Principles and Practices of Financial Management

Sun Life Assurance Company of Canada (U.K.) Limited

SLFC Assurance UK With-Profits Fund

Sun Life Financial of Canada

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1. Introduction

Principles and Practices of Financial Management (PPFM)

The PPFM sets out how a firm manages its with-profits business. The PPFM is intended to secure an appropriate degree of protection for plan-holders, as part of a firm's obligation to treat its customers fairly, which the Financial Conduct Authority (FCA) requires to be made publicly available.

The Board of Directors of a firm carrying on with-profits business has to produce a report each year for with-profits plan-holders stating whether, throughout the financial year to which it relates, the firm believes it has complied with the PPFM.

The with-profits principles within the PPFM must:

- be enduring statements of the overarching standards the firm adopts in managing with-profits funds; and
- describe the business model used by the firm in meeting its duties to with-profits plan-holders and in responding to longer-term changes in the business and economic environment.

The with-profits principles are not expected to change often. If they are changed, plan-holders must be informed at least three months in advance, unless the FCA has granted a waiver of this requirement.

The with-profits practices within the PPFM must:

- describe the firm's approach to managing with-profits funds and to responding to changes in the business and economic environment in the shorter term; and
- contain sufficient detail to enable a knowledgeable observer to understand the material risks and rewards from effecting or maintaining a with-profits plan with the firm.

Subject to the with-profits principles, a firm's with-profits practices are only expected to change in limited circumstances such as a business or economic environment change. Plan-holders must be informed of any such change within a reasonable time period, although this notice may be given in arrears. Sun Life Assurance Company of Canada (U.K.) Limited ("the Company") intends normally to inform its with-profits plan-holders of any such change by including the required information in their annual statements.

A firm carrying on with-profits business is required to appoint a With-Profits Actuary to advise on key aspects involving the use of discretion as this relates to the fair treatment of with-profits plan-holders. The Company has, in addition, established a With-Profits Committee, which is an advisory committee to the Board, to monitor amongst other things compliance with the PPFM. The Committee's purpose is to bring independent judgement to the assessment of compliance with the PPFM and to how competing or conflicting rights and interests of plan-holders and shareholders have been addressed.

A briefer version of the PPFM (the 'Consumer Guide') is also available. It explains in clear and non-technical language how the Company manages its with-profits business.

If there is any inconsistency between the Consumer Guide and this PPFM, then the version detailed in this document will apply.

Background to the SLFC Assurance UK With-Profits Fund

The SLFC Assurance UK With-Profits Fund, which was known as the Lincoln With-Profits Fund until September 2009, is an amalgamation of the earlier funds:

- Laurentian Life With-Profits Fund (in 1996).
- Imperial Life With-Profits Fund (in 1987).
- Trident Life With-Profits Fund (in 1987).

It was agreed at the formation of Laurentian Life that a series of 20 annual payments of £803,000 would be paid into the Laurentian Life With-Profits Fund – from 1987 to 2006. These payments have now all been made.

The Laurentian Life With-Profits Fund was, and still is, divided into two plan categories:

- The larger by far of these is for Imperial plans issued before 1 July 1987. Plan-holders are entitled to 97.5% of the **Distributable Surplus** on their part of the fund, with any remaining surplus being distributed to shareholders.

- The other category is for Imperial plans issued after 30 June 1987 and plans issued by Trident. These plan-holders are entitled to a minimum of 90% of the **Distributable Surplus** on their part of the fund, with any remaining surplus being distributed to shareholders.

The fund was closed to new business in June 1990.

Other relevant features of the SLFC Assurance UK With-Profits Fund are:

- The Court documents (the **Section 49 Orders**) that set up the Laurentian Life With-Profits Funds defined how a number of items (eg charges, expenses and tax) should be treated.
- A portion of the fund's business consists of unit-linked whole life, endowment and pension plans and non-linked pension annuities. These plans, referred to as **Non-participating Plans**, do not participate in the profits of the fund. However, any profits or losses generated by these **Non-participating Plans** accrue to the fund. Some of the fund's **Non-participating Plans** (unit-linked pensions) have guaranteed annuity rates. The cost of meeting these guarantees is determined at the time the plan vests and acts to reduce the profits generated by these plans. On **Vesting**, the resultant annuity is issued as a non-profit plan outside the SLFC Assurance UK With-Profits Fund.
- All of the fund's plans issued by Imperial Life have some level of guaranteed minimum surrender values of sums assured. For the older plans, the current surrender values of sums assured are the guaranteed values, but for later plans the guarantees are lower. There are no guarantees in respect of surrender values of bonuses. The cost of these guarantees could potentially affect the pay-outs for all the fund's with-profits plan-holders.
- Most of the fund's plans issued before April 1983 contain various **Settlement Privileges** available on payout. These are options which can give extra value in certain conditions and can therefore also affect the payouts for all the fund's with-profits plan-holders.

It is intended that the Fund will be converted to Non-Profit subject to the approval of the With-Profits plan-holders, the regulators and the High Court.

The business covered by this PPFM

This PPFM covers the with-profits business written in the SLFC Assurance UK With-Profits Fund, which consists of conventional with-profits whole-life and endowment assurances together with attaching benefits.

This PPFM does not cover the fund's **Non-participating plans** apart from addressing the impact that the **Non-participating plans** may have on the management of the fund's with-profits business. The fund contains no unitised with-profits business.

Overarching Principles

- The Company will meet all legal and regulatory requirements and aims to ensure the fund remains solvent on a stand-alone basis, meets the **Section 49 Orders** and observes all the contractual terms in the plans.
- As the SLFC Assurance UK With-Profits Fund is in run-off, the Company will aim to distribute it at such a pace that the payout for each plan includes an appropriate share of the whole fund. Thus all available resources will eventually be distributed.
- The Company will aim to meet all plan-holders' reasonable expectations regarding their payouts. This includes paying all guaranteed benefits as they fall due.
- The Company will aim to manage the fund in a sound and prudent manner and will treat all plan-holders fairly (as defined in Section 3) having regard to their contribution.

These principles cascade down to various other relevant issues and the practical implications for those issues are explained in the sections that follow. If any conflict arises between the principles and/or practices of any of the issues concerned, the fund will be managed by referring back to these Overarching Principles.

2. Amounts payable under a SLFC Assurance UK With-Profits plan

a. Methods used to guide determination of amount payable

Principles

- The Company aims to distribute the entire fund so that the payout for each plan includes a fair share of the whole fund.
- The Company aims to meet all plan-holders' reasonable expectations including any guaranteed benefits.
- The Company aims to manage the fund in a sound and prudent manner and treat all plan-holders fairly having regard to, amongst other things, their contribution.
- The Board are responsible for approving the Practices and any changes to them. They may take advice from the With-Profits Committee, the With-Profits Actuary and other parties before doing so.

Practices

The amounts payable on maturity and death are determined by equating the aggregate **Prospective Value** of in-force plans to the fund's net assets. The **Prospective Value** is calculated using best estimate assumptions for the rate of investment return less an adjustment to allow for risk. The **Prospective Value** explicitly takes into account the value of future benefits, including future sustainable bonuses and future expenses; from this, the value of future premiums is deducted. The proportion of the fund's assets allocated to plans was based on an initial allocation at 31 December 2012.

b. Reversionary bonuses

Principles

The Company will keep bonus rates under regular review and revise them when appropriate in order to manage the SLFC Assurance UK With-Profits Fund in line with the principles below.

Reversionary bonuses are added annually to with-profits plans, which once added are guaranteed additions to the benefits payable under a with-profits plan on maturity and death. They may also increase the payouts on surrender (subject to the surrender basis in use at that time).

The Company will make reversionary bonus additions to plans so as to increase the guaranteed benefits as appropriate. Where necessary, this will be subject to:

- Restricting the build-up of guarantees to protect the solvency of the fund.
- Ensuring a balance between reversionary and terminal bonuses (see Section 2c) on payouts.
- If the financial position of the SLFC Assurance UK With-Profits Fund dictates, then a zero bonus may be declared.

Reversionary bonuses are declared as percentages of the guaranteed amount plus previous allocated reversionary bonuses. This percentage may vary for different groups of plans where appropriate.

Reversionary bonuses are set to achieve a balance between reflecting the experience of the fund since the previous reversionary bonus investigation and declaring bonuses that are sustainable in the longer term.

Practices

Reversionary bonuses are declared annually for each year commencing on 1 April, and are added to a plan on its plan anniversary in that year. If a payout occurs before the next reversionary bonus is due to be added, the payout will not include that bonus. Reversionary bonuses for paid-up plans are based on a reduced sum assured.

In normal conditions, reversionary bonus rates would not be expected to differ by more than 0.5% from the rates at the previous declaration. In adverse circumstances, the financial condition of the SLFC Assurance UK With-Profits Fund is the dominant criterion in setting reversionary bonus rates.

Normally the same rates of reversionary bonus apply for all the fund's with-profits plans. Separate rates may be adopted where appropriate.

c. Final bonuses

Principles

Final bonuses, or terminal bonuses, are declared as percentages of the reversionary bonuses already attaching to the plan.

For all plans, rates of terminal bonus are set such that the aggregate **Prospective Value** of in-force plans is equal to the fund's net assets. This **Prospective Value** will take into account the need to smooth the rate of change of the amounts payable and the financial condition of the SLFC Assurance UK With-Profits Fund.

The rates of terminal bonus may be nil on either endowment or whole-life plans.

Practices

The Company normally investigates terminal bonus levels annually and sets rates to be effective for twelve months from each 1 April. However, terminal bonus levels may change at any time, although such a change is only likely to occur in a volatile investment climate.

Within a terminal bonus declaration, terminal bonus levels will normally vary according to the year of issue, with higher bonus rates for earlier years of issue.

Terminal bonus levels may vary by other factors if appropriate.

Maturity and death values

Payouts on maturity will be the sum of the guaranteed sum assured and the reversionary bonuses added during the term of the contract, together with any terminal bonuses added at the date of the claim.

Payouts on death are similarly calculated, except that some plans may also include a further amount in respect of supplementary life cover.

For all plans, terminal bonuses are set so that the aggregate **Prospective Value** of in-force plans equates to the fund's net assets taking into account the need to smooth the rate of change in the amounts payable, the level of sustainable terminal bonuses and the financial condition of the SLFC Assurance UK With-Profits Fund. Long term terminal bonus rates have been established for different durations in-force based on the expected risk adjusted long term rates of investment return. These long term terminal bonus rates are set such that the amounts increase as duration in-force increases – this is referred to as the 'slope'. In reviewing terminal bonus rates, the slope of long term terminal bonus rates will be scaled up or down such that in aggregate, the **Prospective Value** of all plans is equal to the value of the fund's assets. The **Prospective Value** of a plan may change when there is a change to future expected experience. The value of the fund's assets may change when actual experience is different from the assumptions used in the previous review of terminal bonus rates. In both situations, any variation from expected will be spread over the future lifetime of the plans by scaling the slope of the long term terminal bonus rates.

Short term changes in investment conditions would not necessarily result in corresponding changes in maturity or death values.

Terminal bonuses for paid-up plans are based on a reduced sum assured. Ex-Trident Life plans do not receive any final bonuses.

Any changes to bonuses will be related to events since the last declaration and may be without any specific limit.

Except for any changes to terminal bonus levels, the Company does not set interim bonus rates in between its main declarations.

Surrender values

Payouts on surrender are calculated according to surrender value formulae determined by the directors and which allow for the guarantees. These formulae are based on the guaranteed initial sum assured plus attaching reversionary bonuses and may also contain an allowance for final bonus.

When a plan is surrendered, the long term aim is to pay out the plan's **Prospective Value** less an appropriate allowance for the costs of surrender.

This is achieved using standard formulae and tables. Many with-profits plans have guaranteed minimum surrender values for the initial sum assured, which depends upon the premium basis in force at date of issue. The surrender value starts with the higher of the value of the sum assured calculated on a given surrender basis and that on the guaranteed basis, together with the value of attaching reversionary and terminal bonuses on the given basis. If appropriate, the result may be increased so as to meet the target set out above.

The Company does not apply market value reductions to any surrender value bases or to terminal bonus adjustments.

Penalty free partial encashments take the form of surrenders of annual bonus. They affect the ultimate payout on a plan to the extent that any final bonus is cancelled along with the reversionary bonus surrendered.

All of the fund's plans that were issued by Imperial Life have guaranteed minimum surrender values.

If the payout on a plan is more than its **Prospective Value** because of any contractual guaranteed minimum, the cost is spread over all other plans by the processes described above.

d. Special bonuses

Principles

Special bonuses were payable only to ex-Imperial plans in force at 31 December 1986. All such payments ceased in 2006. All Special Bonus additions in line with the terms agreed at the time of the merger of Imperial Life with Trident Life have been made.

Practices

All requirements of the Special Bonus payments were followed. All 20 payments were made with no payments being deferred. Payments ceased in 2006.

e. Settlement privileges

Principles

Most plans issued before April 1983 contain various **Settlement Privileges** available on payouts. These are options which can give extra value in certain conditions and can therefore also affect the payouts for all plan-holders.

If any of the **Settlement Privileges** are exercised and lead to new plans in the SLFC Assurance UK With-Profits Fund, the Company may establish a new bonus series to cater for all of them.

Practices

If a payout triggers one of the **Settlement Privileges**, the cost (if any) would similarly be spread over all other plans. The settlement may result in the issue of a new plan in the SLFC Assurance UK With-Profits Fund. If so, a new plan value would be calculated afresh and the liability from the settlement provisions allowed for in determining the bonus rates detailed in Section 2b.

The amount of a payout or the bonuses it includes would not be affected by whether or not it is to be applied to any of the **Settlement Privileges**.

f. Smoothing

Principles

The Company applies the same approach to **Smoothing** across all types of payout.

The Company intends that any **Smoothing** be neutral over time.

The Company aims not to change the surrender bases of its with-profits plans very often.

Practices

Smoothing is implicit within the prospective methodology for determining terminal bonuses as set out in Section 2c. Use of the **Prospective Value** of plans means that any changes in experience are spread across all in-force plans regardless of when they exit the fund.

Explicit allowances for **Smoothing** may also be made in the event of extreme economic conditions.

The Company aims that **Smoothing** has a minimal and neutral effect within each bonus year.

The Company aims that overall the SLFC Assurance UK With-Profits Fund will not gain any benefit from nor suffer any cost by **Smoothing**.

The Company aims to apply the same **Smoothing** strategy to all generations and types of with-profits plan.

The Company does not apply any limit to the degree of change in the value of similar with-profits plan payouts from one year to the next.

3. Investment strategy

Principles

The investment strategy aims to take account of:

- matching the cash inflows and outflows of the fund;
- all suitable and available investments (including derivatives);
- advice from the With-Profits Actuary and the investment managers; and
- the various guarantees and options that the fund will need to meet.

The SLFC Assurance UK With-Profits Fund does not rely on any external assets in order to maintain the strategy.

The Company only employs derivatives where appropriate within the fund and in order to reduce investment risk or for the purposes of efficient portfolio management.

The Company specifically recognises the constraints placed on the investment strategy by rapid run down in the SLFC Assurance UK With-Profits Fund and the guarantees and options contained in the plans.

The Company aims to limit overall investment exposure to any one counterparty at least in line with the admissibility limits set out by the Prudential Regulation Authority (PRA).

The Company aims not to hold any assets in the SLFC Assurance UK With-Profits Fund unless it regards them as tradable assets.

Practices

The Board is responsible for the investment strategy of the SLFC Assurance UK With-Profits Fund, taking account of the principles outlined above. Investment strategy proposals are reviewed by the With-Profits Committee and the Investment Management Committee, a committee established by the Company's management, prior to being considered by the Board for approval.

The investment strategy is based upon a regular investigation which compares emerging liability cashflow requirements with the cashflows generated from the respective assets backing these liabilities to arrive at the overall cashflow requirements. Allowance is also made for the **Settlement Privileges** using appropriate take-up rate assumptions. This is then used to determine the investment guidelines.

The results of current investigations indicate that a suitable asset mix for the fund is one of predominantly government fixed interest securities and corporate bonds. The investigations show that the assets held should be realisable at market value within reasonable timeframes. They currently do not indicate a need to be able to realise the assets immediately.

The Investment Management Committee reviews the investment policy and the financial condition of the fund annually. In exceptional investment conditions it will do so more frequently. It comprises experienced senior managers who are qualified to set investment policy, evaluate the various classes of asset and understand their effect on the financial condition of the fund and plan-holders' future benefits.

The investment policy of the SLFC Assurance UK With-Profits Fund is subject to the investment risk management policy of the Company and associated operating guidelines. These provide a framework of processes, controls and reporting requirements with respect to each class of asset. These investment risk management policies are reviewed by the Risk Committee, a committee of the Board.

Most of the invested assets of the fund are managed by Sun Life Global Investments (Canada) Inc. (SLGI) under the terms of an investment management agreement. This management agreement includes general investment policy guidelines with respect to each class of asset and also specific guidelines relating to the fund. These guidelines are reviewed and approved by the Investment Management Committee in line with investment strategy, and changed from time to time.

Investment in derivatives to manage risk exposures is permitted by the investment guidelines, subject, for each type of derivative, to a number of detailed conditions regarding their use.

In practice, any such investments would be discussed in advance with the Investment Management Committee, the With-Profits Committee, and the Risk Committee. Investment in any investment instruments in lines of business that have previously not used derivatives would require the approval of the Board.

The Company, through the Risk Committee, routinely monitors its overall exposure to all counterparties and sets limits on its exposure to any one counterparty according to the PRA Rules.

4. Charges and expenses (including tax)

Principles

The Company aims to apply charges and apportion expenses to the fund in accordance with the **Section 49 Orders** of 1987.

The Company does not currently exercise any discretion in this regard between any particular generations or classes of with-profit plans. The Company would only change this, or other details of how it meets the above principle subject to meeting the Section 49 arrangements, if new circumstances come to light or if it felt that it would be fairer to do so.

Practices

Overview

The main provisions of the **Section 49 Orders** are as follows:

- The SLFC Assurance UK With-Profits Fund will meet all its own directly arising expenses.
- Indirect costs will be allocated to the SLFC Assurance UK With-Profits Fund in a fair and reasonable way (by appropriate portions of the Company's total costs).
- Development costs will be allocated to the SLFC Assurance UK With-Profits Fund by looking at how they would benefit the SLFC Assurance UK With-Profits Fund compared to how they would benefit the rest of the Company.
- Management expenses paid to related companies will not be more than the commercial costs that the related company has incurred.
- Taxes will be apportioned fairly to the SLFC Assurance UK With-Profits Fund by looking at the volume and nature of the business, the type and value of assets hypothecated to the SLFC Assurance UK With-Profits Fund, and the investment proceeds and expenses apportioned to the fund compared to the rest of the Company.

In August 2002, an outsourcing contract for the administration of the business (including the with-profits plans) was entered into with Capita Life and Pensions Ltd (a third party administrator). The arrangement is reviewed annually or when a significant event occurs. The Company can end the agreement subject to a minimum notice period of twelve months.

SLGI manages the fund's assets. The Company reviews the fees for SLGI annually.

In addition to the above, the Company also incurs various overhead expenses on behalf of the SLFC Assurance UK With-Profits Fund.

Further details of the practices

The SLFC Assurance UK With-Profits Fund meets its own expenses which include a fair share of overheads, and there is no cross-subsidy to the rest of the Company.

The Company applies the charges of Capita and SLGI to the fund. The Company's own overhead expenses are charged in line with the **Section 49 Orders**.

The taxes charged to the SLFC Assurance UK With-Profits Fund are determined by the **Section 49 Orders** which effectively treat the fund as if it were a stand alone mutual company. Thus, the fund suffers tax only at the plan-holder rate and there is no further liability on transfers to shareholders.

The SLFC Assurance UK With-Profits Fund meets all its own taxes and there is no cross-subsidy to the rest of the Company.

The Company charges expenses to the fund at no more than commercial cost.

The Company's outsourcing arrangements are based on commercial terms and are first compared to market alternatives. The general terms on which any of these can be reviewed and terminated are given above.

The SLFC Assurance UK With-Profits Fund meets the cost of all its own death (and other risk) benefits, net of reassurance. To the extent that death (and other risk) benefits are reassured, the fund meets the associated reassurance premiums (and collects the associated claims). Otherwise, the fund meets all its own claims.

The SLFC Assurance UK With-Profits Fund is not currently charged for the use of any capital to remain solvent.

The SLFC Assurance UK With-Profits Fund is not subject to any material non-insurance risks (but see Section 7).

The Company does not charge the SLFC Assurance UK With-Profits Fund for any uses of capital or any other risks. Furthermore, the fund meets the costs of its own guarantees and options including **Settlement Privileges**.

5. Management of the Inherited Estate

Principles

The Company would aim to manage any **Inherited Estate** within the fund in line with the principles and practices laid out in this document.

The Company would aim that an **Inherited Estate** should help to:

- maintain the statutory solvency of the SLFC Assurance UK With-Profits Fund on a stand-alone basis;
- set plan payouts to a basis that reflects a fair share of the SLFC Assurance UK With-Profits Fund;
- meet the cost of guarantees on the with-profits plans;
- enable investment freedom within the SLFC Assurance UK With-Profits Fund; and
- even out the incidence of miscellaneous costs and risks inherent in the business.

There is no formal division of the estate between plans within the fund. Any estate is held for the benefit of all with-profits plan-holders in the SLFC Assurance Company UK With-Profits Fund.

The Company would have no constraints on its use of any estate as a result of any previous dealings.

Practices

As set out in Section 2a, the amounts payable on maturity and death are determined by equating the aggregate **Prospective Value** of in-force plans to the fund's net assets. The fund is in run-off and, as a result of this approach, any **Inherited Estate** which previously existed is now effectively being distributed in an equitable manner to plan-holders as part of their benefits. The **Inherited Estate** is thus now effectively zero at all times as the realistic value of the fund's liabilities is equal to the realistic value of the fund's assets.

6. New business

Principles

The Company will not allow any more new with-profits business in the fund. Only contractual increases to existing **Non-participating Plans**, plans resulting from the exercise of **Settlement Privileges** and **Vesting** annuities from non-participating unit-linked pensions plans are allowed to be written in the SLFC Assurance UK With-Profits Fund.

The Company is already dealing with the business as a closed fund as set out in this document.

Practices

If appropriate, the Company will write any further new business resulting from:

- contractual increases to existing **Non-participating Plans** or;
- plans resulting from the exercise of **Settlement Privileges** or;
- annuities **Vesting** from non-participating unit-linked pensions plans outside the SLFC Assurance UK With-Profits Fund or arrange for such new business to be wholly reinsured outside the SLFC Assurance UK With-Profits Fund.

As the SLFC Assurance UK With-Profits Fund reduces in size, the Company will consider the time when it may no longer be viable to continue it as a separate entity. The Company may then seek a scheme of arrangement to convert the plans into non-profit plans (with appropriate benefits) and merge the SLFC Assurance UK With-Profits Fund with another fund or to take some other course of action.

7. Business risk

Principles

The Company aims that the SLFC Assurance UK With-Profits Fund will be exposed only to those risks that are already inherent to the business (including the assets) of the fund. The SLFC Assurance UK With-Profits Fund will not bear any of the Company's other business risks.

The Company aims to limit (as appropriate) the SLFC Assurance UK With-Profits Fund's level of exposure to existing risks.

The Company aims that all profits and losses inherent to the SLFC Assurance UK With-Profits Fund are borne by the SLFC Assurance UK With-Profits Fund (these are described below).

All risks that are new to the business and would be borne by the SLFC Assurance UK With-Profits Fund need advance approval from the Company's Board.

Practices

Overview

As the SLFC Assurance UK With-Profits Fund is closed to new business, it has limited exposure to business risks other than:

- The risks that are intrinsic to conducting with-profits business.
- The risks that it inherited on closure.

The inherent risks are the intrinsic risks plus the inherited risks.

The risks intrinsic to the Company's with-profits business and, in brief, the methods used to control the effect on profits and losses are set out in the table on the right.

Business risk	Control methods
Guaranteed surrender and claim values	• Asset and liability matching • Limited investments in equities
Compensation payments for past mis-selling	• Not charged to fund
Defaulting investments	• Attention to credit ratings as well as yield
Low investment returns/ reinvestment risk	• Fund appropriately invested
Expense risk	• **Section 49 protection**
Mortality risk	• Appropriate reinsurance • Maturing fund – sums at risk reducing
Tax changes	• Communicate to plan-holders
Regulatory changes	• Compliance updates and guidance
Other	• Diluted by being part of the Company

A similar table for the other risks is as follows:

Business risk	Control methods
Guaranteed annuity rates on unit-linked pensions	• Appropriate reserving
Settlement Privileges	• Appropriate reserving • Appropriate asset matching
Reduced profits from **Non-participating Plans**	• Active involvement by the Company
Value of tax assets not realised	• Use discounted value
Stock lending	• Risk underwritten by rest of the Company

The realistic solvency position of the SLFC Assurance UK With-Profits Fund makes appropriate allowance for the incidence and the magnitude of all the inherent risks.

Further details of the practices

Other than in respect of the normal on-going management of the assets and liabilities of the SLFC Assurance UK With-Profits Fund the Company does not take on any further business risks for the SLFC Assurance UK With-Profits Fund.

The SLFC Assurance UK With-Profits Fund bears all the profits and losses (except for compensation costs for mis-selling) arising from the inherent risks of the business and the Company passes these on to plan-holders through their bonuses.

The Company currently applies the same **Smoothing** process in distributing such profits and losses as in distributing any other profits or losses of the fund.

The Company currently treats the whole of such profits and losses as determinants of the with-profits plan payouts.

The Company currently pools the outcome of all such business risks across all the with-profits plans and does not differentiate between its various generations or classes of with-profits plans in doing this.

8. Equity between the SLFC Assurance UK With-Profits Fund and its plan-holders and shareholders

Principles

The Company shares the **Distributable Surplus** between plan-holders and shareholders in line with its Articles of Association and the requirements of the **Section 49 Orders** of 1987. The shareholder's portions cannot vary by more than 0.5% from one year to the next.

The Company does not aim to change the current arrangements for sharing the surpluses.

Practices

The Company calculates the profit to be divided between plan-holders and shareholders as that which emerges from the operations of the SLFC Assurance UK With-Profits Fund in between the statutory valuations that are made each 31 December. Shareholders cannot receive more than:

- 2.5% of the **Distributable Surplus** for Imperial plans issued before 1 July 1987.
- 10% of that for Imperial plans issued after this date and all Trident plans.
- None of the cost of Special Annual Bonuses.

These divisions of the profit or surplus would not change if the underlying basis of the profit calculation were to change.

The divisions do not depend on any other factors (such as tax, anticipated surpluses etc).

There is no new business affecting the estate or the shareholder's transfer.

Where the shareholder's position has been less than the percentages indicated above, the Company would normally aim to increase the shareholder's portion by 0.5% a year until the maximum percentage is reached.

9. Glossary

Term	Definition
Distributable Surplus	**Distributable Surplus** is the total cost of the bonuses that are to be added to with-profits plans from time to time together with the cost of any accompanying shareholder's portion. The bonuses are decided by the Board of the Company and the costs are calculated by the With-Profits Actuary using the statutory valuation basis set by the Board on the advice of the Chief Actuary.
Section 49 Orders	These are the Court documents that set up the Laurentian With-Profits Fund and defined how a number of items (eg charges, expenses and tax) should be treated.
Non-participating Plans	These are plans that are within the SLFC Assurance UK With-Profits Fund but do not receive bonuses as they do not share the **Distributable Surplus**.
Vesting	This is the point at which pension plan-holders take their retirement benefits.
Smoothing	**Smoothing** is a process that aims to reduce the volatility of payouts on similar plans with slightly different end dates. It involves a cross-subsidy from one plan to another.
Settlement Privileges	These are a range of options open to some plan-holders on surrender or maturity. They enable the plan-holder to take the proceeds in a variety of forms of income rather than as a lump sum. They generally include a guaranteed rate of interest.
Section 49 Protection	This is the protection given by having the **Section 49 Orders** in place.
Prospective Value	The **Prospective Value** of a plan is the current value of expected future benefits, expenses and shareholder interest in profits less expected future premiums. The current value is obtained by making an assumption about the investment return that will be achieved on the fund's assets.
The Inherited Estate	The **Inherited Estate** is the difference between the realistic value of the SLFC Assurance UK With-Profits Fund's assets and the realistic value of its liabilities.

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Life's brighter under the sun