK Style with-profits policies and will be used as the starting point for determining the amount payable under a UK Style with-profits policy:
    - On exit final bonus is added to the Guaranteed Fund to calculate the amount paid. The Society aims to pay 100% of Asset Share to policies as they exit.
    - Where the Guaranteed Fund on a policy exceeds the amount payable based on Asset Share, the Guaranteed Fund will be paid on exit in line with the terms of



the policy. A guarantee charge may be applied to Asset Share in respect of the cost of these additional benefits.

- Where the policy has other guaranteed minimum benefits which exceed the amount payable based on Asset Share, such as guaranteed minimum benefit on death, these will be paid on exit in line with the terms of the policy. A charge will be applied to Asset Share in respect of these additional benefits, in line with the terms of the policy.
- Where there is a guaranteed annuity rate in the policy, this rate will apply, as set in the policy, to the amount that would have been paid to an equivalent policy with no guaranteed annuity rate. No charge will be applied to Asset Share in respect of the cost of this benefit.

3.2.3 Asset Shares are determined from the level set at the date of the 2020 Restructure using:

- actual returns on the assets backing Asset Shares net of transaction costs and any tax due;
- actual premiums paid net of any applicable charges;
- actual withdrawals;
- annual management charges; and
- an allowance for smoothing (if any).

3.2.4 In line with the terms of the 2020 Restructure, the annual management charge to Asset Share in respect of expenses can only exceed 0.75% where an equivalent increase has been made to the charges applying to the Society's unit-linked business, and cannot exceed 1%.

3.2.5 Where a UK Style with-profits policyholder surrenders their policy before maturity, contractual obligations in respect of pay-outs under the policy generally do not apply. The intention is that the amount paid to surrendering policyholders should be fair, but that it should not disadvantage or benefit continuing policyholders. In particular, the amounts paid to surrendering policyholders should not be set at a level expected to reduce or increase the pay-out prospects of the continuing policyholders.

3.2.6 No amounts will be taken from Asset Share or the With-Profits Fund in respect of compensation or redress paid to with-profits policyholders as these are liabilities of the Main Fund.

### 3.3. Bonus policy and smoothing

3.3.1 The Society aims to set bonuses and pay-out levels for UK Style with-profits policies to distribute the assets backing Asset Shares of UK Style with-profits policies fairly between different groups and generations of UK Style with-profits policyholders over the lifetime of the UK Style with-profits policies.

3.3.2 For the foreseeable future, any new distributions of surplus from the With-Profits Fund will be made in non-guaranteed form using final bonus, with the aim of paying

100% of Asset Share. There is no expectation of any further reversionary bonus being awarded in the near to medium term. This minimises the liability and capital requirements borne by the Main Fund in respect of any guarantees and consequently the likelihood of a charge for guarantees being required.

3.3.3 The Society will apply limited smoothing to the bonuses set for its UK Style with-profits policies. Final bonuses will be set to target policyholder pay-outs equal to Asset Shares.

#### 3.4. Investment policy

3.4.1 The assets of the With-Profits Fund are carefully managed by the Society. The objectives are to provide a real return to UK Style with-profits policyholders while also managing the cost of guarantees and capital requirements in respect of business in the With-Profits Fund, within acceptable levels.

#### 3.5. Business risks

3.5.1 Most business risks of the Society fall to the Main Fund and not to the With-Profits Fund. The Main Fund bears the risks of the with-profits policies covered by the German Business Plan and the majority of the risks of the guaranteed benefits on the UK Style with-profits contracts through the Inter-Fund Reinsurance. It bears the risks associated with expenses and the policies allocated to the Main Fund directly. The UK Style with-profits policies are only directly exposed to business risks to the extent that charges to Asset Shares may change.

3.5.2 The With-Profits Fund is indirectly exposed to the business risks faced by the Society. There would only be an impact on UK Style with-profits policies in the unlikely event of insolvency of the Society.

#### 3.6. Inherited estate

3.6.1 The With-Profits Fund does not contain an inherited estate. Any emerging surplus or deficit is either allocated to policies through their Asset Shares or allocated to the Main Fund through the Inter-Fund Reinsurance.

3.6.2 Capital requirements are covered by the Main Fund. There is no charge for the use of this capital or for any assets provided through the Inter-Fund Reinsurance. This was agreed under the terms of the 2020 Restructure.

#### 3.7. New business

3.7.1 The With-Profits Fund does not write new business, unless an existing policy requires new business to be written on a with-profits basis, for example as an increment to an existing policy or in order to treat customers fairly.

#### 3.8. Equity between policyholders and the Society's Owner

3.8.1 As part of treating customers fairly, the Society aims to manage any conflicts of interest that might arise between with-profits policyholders and its Owner.

3.8.2 The Society manages the assets backing Asset Shares of UK Style with-profits policies for the benefit of the UK Style with-profits policyholders, including reducing the risk of any potential for guarantee charges in the future.

## 4. The amount payable under a UK Style with-profits policy

### Principles

- 4.1. The Society aims to pay a fair share of UK Style with-profits assets to UK Style with-profits policies as they exit.
- 4.2. Asset Shares will be maintained for all UK Style with-profits policies and will be used as the starting point for determining the amount payable under a UK Style with-profits policy.
  - On exit final bonus is added to the Guaranteed Fund to calculate the amount paid. The Society aims to pay 100% of Asset Share to policies as they exit.
  - Where the Guaranteed Fund on a policy exceeds the amount payable based on Asset Share, the Guaranteed Fund will be paid on exit in line with the terms of the policy. A charge may be applied to Asset Share in respect of the cost of these additional benefits.
  - Where the policy has other guaranteed minimum benefits which exceed the amount payable based on Asset Share, such as guaranteed minimum benefit on death, these will be paid on exit in line with the terms of the policy. A charge will be applied to Asset Share in respect of these additional benefits, in line with the terms of the policy.
  - Where there is a guaranteed annuity rate in the policy, this rate will apply, as set in the policy, to the amount that would have been paid to an equivalent policy with no guaranteed annuity rate. No charge will be applied to Asset Share in respect of the cost of this benefit.
- 4.3. Asset Shares are determined from the level set at the date of the 2020 Restructure using:
  - actual returns on the assets backing Asset Shares net of transaction costs and any tax due;
  - actual premiums paid net of any applicable charges;
  - actual withdrawals;
  - annual management charges; and
  - an allowance for smoothing (if any).
- 4.4. In line with the terms of the 2020 Restructure, the annual management charge to Asset Shares in respect of expenses can only exceed 0.75% where an equivalent increase has been made to the charges applying to the Society's unit-linked business, and cannot exceed 1%.

- 4.5. Where a UK Style with-profits policyholder surrenders their policy before maturity, contractual obligations in respect of pay-outs under the policy generally do not apply. The intention is that the amount paid to surrendering policyholders should be fair, but that it should not disadvantage or benefit continuing policyholders. In particular, the amounts paid to surrendering policyholders should not be set at a level expected to reduce or increase the pay-out prospects of the continuing policyholders.
- 4.6. No amounts will be taken from Asset Shares or the With-Profits Fund in respect of compensation or redress paid to with-profits policyholders.

## Practices

- 4.7. Asset Shares are updated frequently, to ensure that amounts paid to UK Style with-profits policies reflect the value of the assets underlying Asset Shares at the point policyholders take their benefits.
- 4.8. The investment returns applied to Asset Shares are the actual returns earned on the assets backing Asset Shares. These returns are after allowing for transaction costs. Currently no tax is assumed to be paid by the With-Profits Fund.
- 4.9. Actual premiums paid are added to Asset Share of the relevant UK Style with-profits policy net of any charges set out in the policy terms including any charge for guarantee set in line with this PPFM.
- 4.10. Actual withdrawals are deducted from Asset Share of the relevant UK Style with-profits policy.
- 4.11. The annual management charge taken from Asset Share in respect of expenses is 0.75%. Reductions can be made but increases are restricted by the terms of the 2020 Restructure. The actual expenses incurred by the business are borne by the Main Fund.
- 4.12. In line with the terms of the 2020 Restructure, no charge is applied in respect of any guaranteed annuity rates in policies.
- 4.13. There is currently no charge in respect of the cost of additional payments made should the Guaranteed Fund exceed benefits based on Asset Share. A charge may be applied to Asset Shares or premiums in respect of this guarantee in the future; any such charge would not exceed 0.5%p.a.. When setting a charge, consideration will be given to the expected and actual costs incurred in respect of investment guarantees, the assets allocated at the 2020 Restructure to pay for these guarantees, and the value of any such charges that have been made. If a charge is introduced it will be reviewed at least annually.
- 4.14. Charges are made for additional insurance benefits that apply to some UK Style with-profits policies, as set out in the terms of those policies. These benefits are paid if the policyholder dies or suffers specific medical conditions. Where the insurance benefit exceeds Asset Share of a policy, a charge is applied to Asset Share in accordance with the policy terms and conditions. Such a charge is based on the extra benefit they would receive and the probability of it being paid.
- 4.15. Pay-outs may not exactly equal 100% of Asset Share, for example as a result of smoothing. Any such profits or losses resulting from pay-outs not equalling 100% of

Asset Share will be shared across all remaining Asset Shares at the next recalculation. This does not include amounts due to the existence of guarantees or insurance benefits.

- 4.16. The Society aims to pay 100% of Asset Share on the maturity or surrender of a UK Style with-profits policy and final bonus is set to target this level at each review. The actual pay-out on maturity or surrender, ignoring the value of any guarantees or insured benefits, should be within the range of 90% to 110% of Asset Share.

## 5. Bonus Policy and smoothing

### Principles

- 5.1. The Society aims to set bonuses and pay-out levels for UK Style with-profits policies to distribute the assets backing Asset Shares of UK Style with-profits policies fairly between different groups and generations of UK Style with-profits policyholders over the lifetime of the UK Style with-profits policies.
- 5.2. For the foreseeable future, any new distributions of surplus from the With-Profits Fund will be made in non-guaranteed form using final bonus, with the aim of paying 100% of Asset Share. There is no expectation of any further reversionary bonus being awarded in the near to medium term. This minimises the liability and capital requirements borne by the Main Fund in respect of any guarantees and consequently the likelihood of a charge for guarantees being required.
- 5.3. The Society will apply limited smoothing to the bonuses set for its UK Style with-profits policies. Final bonuses will be set to target policyholder pay-outs equal to Asset Shares.

### Practices

- 5.4. An increase to Asset Share does not constitute an increase in guaranteed benefits and Asset Shares can be reduced at any subsequent time to reflect actual experience.
- 5.5. Since the 2020 Restructure, there has been limited smoothing of benefits. The Society may choose, at its discretion, to smooth benefits, to protect the interests of UK Style with-profits policyholders, in some circumstances. This could be, for example, if there is a sharp increase or decrease in the value of the assets which is expected to be temporary. Any profit or loss from smoothing is shared across remaining Asset Shares of UK Style with-profits policies the next time Asset Shares are calculated.
- 5.6. If smoothing is applied, then following a fall in asset values, UK Style with-profits policyholders choosing to surrender their policy may be subject to a financial adjustment. This would be used to ensure the policy bears the full cost of the fall in asset values and there is no detriment to remaining UK Style with-profits policyholders.

## 6. Investment policy

### Principles

6.1. The assets of the With-Profits Fund are carefully managed by the Society. The objectives are to provide a real return to UK Style with-profits policyholders while also managing the cost of guarantees and capital requirements in respect of business in the With Profits Fund, within acceptable levels.

### Practices

#### *Asset allocation and choice of asset holdings*

6.2. Separately identifiable assets are held and different investment mixes are used to back the different liabilities in the With-Profits Fund. There are three pools of assets backing the following liabilities respectively:

- Asset Shares of UK Style with-profits policies;
- Guaranteed benefits in excess of Asset Shares on UK Style with-profits policies; and
- With-profits policies covered by the German Business Plan.

#### *Assets backing Asset Shares of UK Style with-profits policies*

6.3. The same asset allocation applies to the assets backing Asset Shares of all UK Style with-profits policyholders. The Society reserves the right to adopt different investment mixes for different groups of policyholder, where this would be fair to the different groups and where it would be beneficial to the operation of the With-Profits Fund as a whole. Such a change would require the approval of the Board.

6.4. Investment of assets backing Asset Shares of UK Style with-profits policies in return-seeking assets is assessed with reference to the expected impact on the total liabilities and capital requirements of the UK Style with-profits business, with the aim of making any future charges for guarantees unlikely. Investment in return-seeking assets such as equity and property, with the potential for higher returns, has been possible since the 2020 Restructure and is expected to account for 40% to 80% of the assets backing Asset Shares of UK Style with-profits policies.

6.5. If there is a material increase in the expected cost of paying the Guaranteed Fund on UK Style with-profits policies the Society would return to holding more cautious investments.

#### *Other assets in the With-Profits Fund*

6.6. Assets held in the With-Profits Fund in respect of liabilities other than Asset Shares of UK Style with-profits policies are closely matched to the specific liabilities they back. Profits and losses on these liabilities are borne by the Main Fund through the Inter-Fund Reinsurance.

6.7. It is not anticipated that assets that would not normally be traded will be held in the With-Profits Fund at any time in the future.

#### *Investment Strategy and Governance*

- 6.8. The Board is responsible for setting the investment strategy of the With-Profits Fund, taking advice from the With-Profits Committee, Chief Actuary and With-Profits Actuary. The investment strategy is reviewed no less frequently than annually.
- 6.9. The investment strategy in respect of assets backing Asset Shares of UK Style with-profits policyholders is to provide a real return subject to the following factors:
- The strategy should not lead to a high likelihood of a charge for guarantees being required;
  - Investment should be in a diversified portfolio of assets to reduce concentration risk to any particular asset class, market, company or counterparty;
  - Expected volatility of returns to UK Style with-profits policyholders, credit quality and expected liquidity of assets should all be considered;
  - Sufficient liquid assets should be available to pay liabilities as they fall due;
  - Regard should be given to any statements made to UK Style with-profits policyholders.
- 6.10. The investment strategy for other assets of the With-Profits Fund is to closely match the related liabilities.

#### ***Investment Managers***

- 6.11. The Society employs the services of specialist investment management companies to carry out its asset management. The Society regularly reviews the provision of its investment services.
- 6.12. The investment managers are required to report regularly on investment performance, to have appropriate controls in place to ensure compliance with the various objectives set by the Society, and to report where there are any breaches of these requirements.
- 6.13. The investment managers are expected to demonstrate, as and when required, that processes are in place to ensure that the portfolios are being managed in an appropriate manner with respect to risk.

#### ***Asset types***

- 6.14. This section provides more detail about the different types of assets that could be held in the With-Profits Fund. It is expected that most of the assets backing Asset Shares of UK Style with-profits policies will be invested through pooled vehicles supplied by the investment manager. Given the size of the fund, this is an efficient way to provide exposure to a diversified portfolio encompassing a range of asset types.
- 6.15. Government bonds provide the most certain future cash-flows for the With-Profits Fund. Government bonds are therefore a natural investment for the With-Profits Fund.
- 6.16. Corporate bonds share many of the attributes of government bonds, providing relatively predictable cashflows and relatively high income yields. Corporate bonds also offer the potential for modest out-performance compared with government

bonds, providing the With-Profits Fund with an opportunity to pass on slightly higher returns to policyholders. This upside potential comes with the risk that returns might be lower than expected should an issuer of a bond default or their credit rating is downgraded.

- 6.17. “Cash” includes deposits and short-dated government bonds. The Society generally uses cash to fund payments due to the Main Fund and to provide sufficient liquidity to meet expected claims volumes. Cash may also be held in periods of greater volatility in the markets.
- 6.18. Equity investments may be held by the With-Profits Fund. The prospect of long-term out-performance from this asset class can be attractive. However, investment in equity will reflect the associated investment risks and it will only be held if it is not expected to result in guarantee charges being required.
- 6.19. Property investment may be held by the With-Profits Fund. Property investment, like equity investments, offers the potential for returns in excess of government bonds. Direct investment in property is generally not readily realisable, and for this reason the With-Profits Fund is unlikely to hold any direct investments in property. Property investment also comes with additional risks and will only be held if it is not expected to result in guarantee charges being required.
- 6.20. Assets that would not usually be traded include private equity assets. Though the prospect of long-term out-performance from this asset class can be attractive it can be difficult to realise the value of the asset if it needs to be sold. Given the small amount of business in the With-Profits Fund, these assets are not considered to be a suitable investment.
- 6.21. The Society would not invest in a derivative asset as a speculative investment. It would, however, consider using derivative-based assets where these offered a cost-effective means of managing a specific risk (for example to help manage currency risk) or of managing exposure to different asset classes.
- 6.22. The With-Profits Fund may be exposed to assets in currencies other than euros, for example in order to benefit from diversification of risks and the economies of scale that can be achieved through using the same asset management structures that were set up for the sterling denominated business that transferred to Utmost Life. Currency hedges may be used to mitigate currency risk.

## 7. Business risks

### Principles

- 7.1. Most business risks of the Society fall to the Main Fund and not to the With-Profits Fund. The Main Fund bears the risks of the with-profits policies covered by the German Business Plan and the majority of the risks of the guaranteed benefits on the UK Style with-profits contracts through the Inter-Fund Reinsurance. It bears the risks associated with expenses and the policies allocated to the Main Fund directly. The UK Style with-profits policies are only directly exposed to business risks to the extent that charges to Asset Shares may change.



- 7.2. The With-Profits Fund is indirectly exposed to the business risks faced by the Society. There would only be an impact on UK Style with-profits policies in the unlikely event of insolvency of the Society.

## **Practices**

### ***Direct risk exposures***

- 7.3. The UK Style with-profits policies are only directly exposed to risks to the extent that they impact Asset Shares of policies.
- 7.4. The charges to Asset Shares in respect of expenses or guarantees are controlled as set out in Section 4 of this PPFM, and reflect the terms of the 2020 Restructure. This restricts the extent to which UK Style with-profits policyholders are exposed to business risks. Any changes to the charges will be reviewed by the With-Profits Actuary and the With-Profits Committee to ensure that they are fair and consistent with this PPFM.
- 7.5. Asset Shares of UK Style with-profits policies are exposed to risks connected to the performance of the investments and counterparty risks associated with the particular assets held in the With-Profits Fund to back Asset Shares. These are covered in Section 6 of this PPFM.
- 7.6. Corporate governance as described below is in place to protect against the indirect risk to the UK Style with-profits business that the Society may not have sufficient capital to meet its liabilities.

### ***Inter-Fund Reinsurance***

- 7.7. The Inter-Fund Reinsurance was put in place by the legal scheme that transferred business from the Society to Utmost Life. Under the terms of this arrangement, the Main Fund bears risks associated with:
- the with-profits policies covered by the German Business Plan; and
  - the guaranteed benefits on the UK Style with-profits policies, other than to the extent borne by UK Style with-profits policies through charges for guarantees as set out in Section 4.
- 7.8. Where required, the Main Fund deposits additional assets into the With-Profits Fund to ensure it has sufficient assets to cover the associated liabilities.
- 7.9. In exchange for taking this risk, the Main Fund receives any surplus emerging from this business, for example where the assets in the With-Profits Fund exceed the amounts required to meet the liabilities.
- 7.10. These features were allowed for when determining Asset Shares set at the implementation of the 2020 Restructure.

### ***Corporate Governance***

- 7.11. The Board is responsible for the management of the Society's business including the With-Profits Fund. It is responsible for ensuring that the UK Style with-profits business is managed in accordance with this PPFM.
- 7.12. The Board appoints a With-Profits Committee ("WPC") to advise it on the management of the UK Style with-profits business:

- The WPC has a duty to make recommendations to the Board to ensure that all UK Style with-profits policyholders are treated fairly when decisions are made that affect their interests.
- The Board must consult with the WPC when any decisions are made that may affect the fair treatment of UK Style with-profits policyholders and in particular may have a material effect on their benefits.
- The Board should consult with the WPC about any proposed changes to the risk or investment profile of the With-Profits Fund after suitable consultation with the Chief Actuary and the With-Profits Actuary.
- The WPC must provide an independent judgement on compliance with this PPFM and on how any conflicting rights have been addressed.

7.13. The Board appoints a With-Profits Actuary to advise the WPC and the Board on the exercise of discretion in managing its UK Style with-profits business. The With-Profits Actuary should attend all meetings of the WPC.

## 8. Inherited estate

### Principles

- 8.1. The With-Profits Fund does not contain an inherited estate. Any emerging surplus or deficit is allocated to policies through their Asset Shares or allocated to the Main Fund through the Inter-Fund Reinsurance.
- 8.2. Capital requirements are covered by the Main Fund. There is no charge for the use of this capital or for any assets provided through the Inter-Fund Reinsurance. This was agreed under the terms of the 2020 Restructure.

## 9. New business

### Principles

- 9.1. The With-Profits Fund does not write new business, unless an existing policy requires new business to be written on a with-profits basis, for example as an increment to an existing policy or in order to treat customers fairly.

### Practices

- 9.2. It is not anticipated that any new business will be written in the With-Profits Fund.

## 10. Equity between policyholders and the Society's Owner

### Principles

- 10.1. As part of treating customers fairly, the Society aims to manage any conflicts of interest that might arise between with-profits policyholders and its Owner.
- 10.2. The Society manages the assets backing Asset Shares of UK Style with-profits policies for the benefit of the UK Style with-profits policyholders, including any potential for guarantee charges in the future.

## Practices

- 10.3. Asset Shares of UK Style with-profits policies are distributed to the with-profits policyholders; no share is allocated to the Owner.
- 10.4. Asset Shares of UK Style with-profits policies are not managed with reference to the cost of any guaranteed annuity rates on the business.
- 10.5. Through ownership of the Main Fund, the Owner receives an annual management charge, as a percentage of Asset Shares, in respect of the expenses of running the business. It consequently has the potential to benefit from higher returns on the assets backing Asset Shares. This is in line with the potential benefit to UK Style with-profits policyholders from higher returns.
- 10.6. Through the Inter-Fund Reinsurance the Owner bears the risk that the Guaranteed Fund exceeds Asset Share and is paid when the policyholder exits on contractual terms. The risk associated with this is increased if higher risk assets, with the potential of higher returns, are held to back Asset Shares. However, if higher returns are realised, the cost of covering the Guaranteed Fund is reduced. The interests of the Owner and UK Style with-profits policyholders are aligned as both benefit from potential higher returns and are exposed to negative impacts if the Guaranteed Fund exceeds Asset Shares. The UK Style with-profits policyholders bear this risk through the potential of increased guarantee charges.

## Appendix A: Types of contract in the With-Profits Fund

A1. The following policies were written with UK style participation rights. Discretionary benefits are set in line with this PPFM.

- Investment-Sparplan (Bond)
- Flexible Investment-Lebensversicherung (FPP)
- Investment-Rentenversicherung mit laufenden Beiträgen (deferred annuity - regular premiums)
- Investment-Rentenversicherung mit variablen Beiträgen (deferred annuity - variable premiums)

A2. The following types of policies are covered by the German Business Plan. Discretionary benefits are set in line with the German Business Plan and are not covered in this PPFM.

- Risikoversicherung (Term assurance)
- Flexible Kapital-Lebensversicherung (FPP)
- Flexible Kapital-Lebensversicherung mit Berufsunfähigkeits-Zusatzversicherung (FPP with disability rider)
- Flexible Rentenversicherung (deferred annuity)
- Sofortbeginnende Rentenversicherung (Immediate annuity)
- Berufsunfähigkeits-Zusatzversicherung ohne Beitragsbefreiung ('Stand-alone' disability rider)

## Appendix B: Key terms from the legal scheme

B1. This appendix contains excerpts from the legal scheme under Part VII of the Financial Services and Markets Act that transferred business from the Society to Utmost Life on 1 January 2020. Text copied from this legal scheme is shown in italics.

B2. Terms used in this Appendix which are not used in the rest of this PPFM are defined as set out in the table below.

Term	Definition
German WP Fund	The With-Profits Fund
Implementation Date	1 January 2020
Transferor	The Society
Transferor Actuary	The Chief Actuary of the Society
UK Style German WP Policy	UK-Style with-profits policy

B3. Excerpt from Schedule 2 setting out the restrictions on the charges applied to UK Style with-profits policies:

7. *The Transferor agrees that the annual management charges to be paid by a policyholder through deductions to the Asset Share allocated to its UK Style German WP Policy, shall not exceed 75 basis points, except in circumstances where either:
  - a. there has been a material increase in the Transferor's costs resulting from regulatory action that also results in other life companies increasing their annual management charges; or
  - b. there has been an increase in third party investment management, custody or trading costs where such costs are higher than the costs in respect of the Linked Funds as at 14 June 2018,and that in no circumstances will the annual management charges paid by a policyholder under its UK Style German WP Policy exceed 100 basis points.*
8. *The Transferor agrees that the guarantee charges to be paid by a policyholder through deductions to the Asset Share under its UK Style German WP Policy shall be determined by the Transferor Actuary and With-Profits Actuary in accordance with the Transferor's PPFM, and that in no circumstances will such charges exceed 50 basis points.*
9. *The Transferor agrees that the only charges applied by the Transferor that will be borne by a holder of a UK Style German WP Policy and applied to its Asset Share are:
  - a. the annual management charge set out in paragraphs 7 and 8 of this Part B;
  - b. explicit deductions from the Asset Share as set out in their policy terms, to cover additional insurance benefits on some policies; and
  - c. Any other charges allowed for in the terms and conditions of such UK Style German WP Policy.*
10. *For the avoidance of doubt:*

- a. *no charges other than the annual management charges set out in paragraphs 7, 8 and 9 above of this Part B will be applied to a UK Style German WP Policy by the Transferor in respect of investment, administration or asset management costs, including fund management charges and custody charges;*
- b. *however, costs incurred in buying, selling, lending or borrowing assets, for example broker fees, stamp duty and taxes will be reflected in the value of the assets backing the Asset Share of a UK Style German WP Policy; and*
- c. *ongoing charges incurred by the underlying OEIC shall be rebated by the Transferor so that the holder of a UK Style German WP Policy is exposed to annual management charges and not additional ongoing charges.*

11. *For the avoidance of doubt, no charge will be applied by the Transferor in respect of the Inter-Fund Reinsurance Arrangement to the German WP Fund or the Asset Shares allocated to the UK Style German WP Policies.*

B4. Excerpt from Schedule 3 setting out the mechanism for the development of Asset Shares:

*Maintenance of Asset Share*

- 1. *An Asset Share shall be maintained at all times in respect of each UK Style German WP Policy in the German WP Fund.*
- 2. *At the Implementation Date, the Asset Share for each UK Style German WP Policy shall be equal to the Initial Asset Share for such policy.*
- 3. *From the Implementation Date:*
  - a. *immediately with effect from a withdrawal being made in relation to a UK Style German WP Policy (a Withdrawal Event), the Asset Share for such policy shall be equal to the Asset Share immediately prior to the Withdrawal Event multiplied by the proportion of the UK style German WP Policy that has not been withdrawn under the Withdrawal Event; and*
  - b. *immediately with effect from a payment of a premium by a holder of a UK Style German WP Policy (a Premium Payment Event), the Asset Share for such policy shall be equal to the Asset Share immediately prior to the Premium Payment Event, plus the premium received under the Premium Payment Event less any charges applied in line with the terms of the policy and this Scheme.*
- 4. *The Transferor shall calculate the Asset Share in respect of a UK Style German WP Policy:*
  - a. *as soon as reasonably practicable after the occurrence of a Withdrawal Event or a Premium Payment Event;*
  - b. *each time the German WP Liabilities are calculated in accordance with paragraph 5 below; and*
  - c. *otherwise as required from time to time,*

*(each such date being an Asset Share Calculation Date), in accordance with the following provisions:*

- (i) *at any given time an Asset Share in respect of a UK Style German WP Policy shall be equal to:*

*(A) the Asset Share for such policy calculated by the Transferor at the previous Asset Share Calculation Date,*

*Plus a share of the investment return earned on the assets backing the Asset Shares in respect of all UK Style German WP Policies, shared across all Asset Shares in proportion to the total Asset Shares on all UK Style German WP Policies;*

*Less charges applied to the UK Style German WP Policies in accordance with Part B of Schedule 2 and the terms of the UK Style German WP Policy;*

*Plus or Less (as applicable) any amount of smoothing to be attributed to the Asset Share in accordance with the PPFM.*

*or otherwise in accordance with such other approach as may be agreed from time to time by the Transferor Board having consulted with the With-Profits Actuary of the Transferor.*

## Appendix C: Glossary

The table below sets out terms used within this PPFM and their meaning within this PPFM.

Term	Meaning in this PPFM
2020 Restructure	The major restructuring of the Society effective from 1 January 2020 and described in Section 2 of this PPFM.
Asset Share	An amount representing each UK Style with-profits policy's fair share of the With-Profits Fund, calculated as set out in Section 4 of this PPFM.
Capital Distribution Amount	This is the distribution of capital and profits of the Society to UK Style with-profits policyholders which was in place from 2011 to 2019. Since the 2020 Restructure, the Capital Distribution Amount allocated to each UK Style with-profits policy has been included in their Asset Share.
German Business Plan	This is the business plan approved by the German regulator which sets out the discretionary benefits on with-profits policies other than UK-Style with-profits policies. The discretionary benefits on with-profits policies covered by the German Business Plan are not covered in this PPFM.
Guaranteed Fund	The accumulation of premiums paid less charges plus any declared reversionary bonuses.
Inter-Fund Reinsurance	The arrangement between the Main Fund and the With-Profits Fund put in place by the legal scheme under Part VII of the Financial Services and Markets Act that transferred business from the Society to Utmost Life on 1 January 2020. Under the Inter-Fund Reinsurance the risks associated with the German Style with-profits policies and the Guaranteed benefits on the UK Style policies are borne by the Main Fund to the extent they are not covered by charges to Asset Shares.
Main Fund	The Main Fund of the Society which holds the Society's assets that back non-profit liabilities, pays for the costs of running the business, bears some risks of the With-Profits Fund through the Inter-Fund Reinsurance and holds capital required in respect of the Society's business.
Owner	"Owner" refers to Utmost Life who is the sole member of the Society. This is equivalent to the shareholders of proprietary companies with with-profits funds.
PPFM	The Principles and Practices of Financial Management, this document.
Scheme of Arrangement the Society	A scheme effected as a Part 26 Scheme of Arrangement under the Companies Act 2006. Equitable Life Assurance Society
UK Style	This refers to with-profits policies written with discretionary benefits in the same form as policies written by the Society in the UK. This PPFM sets out detail of the management of discretion for these policies.
Utmost Life	Utmost Life and Pensions Limited
With-Profits Fund	The with profits fund containing assets backing UK style contracts and those with discretionary benefits covered by the German Business Plan.