

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM)

Sun Life Assurance Society plc

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1 Introduction

1.1 Principles and Practices of Financial Management

This document sets out the Principles and Practices of Financial Management (PPFM) of Sun Life Assurance Society plc (the Society). The Long-Term Fund of the Society is operated in accordance with these Principles and Practices.

Within each section of the PPFM, the Principles are shown first, followed by the corresponding Practices.

1.2 With profits policies

With profits policies are entitled to a share of the profits of the Long-Term Fund. We invest in a wide spread of different assets including shares, property and fixed interest securities. Our profits arise mainly from the returns earned on these assets.

The overall aim is for with profits policies to provide steady capital growth over the medium to long term, whilst smoothing out fluctuations in investment markets.

1.3 The Principles

The Principles are enduring statements of the overarching standards we adopt in managing the Long-Term Fund.

They describe the business model we use in meeting our duties to policyholders and in responding to longer-term changes in the business and economic environment.

We do not expect to change the Principles often, and, except with the permission of the Regulator, we will give at least three months advance written notice to with profits policyholders of any changes to the Principles.

1.4 The Practices

The Practices describe our current approach to managing the Long-Term Fund and to responding to changes in the business and economic environment in the shorter term.

They are intended to contain sufficient detail to enable an understanding of the material risks and rewards from taking out and holding a with profits policy with us.

We expect to change the Practices as our circumstances or the business environment change. We will advise with profits policyholders of any change in the Practices, within a reasonable period of the change becoming effective, for example in conjunction with the annual bonus statement.

1.5 Glossary

A Glossary explaining the key terms used in this document is included.

1.6 Monitoring compliance

We have established a With Profits Committee, currently consisting of members who are neither AXA executives nor Directors of Sun Life Assurance Society plc., in order to monitor our compliance with the PPFM.

In addition, our With Profits Actuary, appointed in accordance with regulations applicable to with profits life insurers, has a number of responsibilities relating to the operation of the Long-Term Fund and the PPFM.

We will make a report available to with profits policyholders each year on compliance with the PPFM, including a report to policyholders by the With Profits Actuary.

1.7 Changes to the PPFM

Any changes to the PPFM must be approved by the Board. The With Profits Committee and With Profits Actuary may propose changes to the Board, and the Board may seek the advice of the With Profits Committee or With Profits Actuary in considering changes.

2 Sun Life Assurance Society Plc

We were established in 1810, and we have been part of the worldwide AXA Group of companies since 1997.

We have a single Long-Term Fund that includes all the types of business we have written, which comprises with profits, non-profit and unit-linked business. The non-profit business is mainly guaranteed annuities, which make up a significant proportion of the Long Term Fund. The profits and losses from all types of business are shared between our with profits policyholders and our shareholders, with at least 90% of profits allocated to the with profits policyholders.

Since we joined the AXA Group, the majority of the Group's new with profits business has been written in AXA Sun Life plc, another Group company. Sun Life Assurance Society plc closed to new business on 31 July 2009, although we still accept increments to existing policies and new members to existing group schemes.

Almost all of our unit-linked business is reassured to other AXA Group companies. Where such business is reassured, we retain liabilities in respect of death and illness benefits. The profits and losses that we make in respect of unit-linked business relate mostly to these benefits.

Some of our with profits business has been reassured to us from the following companies:

- AXA Isle of Man Limited
- Life Insurance Corporation of India

3 Regular Bonus Rates

3.1 Principles

In normal conditions we set regular bonus rates for Unitised With Profits (UWP) policies with regard to the expected return on UK Government fixed interest securities, which we regard as an indicator of the minimum expected return in the long term on our assets. In determining the regular bonus rates, we make certain deductions from this return, and we smooth the resulting rates.

For conventional with profits policies, we set regular bonus rates at levels that are likely to be stable in the long term, taking into account the terms on which the policies are written and expected future investment returns.

As part of our approach to smoothing, we restrict the pace of change in regular bonus rates, so that in normal circumstances there is a maximum change that we may make from one year to the next.

In adverse circumstances, or if our solvency is at risk, we are likely to reduce regular bonus rates for a period. Furthermore, the reductions from one year to the next are likely to exceed the normal maximum change.

Regular bonus rates are determined for each type of policy. Where justified by our process for setting regular bonus rates, we may create new bonus series to permit different rates for different groups of policies of the same type. For example, this might result from differences in policy features such as levels of guarantees, or from differences in past investment experience. In determining whether a new bonus series is needed, we take into account the size of the difference in regular bonus rates between groups of policies (as determined in accordance with our normal practices), the reasons for the difference and whether the difference is expected to persist.

3.2 Practices

3.2.1 Current approach to setting regular bonus rates

In determining the regular bonus rates for UWP policies, we estimate the expected average long-term return on UK Government fixed interest securities, having regard to current yields, our expectations for future changes and the term profile of the liabilities.

We make a number of deductions from this return. The deductions include allowances for shareholder transfers, expenses (in excess of expenses allowed for in policy charges and other policy conditions) and tax.

In addition, we may deduct a contingency margin from the expected return on UK Government fixed interest securities, depending on the excess over this return of the expected long-term return on the assets backing with profits policies. A contingency margin is more likely if this excess is small, and may also vary in size between types of policy, taking into account our expectations for the relative levels of regular and final bonuses and the levels of policy guarantees. To the extent that it is not needed to meet contingencies that arise, the contingency margin deducted will normally be available for payment as final bonuses.

We are likely to make a further deduction from the expected return in adverse circumstances, where the value of policies including bonuses declared to date has become greater than or close to the value of asset shares, with the intention of reversing this position over a period. Asset shares and how we use them are described in our Practices relating to payouts under with profits policies.

For conventional with profits policies, we investigate the long-term sustainability of regular bonus rates by projecting payouts on claims in future years under a number of different assumptions.

3.2.2 Policies where there is an expectation that no final bonuses will be paid

These policies include:

- Pension policies invested in the Group With Profits Fund
- With Profits Annuities
- Deposit Administration plans

In order to reflect the expected levels of final bonuses, the regular bonus rates are normally higher than for other similar types of policy. This is achieved by applying a lower contingency margin.

3.2.3 Other factors affecting regular bonus rates for particular types of policy

For capital units issued in the early years of certain pension policies, regular bonus rates are normally 3.5% less than those applying to other units relating to the same policy, subject to a minimum of zero.

For Flexible Transfer Plans that provide a minimum guaranteed annuity benefit at maturity, a reduced regular bonus rate applies to the part of the fund subject to the guarantee.

For Flexible Retirement Income Plans, an additional bonus may be added on every third policy anniversary, where there has been investment performance in excess of that included in regular bonuses. This enables investment performance to be more fully reflected in determining the maximum level of income permitted under such policies. Once added, such additional bonuses are treated in the same way as regular bonuses. Therefore the amount of final bonus eventually payable would normally be less than it would have been had the additional bonus not been added.

For Deposit Administration plans, regular bonus rates are set annually with regard to the actual return on the underlying assets during the year, with the aim of targeting the total value of the accumulation accounts towards the level of the asset shares of the plans, less a contingency margin, over the medium term. In accordance with our smoothing practice, we allow greater variations in regular bonus rates from year to year than for types of policy where there is an expectation that final bonuses will be paid. To assist the operation of smoothing we may vary the bonus rates by the year the contributions were credited. Some plans are subject to a guaranteed minimum annual rate of return in respect of part of the accumulation account. In such cases, the amount of the guaranteed rate of return is deducted from the bonus rate applicable to amounts credited in the same year for plans without the guarantee, subject to a minimum bonus rate of zero.

For With Profits Annuities, the bonus is in the form of an enhancement to the annuity paid during the following year. We normally set bonus rates annually with regard to the actual investment returns earned on the assets backing the policy, the investment return assumed in the price of the annuity and the levels of bonuses added in previous declarations. The change in bonus from year to year is limited by our smoothing practice. In adverse circumstances, where actual investment returns are less than the cumulative effect of the return assumed in the price of the annuity plus bonuses added previously, the annuity payable may reduce as a result of the bonus declaration. However, the annuity will not reduce below the level of the minimum annuity guaranteed by the policy.

3.2.4 Frequency of amending regular bonus rates

In normal conditions we review and, where appropriate, amend regular bonus rates twice per year. However, in rapidly changing market conditions, or in the adverse circumstances described below, we would review regular bonus rates and may make amendments at any time.

For International With Profits Bonds, changes are reflected in the rate of increase in the unit price, and take effect from the implementation date of the change. For other policies, regular bonuses in respect of each calendar year are allocated during the first quarter of the following year. For such policies, the only immediate change in regular bonus rates following a review at other times in the year would be to the interim bonus rate payable for policies becoming claims in respect of the period since the last regular bonus was allocated.

3.2.5 Maximum change to regular bonus rates

We would not currently expect to reduce regular bonus rates by more than 1% from one year to the next (e.g. from 3.5% to less than 2.5%) except in adverse circumstances where the value of policies including bonuses declared to date has become greater than or close to the value of asset shares. This situation may arise following a reduction in asset values or a period of poor investment returns. In these circumstances, changes of up to 2% may be made from one year to the next, though it is expected that changes of this magnitude would be reflected in more than one change to regular or interim bonus rates during the year.

However, in extreme conditions where our solvency was at risk, regular bonuses could be reduced further or suspended altogether for a period in order to reduce that risk.

Larger maximum reductions than those indicated above may apply in the case of types of policy where there is an expectation that no final bonuses will be paid. For example, for Deposit Administration plans, we may change regular bonus rates by up to 3% (or up to 5% in adverse conditions).

We would not currently expect to increase regular bonus rates by more than 1% from one year to the next (e.g. from 1.5% to more than 2.5%) except in favourable circumstances where the value of policies including bonuses declared to date has become significantly less than the value of asset shares. This situation may arise following an increase in asset values or a period of good investment returns. In these circumstances, changes of up to 2% may be made from one year to the next, though it is expected that changes of this magnitude would be reflected in more than one change to regular or interim bonus rates during the year.

3.2.6 Interim bonus rates

Interim bonuses are payable (except for International With Profits Bonds) when a policy becomes a death or critical illness claim, reaches maturity or is surrendered or switched out of with profits. The interim bonus is effectively an allowance for the regular bonus for the period since the year in respect of which the last regular bonus was allocated.

The rate of interim bonus normally represents our expectation at the time it is set for the regular bonus rate to be declared at the next allocation. Interim bonus rates are normally reviewed twice per year, but may be reviewed and amended more frequently in changing conditions.

3.2.7 Approval and documentation of regular bonus rates

Regular bonus rates are determined by the Board, and are formally recommended and documented in papers presented to the Board. The With Profits Actuary advises the Board on the fairness of the proposals.

4 Payouts under with profits policies

4.1 Principles

In determining the payouts for maturing policies, on death or critical illness claims and surrenders or switches out of with profits, we aim to ensure that all guarantees are met and that all policyholders are treated fairly.

The payout may include a final bonus. For UWP policies we may apply a Market Value Reduction (MVR) to reduce payouts in some circumstances, in accordance with the policy provisions.

In determining the level of the final bonus or MVR, and hence the payout, we use the asset shares of the policies as a guide.

The final bonus may include an uplift. Uplifts are discretionary payments in excess of asset share, and are funded by distributing surplus assets in the Long-Term Fund and miscellaneous profits such as those from our non-profit and unit-linked business. Where there are miscellaneous losses these are also taken into account in determining the amounts of uplifts. If large losses were to arise, it might be necessary to remove uplifts and to reduce payouts below asset shares for a period in order to protect the financial stability of the Long-Term Fund.

Our approach to including uplifts depends on the type of claim. Uplifts are concentrated on maturity benefits, death or critical illness claims and surrenders or switches out of with profits near the end of the policy term, and are not generally payable for other surrenders or switches.

We aim to smooth fluctuations in payouts arising from varying investment returns or other factors. Smoothing reduces the effect of fluctuations, by ensuring that payouts change less frequently than asset values, by limiting the size of changes from one year to the next and by shaping scales of bonus rates. Smoothing may apply differently between different types of policy and between different types of payout, e.g. maturities and surrenders. We intend smoothing to remain neutral over time, during periods when general levels of uplifts are at levels likely to be sustainable in the long term.

It is in the nature of with profits investment that including uplifts and applying smoothing involves approximation across types of policy and generations of policyholder.

The cost of uplifts and smoothing is tracked by measuring the average payout ratio of a group of maturing or surrendering policies. The payout ratio is the payout expressed as a percentage of the asset share. We may amend our smoothing strategy if, as a result of adverse circumstances, payout ratios would otherwise reach a level that we believe is too high, for example if our financial stability would be at risk.

We will only apply an MVR in accordance with the provisions of the policy. An MVR is permitted if investment performance is lower than that reflected in the regular bonuses we have already added. For some policies, an MVR is permitted if in our reasonable opinion it is necessary in order to protect the interests of remaining policyholders. If an MVR is applied, its amount will depend on the difference between the surrender value otherwise payable and the asset share.

We may make changes to surrender value calculations for conventional with profits policies, in order to reduce payouts in a similar way to an MVR for a UWP policy or to reflect other factors affecting the value of the policy.

4.2 Practices

4.2.1 Use of asset shares in determining payouts

In determining the amount of final bonus payable at maturity, we use the asset shares of the policies as a guide. For each group of maturing policies of the same type and similar period of investment in with profits, the target payouts correspond in total to the expected value of the aggregate asset shares of the group, amended by the appropriate level of uplift, or reduction where necessary (for example because of miscellaneous losses), and smoothing.

We also use asset shares as a guide in determining payouts on surrender, including determining final bonuses and MVRs.

The overall aim is that the payout ratio for each group of policies will fall within the relevant target range, as described below. For this purpose, each group of policies of the same type and similar period of investment in with profits is represented by a specimen average policy for that group. We then look at the payout as a percentage of asset share for each specimen policy. This is appropriate since it ensures consistency with the methods actually used in setting final bonus rates.

The current target range is from 80% to 120% of asset share for maturing policies and from 70% to 120% of asset share for surrendering policies.

Payouts from certain products, where asset shares are not the primary factor used in setting payouts, are not assessed relative to the target range.

The asset share is a measure of the share of assets attributable to a with profits policy, calculated by accumulating premiums paid at the rates of return earned on the assets assumed to be backing the policy, after allowing for deductions for partial payments of benefits and charges such as expenses, mortality, distributions to shareholders and tax. The asset share also allows for estimated profits or losses on surrender of other policies of the same type.

For most types of policy, the asset share is determined each month for each policy, by rolling forward the previous month's asset share allowing for the investment return earned in the month, any premiums paid and the impact during the month of the other factors described below.

The calculation of the rolling forward of the asset share for each policy is accurately carried out, subject to minor approximations within the calculation. For some types of policy, together representing a small proportion of our with profits business, approximate or aggregated asset share calculations are made. Overall, we believe that the asset shares represent the policy values sufficiently accurately for their purpose.

The detailed methods used to calculate the asset share of each policy and the use of asset shares and other information to determine the bonus recommendations made to the Board are described in documentation reviewed by the With Profits Actuary.

4.2.2 Methods and assumptions used in asset share calculations

The methods and assumptions set out below are those in use at the present time. In some cases there have been variations to the methods in use in the past, and these are reflected in the accumulated asset shares of the policies affected.

(a) Investment returns

The investment returns used in the asset share calculations are based on the actual returns earned on the different asset classes in the Long-Term Fund, including changes in the market value of assets. The asset share of each policy is credited with the return earned on the assets in the Fund assumed to be backing the policy.

We assume that the backing assets have the same mix of asset type for most types of policy, but the assets backing some types of policies with higher levels of guarantees contain a lower proportion of equities than those for other policies, and this proportion may be zero where this is deemed appropriate. We review asset-backing assumptions regularly, with particular regard to allowing appropriately for levels of guarantees applicable to different types of policy.

In the case of International With Profits Bonds denominated in Dollars or Euros, the equities included in the backing assets are assumed to be mostly denominated in the same currency as the policy.

(b) Mortality, critical illness and surrenders

Profits and losses arising in respect of death and critical illness claims and surrenders are credited or charged to the asset shares of the remaining policies of the same type. We use estimates of the proportion of policies becoming claims. These estimates are reviewed at least annually.

(c) Expenses

Expenses are charged or have been charged in the past to the asset share of each policy as follows:

Expense	Charge to asset shares
Fees paid to AXA Sun Life Services plc (ASLS) for management, administration, marketing and sales services	Actual fees paid for each policy, as described in the Practices relating to charges and expenses
Expenses in respect of management, administration, marketing and sales incurred before the formation of ASLS in 1998	The actual or estimated expenses incurred by us, apportioned by type of expense and between individual policies in accordance with our practices at the time, based on regular expense analyses
Commission paid to intermediaries	Actual commission paid for each policy
Fees paid to investment managers	A percentage of the asset share representing the average fee level including an allowance for performance fees
Other expenses directly relating to investment, for example dealing costs, and charges borne through investment in collective investment schemes	Allowed for within the calculation of investment returns
Expenses met directly by us, for example regulatory fees	Actual expenses, apportioned between individual policies using a basis of apportionment between different types of policy that we believe to be equitable, as described in the Practices relating to charges and expenses.

(d) Taxation

The calculation of the asset share of each policy allows for the basis of taxation of the Society in respect of that type of policy, for example taking into account the different taxation treatment of life and pension policies.

The assumptions used in respect of taxation are reviewed whenever tax rates or bases change and at least annually.

Income received is assumed to be taxed at the actual rate charged for that type of policy, except that tax on income from overseas assets may be determined approximately in some cases.

Tax on capital gains is allowed for each month on the basis of the current value of the assets, although no tax is actually paid until assets are sold. The amounts deducted from asset shares are held in the Long-Term Fund until the assets are sold and the tax is paid. The assumed tax rate is determined by taking the rate expected to apply at the time of the asset sale, reduced by applying a discount factor allowing for the expected average period to the sale.

For life policies, tax relief is available on expenses against tax on income. We currently assume that we have sufficient income to relieve all expenses. For those types of expenses where immediate relief is granted, we use the actual rate of relief allowed. For certain types of expense, the tax relief is spread over a period of seven years, and we assume that immediate tax relief is granted at a discounted rate allowing for the spread-over period.

(e) Transfers to shareholders

Each policy's asset share is charged with the cost of the transfers to shareholders relating to the allocation of bonuses to that policy.

Tax arising from transfers to shareholders is borne by the Long-Term Fund. Such tax is not charged to asset shares.

(f) Cost of guarantees and capital

The provision of guarantees and the setting aside of additional capital required to support our smoothing practice and the provision of guarantees impose costs on the Long-Term Fund. We have not charged and do not currently charge any such costs to the asset shares of the policies. We may change this practice in future, for example in respect of a new type of policy. Any such change would require Board approval, and would only be introduced if we believed it to be fair to policyholders and compliant with relevant law. Such a change would not retrospectively affect the calculations of asset shares for the period prior to the introduction of the change.

Flexible Transfer Plans that provide a minimum guaranteed annuity benefit at maturity are subject to a reduced regular bonus rate. For such policies, the reduction in regular bonus rate effectively represents a charge for the cost of the guaranteed benefit.

(g) Support from the estate

Asset shares are not charged in respect of any support provided by the estate.

(h) Changes to methods and assumptions

The methods and assumptions used to determine asset shares are kept under frequent review. The methods we use may need to change as a result of external events such as changes to regulations or changes to economic circumstances. Furthermore, changes to the PPFM or initiatives aimed at improving their application may also require changes to the methods.

Changes to the methods and assumptions described above must be agreed by the With Profits Actuary.

We would not normally change any assumptions or parameters relating to our historical experience. However, provided that we believe that fairness between policyholders will be maintained, we may do so in circumstances such as the following:

- to improve the accuracy of methods used, for example by removing approximations
- to comply with new rules or guidance issued by the Regulator
- to correct errors

4.2.3 Current approach to including uplifts

For Bonds, payouts are defined for policies that surrender. Uplifts are concentrated on Bonds which have been in force for 10 years or more.

For other classes, uplifts are concentrated on maturing policies, death or critical illness claims and surrenders or switches near the end of the policy term.

In recent years the amount of uplifts have been small. However, the level of uplifts likely to be sustainable in the long term will be highly dependent on future financial conditions and levels of future miscellaneous profits and losses. We assess the position regularly, and we currently believe that it is likely that in the long term the level of uplifts will be modest.

Levels of uplifts may also vary between types and different generations of policy. In particular, the levels may vary in accordance with our historical practice, the sources of profit being used to provide the uplift and having regard to payouts by competitors under similar policies.

We normally expect uplifts on maturing policies to be higher percentages of asset shares for policies in force for a longer period than for those in force for a shorter period. This reflects the emergence of miscellaneous profits over a longer period.

If large miscellaneous losses were to arise, it may be necessary in order to protect our financial stability to remove uplifts and reduce payouts below asset shares. Our assessment of the need for such reductions, the amounts and durations of any reductions and the impact on our financial stability will be carried out as part of the process of reviewing final bonus rates, which is described below. Such reductions will not be allocated to the asset shares of particular types of policy except as described in our Practices relating to business risk.

4.2.4 Current approach to smoothing

In normal conditions, we apply smoothing so that the payout in respect of similar maturing policies (in force for the same period) does not change by more than 15% from one year to the next.

However, if at any time the average payout ratio for the group of maturing policies of the same type and similar period of investment in with profits exceeds 120%, we may make an additional reduction in payouts. Where such a reduction results in the above 15% limit being exceeded, we will normally restrict it so that following the reduction the average payout ratio for the group is not expected to be less than 120%.

Furthermore, we may also make bigger reductions in payouts than 15% if either there have been exceptional miscellaneous losses or the levels of payouts are such as to put our financial stability at risk.

For types of policy where there is an expectation that no final bonuses will be paid, regular bonuses are subject to less smoothing than for other types of policy. However, for such policies the absence of a final bonus is likely to result in payouts that fluctuate less than other types of policy in changing conditions.

For surrenders of Bonds, less smoothing applies than for maturities of other types of policy. We apply smoothing by making a series of changes over a period to final bonus rates or MVR scales with the aim of moving the average payout ratio of the group of surrendering Bonds of similar period of investment in with profits to close to 100%. The pace and frequency of changes will depend on how far the average payout ratio has diverged from 100%. Changes to final bonus rates and MVR scales for Bonds are considered more frequently than for other classes.

Surrender values of other policies are normally highly smoothed in the early years of the policy, when final bonuses are not normally added, with smoothing decreasing to the level applied to maturities as policies approach their maturity dates.

Except as described above, our smoothing practice is generally similar for all types and generations of policy.

It is not our practice to apply a different smoothing strategy to policies effected when the accumulated cost of or excess from smoothing is large.

In the long term we expect smoothing to be neutral. We do not expect to adopt an approach that aims for neutrality over a pre-determined period. Instead, the approach will be to aim for neutrality over actual economic and stock market cycles.

4.2.5 Current approach to setting final bonus rates

In general, the final bonus rates are either constant for all policies of a particular type or vary according to how long the policy has been invested in with profits.

The final bonus rates applying to policies due to mature in the period until the next planned review of final bonus rates are set in accordance with the following criteria:

- For each group of maturing policies of the same type and similar period of investment in with profits, the total payout corresponds to the expected value of the aggregate asset shares of the group, amended by the appropriate level of uplift, or reduction where necessary, and smoothing, as described above.
- The published scales of final bonus rates reflect a degree of smoothing across different periods of investment in with profits.

Where there is a maturity date, the same final bonus rates apply on death or critical illness as on maturity of policies of the same type and period of investment in with profits.

In the case of whole life policies that do not have a maturity date (other than Bonds and Trustee Investment Plans), final bonus rates on death or critical illness are the same as the final bonus rates for maturing policies in the same series or of a similar type. These rates are subject to a test of fairness carried out by comparing the asset shares of the whole life policies with the value of their expected future death or critical illness benefits, allowing for those rates of final bonuses.

For Bonds and Trustee Investment Plans, final bonus rates are defined for surrenders and switches out of with profits in the forthcoming period, and are set in a similar way to that described above. Final bonuses are more likely to be paid the longer the policy has been invested in with profits. For Bonds, the final bonus rate on death is the same as on surrender.

For other policies, our practice is not to add a final bonus on surrender in the early years of the policy term, and subsequently for final bonuses to be added to have regard to asset shares but with no uplifts. As the policy approaches maturity, an amount of uplift may be allowed for, to ensure that the final bonus on surrender increases smoothly towards the final bonus payable on maturity.

4.2.6 Frequency of amending final bonus rates

In normal conditions, we review final bonus rates twice per year, currently in the first and third quarters.

We review final bonus rates more frequently in changing or adverse conditions, for example following a significant movement in asset values affecting asset shares. Following a review, we may make amendments to final bonus rates at any time in order to limit the cost of uplifts and smoothing.

It is unlikely that changes would be made as a result of such a special review unless one of the following applies:

- the values of investments allowed for in asset share calculations had generally moved by more than 5% since the previous rates had been set
- the average payout ratio for the group of policies of the same type and similar period of investment in with profits exceeds 120%
- the levels of payouts are such as to put our financial stability at risk.

4.2.7 Approval and documentation of final bonus rates

Rates of final bonus are determined by the Board, and are formally recommended and documented in papers presented to the Board. The With Profits Actuary advises the Board on the fairness of the proposals.

4.2.8 Application of Market Value Reductions

It is not our practice to apply both a final bonus and an MVR to a policy at the same time. However, where a policy comprises several elements (for example corresponding to different increments to the policy), the final bonus or MVR may be determined separately for each element so that final bonuses may apply to some elements and an MVR to others.

An MVR may be applied in accordance with the provisions of the policy. No MVR is permitted at maturity or on death or critical illness claims. An MVR is permitted on surrender or switch out of with profits, unless the policy provisions state otherwise, for example certain early and late retirements under pension policies or on the tenth policy anniversary of certain Bonds.

The maximum amount of any MVR reduces the total amounts that would be payable on surrender of the group of policies of the same type and similar period of investment in with profits from the normal surrender values to a level close to the total asset shares of the group of policies.

A lower amount of MVR than the maximum may be set in accordance with our smoothing practice, depending on the level of the maximum and volumes of actual or expected surrenders and switches.

For Bonds, we apply a single MVR rate to surrender values of all policies (or policy elements) effected in the same three-month period. For other types of policy, we apply a single MVR rate to surrender values of all policies (or policy elements) effected in the same calendar year.

It is our current practice not to apply an MVR (notwithstanding the normal rules) where either:

- the amount payable on surrender before applying the MVR is less than a certain limit; or
- the amount of MVR would be less than a certain limit

We monitor volumes of surrenders and switches and the impact of applying these limits, and we may amend the limits for particular types of policy in order to keep an appropriate balance between the interests of surrendering and continuing policyholders.

MVR scales are kept under frequent review, and may be changed at any time. Changes are more likely at times of movements in asset values. We would not normally change the MVR scales unless the total amounts that would be payable on surrender of the group of policies of the same type and similar period of

investment in with profits differed from the total asset shares of the group of policies by at least 2%. In accordance with our smoothing practice, a large movement in asset values may be reflected in a series of smaller changes to MVR scales over a period. Changes to MVR scales may also be made as a result of changes in volumes of actual or expected surrenders and switches.

4.2.9 Surrender of conventional with profits policies

The basic surrender value is calculated by means of a formula, which for most types of policy determines the present value of future guaranteed benefits less future premiums, using assumptions about future mortality and interest rates. Final bonuses may be added as indicated in our approach to final bonuses set out above.

Changes in financial conditions are unlikely to have a significant effect on the payout on surrender, particularly in the early years of a policy when no final bonus is payable. However, in adverse financial conditions, where the payout would otherwise be higher than the asset share even with no final bonus, the calculation of the basic surrender value (which is not guaranteed) may be amended to reflect the conditions.

4.2.10 Partial surrenders

In the case of Bonds, policyholders may choose to encash part of their policy on a regular basis in order to provide an income. Regular encashments are not subject to an MVR provided that they are less than a percentage of the value of the policy in each year. This percentage is set and reviewed from time to time in accordance with the policy provisions.

Partial surrenders that are not regular encashments are potentially subject to an MVR, but an MVR will not be applied if either the amount payable on surrender or the amount of MVR is less than the relevant limit described above.

Where no MVR is applied on a partial encashment in either of these situations, the amount deducted from the policy's asset share is the amount of the encashment less any MVR that would otherwise have applied. As a result, the asset share of the remaining policy following the encashment is not adversely affected by the non-application of the MVR. The amount of encashment in excess of that deducted from the policy's asset share, i.e. the amount of MVR that would have applied, is included in miscellaneous losses, and may therefore be taken into account in determining levels of uplifts.

It is not our practice to distinguish between policies that have or have not had regular encashments in determining rates of final bonus or MVR. This practice is consistent with the treatment of asset shares described above.

5 Investment Strategy

5.1 Principles

Our investment strategy for the assets backing with profits policies is to invest in a broad range of asset types, with the intention of providing the best investment return for the benefit of policyholders generally, subject to recognition of the nature of the Long-term Fund and its liabilities and control of the risks associated with investments.

The main distinguishing feature of the investment strategy of with profits funds operated by different insurance companies is the proportion invested in equities and property. Such investments have historically produced better returns over the longer term than fixed interest investments, but are subject to greater volatility and a higher risk of poor performance. Fixed interest investments are more secure and are more suitable for backing policy liabilities that are guaranteed, including non-profit liabilities.

The investment policy for the assets backing with profits policies will be to produce the best investment return consistent with:

- minimising the risk of insolvency
- the levels of policy guarantees
- our views on the expected short term performance of different investment classes

The assets in our Shareholders' Fund are available to maintain our solvency, and therefore they provide some support to the investment strategy of the Long-Term Fund. We do not rely on other assets held outside the Long-Term Fund in order to maintain our investment strategy.

We recognise that derivatives have a role to play in our investment strategy. The use of derivatives is tightly controlled in accordance with a strategy agreed by the Board, and is limited to use in connection with reduction of risk and other specifically approved circumstances.

For money market investments, derivatives and other similar investments, we limit our total exposure to each counterparty. The limits take into account the form of exposure and the rating of the counterparty.

We may invest in assets where there are restrictions on trading because of the particular importance of the assets to the Society. Such investments are subject to specific constraints and approvals. In particular, we will have regard to our overall investment objectives in deciding whether such investments are suitable, and furthermore the investments must offer prospective returns that are attractive taking account of any trading restrictions and any risks. Subject to any legal obligations, we may trade in such assets if, following a review, we believe that it is in the interests of the Long-Term Fund to do so. Investments of this type would be included in the determination of the investment return used in asset share calculations, and would affect payouts accordingly.

5.2 Practices

5.2.1 Investment management

The investment strategy is defined for the With Profit Fund as a whole, subject to separate strategies for assets backing liabilities for guarantees and assets backing liabilities for non-profit policies in the With Profit Fund.

Our investment strategy is determined by the Investment Committee, which acts for the Board on investment matters.

Most of the investments of the With Profits Funds are managed on our behalf by AXA Investment Managers (AXA IM), AXA Rosenberg, Alliance Capital, Statestreet Global Advisers or AXA Real Estate Investment Managers UK Limited (AXA REIM), subject to investment guidelines issued by us. Some investments, including specialised investments, are managed by other investment managers.

Subject to the requirements set out in the investment guidelines, the investment managers determine allocations of investments between different asset classes, and actively select individual investments.

5.2.2 Reviews of investment strategy

We hold formal reviews of our investment strategy at least annually and more frequently when required by events, for example major changes in market values.

5.2.3 Matching of liabilities

The expected payouts to policyholders at maturity in respect of with profits policies are in most cases based on asset shares plus uplifts, but can also be based on, the underlying guaranteed amounts. We therefore adopt a separate investment strategy for assets backing liabilities for guarantees.

We also aim to control the risk relating to guarantees by ensuring that a substantial proportion of the assets backing with profits policies is invested in fixed interest securities.

Furthermore, in specifying the term distribution of our fixed interest assets, we consider the changes to the values of assets and liabilities that would result from movements in fixed interest yields, with a view to keeping them aligned as far as possible.

We ensure that sufficient fixed interest assets are held to back all non-profit liabilities and creditors, and that the term structure of these assets is closely matched to the expected payments due. We hold both government and corporate fixed interest securities, including some private securities unlisted on

stock exchanges. Investment in securities considered to be at higher risk of default is limited by the investment guidelines, and the risks of default are taken into account when matching assets to liabilities.

5.2.4 Main asset classes

The investment guidelines issued to the investment managers specify the proportion of the assets of the Long-Term Fund (excluding assets backing non-profit liabilities and creditors) that is to be invested in each asset class. The main attributes of the various asset classes that we take into account in determining the specified proportions are set out below.

(a) Equities

We invest a substantial proportion of the Long-Term Fund in equity shares issued by companies. These investments benefit from any growth in companies' profits and we expect them to benefit from economic growth generally. Equities have historically outperformed other classes of investments. Equity values are volatile, and large rises and falls in market values are frequently experienced. Individual holdings are also subject to the risk of failure of the relevant company.

Most of our equity investments are in a widely spread portfolio of UK shares, selected by our investment managers. We also have a widely spread portfolio of shares in selected companies from major stock markets around the world, which gives us some exposure to worldwide economic growth and reduces the risk associated with investing in a single market. Investment in overseas securities also provides us with exposure to currency movements, and we do not normally seek to hedge such exposure into sterling. In addition, a small part of our equity investments is in private equities, which are not listed on stock exchanges. Such investments provide the opportunity for even higher returns where individual companies are successful, but are subject to greater risk of failure. In order to control this risk, most of our private equity investments are in pooled funds including a range of assets.

(b) Property

The With Profit Fund invests in a range of properties selected by AXA REIM, mostly in the UK. Such investments benefit from any growth in rents and property values, and hence, like equities, we expect them to benefit from economic growth generally. Property investments have historically outperformed fixed interest and money market investments, but have been less volatile than equities. Furthermore, property and equity price movements have not historically been closely correlated, so a combined portfolio of equities and properties has been at lower risk of reduction in value than a portfolio of equities alone. We believe that this makes property investment desirable for the With Profit Fund.

(c) Fixed interest securities

A substantial part of the With Profit Fund is invested in fixed interest securities. These include government securities and corporate securities issued by individual companies or institutions, and normally provide a defined rate of interest for a number of years and a fixed payment at maturity. Securities issued by the UK and other major governments are considered absolutely secure, whilst corporate securities may be less secure depending on the performance of the company and the terms of the security, but offer a higher return in compensation for the risk. The level of risk is assessed by means of ratings determined by external agencies.

Fixed interest securities have historically usually performed less well than equities and property, but returns have also been less volatile, particularly when held to maturity. This makes these securities particularly suitable to back guaranteed liabilities, but also as a general investment in volatile market periods or where our financial stability is under threat.

We invest most of our fixed interest portfolio in corporate securities issued by selected UK companies, where our investment managers believe that the expected additional returns over government securities offer good value after allowing for the risk of default.

Part of the portfolio is invested in UK and other government securities. UK government securities can be encashed very quickly, and we believe that liquidity requirements in excess of available money market investments would be comfortably met from within these holdings.

Non-sterling fixed interest securities in currencies other than sterling (which we invest in where there is a higher return than a corresponding sterling security) are currently hedged into sterling.

We invest in fixed interest securities of various terms to maturity, and the investment guidelines set out the balance of investments between short-term, medium-term and long-term required in order to achieve the matching objective described above. For corporate securities within each term band, the performance of the investment managers is measured against the performance of the whole market of corporate fixed interest investments of the corresponding term. As a result, our investments include a wide spread of different ratings. The investment managers are permitted to seek to improve performance by selecting lower-rated securities than the market average, subject to a specified maximum holding at each rating level.

(d) Money market investments

A small part of the With Profit Fund is invested in money market investments for operational and liquidity reasons. The value of these investments is not volatile, but we normally expect money market investments to provide a lower return than other assets. However, if at any time other assets are expected to perform badly, we may increase the holding of money market investments for a period.

5.2.5 Approach to investment in different asset classes

The investment managers are required to ensure that holdings in each asset class do not differ from the proportions specified in the investment guidelines by more than a maximum percentage variation.

We determine these proportions and maximum variations in accordance with our overall investment strategy, having regard to the following factors:

- statements regarding the mix of assets set out in marketing literature and other documents available to policyholders
- our solvency position
- the level of guarantees within the fund
- expected returns and risks from each class of asset, including our views and those of our investment managers on the relative value of each class from time to time
- expected correlations between price changes of different classes of asset, to enable us to seek to reduce overall risk by diversifying the holdings
- the currencies in which our policy liabilities are denominated

The actual asset mix of the fund may differ from that assumed to be backing asset shares. For the assets backing asset shares, the latest available asset mix can be found on the AXA website at the following address:

axa.co.uk/aboutus/corporate_publications/ppfm

These proportions change in accordance with the relative investment performance of each category, and may change from time to time as a result of reviews of our investment strategy, as described above.

Our general approach is to apply constraints to the portfolio as a whole, rather than treating new and existing investments differently.

5.2.6 Derivatives and counterparties

In the investment guidelines, we specify strict conditions to the types of derivatives used and the approval of counterparties.

The permitted uses of derivatives are:

- hedging of liabilities to pay minimum guaranteed annuity rates under certain policies
- reduction of risk
- efficient portfolio management including rapid implementation of required changes to investments

There are no specific monetary limits on total exposure to derivatives, as we believe that the strict conditions on the use of derivatives and limits on individual counterparties are sufficient to control the risks of these investments.

All counterparties for money market investments, derivatives, and other exposures must be approved by a formally constituted committee of our investment managers.

5.2.7 New types of investment instrument

Any proposed investment in an investment instrument not covered within our existing investment guidelines would require the specific approval of the Investment Committee.

We would carry out an assessment of the benefits from and the risks associated with the proposed investments.

5.2.8 Assets of particular importance to us

The Long-Term Fund currently has no assets where there are legal restrictions on trading because of the particular importance of the assets to the Society. We do hold some assets of particular importance to us, where we apply internal restrictions on trading, which can only take place after certain procedures have been followed. These assets are listed equities and, apart from the internal restrictions on trading, we regard them as part of our normal equity holdings and treat them in the same way as other equity holdings that are not restricted.

Such investments currently represent less than 0.2% of the Long-Term Fund, and it is unlikely that we would permit the total value of assets with restrictions on trading to exceed 5% of the total value of the assets of the Long-Term Fund.

6 Business Risk

6.1 Principles

We are subject to business risk arising from with profits, non-profit and unit-linked long-term insurance business that we have written. In addition, we may accept business risk by providing reinsurance financing to other AXA Group companies. We do not undertake other business ventures.

We control business risks by:

- understanding risk factors associated with existing business
- monitoring the experience with specific regard to risk factors
- taking actions to reduce risk exposures, for example through pricing, underwriting, reinsurance, asset allocation, hedging exposures or re-financing.

Where provided by our service agreements, compensation due to policyholders or other parties where a service provider is at fault will be met by the service provider. Other compensation due to policyholders will be met by the estate in the Long-Term Fund and will contribute to miscellaneous losses, which may affect payouts.

6.2 Practices

6.2.1 Our approach to taking on business risk

As stated in the Principles, we do not undertake business ventures other than carrying out with profits, non-profit and unit-linked long-term insurance business and entering into reinsurance financing arrangements. Our strategy for taking on business risks in these areas is determined by the Board. We closed to new business on 31 July 2009, apart from increments to existing policies and new members to existing group schemes.

6.2.2 Reinsurance financing

We may enter into reinsurance financing arrangements with other insurance companies in the AXA Group, under which we provide a company with financing, which is subsequently repaid from the profits earned in that company on a block of business agreed between the parties. Such arrangements are similar to loans, and we receive an attractive return in compensation for the risk that the repayments will not be made if the relevant profits are not earned. One such arrangement is currently in force.

Our maximum exposure to such arrangements depends on our overall financial stability from time to time and our assessment of the balance between risks and rewards. We review regularly the current and projected level of our exposure, its impact on our financial stability, the risk of default or delayed repayment and the level of the return earned. If our exposure to risk becomes higher than we believe that the Long-Term Fund should bear, we will reduce it by either reducing or ceasing further financing or entering into a re-financing agreement with another company. Any such re-financing agreement shares our exposure to reinsurance financing and will not increase the risk we are subject to. The reinsurance arrangement that is currently in force is currently subject to partial re-financing of this type.

6.2.3 Guarantees under with profits policies

A major business risk is the provision of guarantees under with profits policies. For example, the use of an MVR is not permitted at maturity, on death or critical illness claims and for certain surrenders. Where the use of an MVR is not permitted, the total benefits payable, including the amount of regular bonuses previously added, are guaranteed irrespective of market conditions.

Certain policies have additional guarantees. For example, many pension policies written in the 1970s and 1980s have minimum guaranteed annuity rates.

We have set aside capital to cover the cost of the guarantees for existing business, and furthermore we hold investment instruments that hedge part of our exposure to guaranteed annuity rates.

6.2.4 Application of rewards and losses from business risks in determining payouts

In the case of risks where the rewards and losses arising from the risk are included in asset share calculations, a with profits policy is affected by those risks relating to that policy or the group of policies of similar type.

For risks where the rewards and losses are not included in the calculations of asset shares, the rewards and losses form part of the miscellaneous profits or losses. Such risks include profits or losses from non-profit guaranteed annuity business, as well as unit-linked and other non-profit business and providing guarantees on with profits policies. These profits and losses are allowed for in the determination of uplifts (described in the Practices relating to payouts) and may therefore affect the payout in respect of any type of with profits policy, subject to our smoothing practice. If large losses were to arise, it might be necessary to remove uplifts and to reduce payouts below asset shares for a period in order to protect our financial stability.

We have reassured a proportion of the non-profit annuity business in order to reduce the risks to the Long-Term Fund.

There is no specified minimum to the amount of rewards or losses to be taken into account, but the nature of determining uplifts and smoothing is such that small amounts are unlikely to have any material impact.

6.2.5 Bearing of risks by particular types or generations of policies

Except where risks are taken into account in the calculation of asset shares, we would not normally expect that particular types or generations of policy would bear particular risks.

However, we may make an exception to this practice in circumstances where a risk is closely associated with particular types or generations of policy and we consider it fair to all policyholders to do so. Any such practice would be approved by the Board, and be subject to compliance with policy conditions and relevant law.

7 Charges and Expenses

7.1 Principles

The policy charges, whether specific or combined into the premium rates, broadly aim to cover expected policy expenses and the costs of additional benefits such as life cover. As a result, the guaranteed benefit takes account of differences between policies that also affect asset shares, such as the size of the policy and the level of any life or critical illness cover. We believe that this helps ensure fairness of treatment between different policies when the same bonus rates apply.

Charges for increments to existing policies vary from time to time in accordance with expected expenses, regulatory requirements and marketing considerations. Once a policy is in force, we may only change policy charges in the circumstances set out in the policy; for example for UWP policies we may amend charges in respect of life or critical illness cover whilst the policies are in force if experience has changed.

Expenses met by the Long-Term Fund are apportioned between those relating to with profits and non-profit policies, and those relating to with profits policies are apportioned between policies. We believe that the basis of apportionment is equitable, and we will change the basis if we believe that it is necessary to do so in order for it to remain equitable.

7.2 Practices

7.2.1 General description of policy charges

For UWP policies, the specific policy charges that may apply are set out in the policy documentation. These charges may include deductions from premiums applied to secure units, cancellations of units whilst the policy is in force and charges on surrender (separate from any MVR). For conventional with profits policies, policy charges are combined into the premium rate used to determine the amount of guaranteed benefit secured by a given premium.

7.2.2 General description of expenses

The expenses apportioned to with profits policies are:

- Fees paid to ASLS for management and administration services relating to with profits policies
- Commission paid to intermediaries relating to with profits policies
- Fees paid to AXA IM, AXA REIM and other managers in respect of investment management services relating to assets backing with profits policies
- Other expenses directly relating to investments, for example dealing costs
- Part of the expenses met directly by us, for example regulatory fees

For types of expenses that are not determined separately for each policy, we have defined a basis of apportionment between policies that we believe to be equitable. The apportionment bases are relevant to each type of expense, for example where expenses relate to in-force policies, they might be apportioned with regard to the levels of in-force policy administration fees paid to ASLS.

Certain exceptional expenses relating to with profits policies are not charged to asset shares but are charged to the estate. An example is the cost incurred relating to the possibility of the United Kingdom entering the Euro.

7.2.3 Relationship between actual expenses and those used to determine payouts

Apart from the exceptional expenses described above, all expenses apportioned to with profits policies are charged to the asset shares of policies as described in the Practices relating to payouts under with profits policies.

7.2.4 Circumstances in which expenses will be charged to the With Profits Funds other than at cost

The defined fees paid to ASLS, AXA IM, Alliance Capital, Statestreet Global Advisers and AXA REIM are charged to the Long-Term Fund (and to asset shares) at the cost met by the Society. As these fees are paid to companies within the AXA Group, the charges to the Fund do not necessarily represent the cost of the expenses to the Group as a whole.

Other expenses are charged at cost.

7.2.5 Reviews of outsourced services

Our agreement with ASLS under which ASLS (or its sub-contractors) provides all management, administration, marketing and sales services to us is a key element of the structure of the AXA UK Group. Although the agreement provides for either party to discontinue the services on giving 12 months' notice, we expect that the only circumstances under which the continuation of the agreement would be reviewed in practice would be as a result of a major restructuring of the AXA Group. If the agreement is discontinued, we have the right to make arrangements with ASLS to ensure continuity of service, and to purchase assets from ASLS needed to carry out the services.

We also have agreements with AXA IM, Alliance Capital, Statestreet Global Advisers and AXA REIM to provide investment management services. The continuation of these agreements is normally reviewed at intervals of three years, but may be reviewed at any time. The agreements provide for either party to discontinue the services on giving six months' notice.

7.2.6 Fees payable to ASLS

The fees payable to ASLS described above are set out in our current agreement with ASLS. Fees are payable in respect of each policy that is in force, together with additional fees for each new policy or increment. There are different levels of fees set out in the agreement for different types of policy, reflecting variations in expenses expected to be incurred by ASLS.

In accordance with our current agreement with ASLS, the fees payable to ASLS must be reviewed every 5 years, the first review having been in 2001. There was no change to the fee basis in 2006; a full review is expected to be completed during 2009. Following each review, the fees will not exceed the lower of 115% of actual expenses incurred by ASLS and the median expenses incurred by companies carrying out similar business. In this way, the expenses apportioned to with profits policies will remain comparable to other companies' expenses, and will allow ASLS to make a reasonable profit if it can provide services at lower cost than other companies. We believe that the review provisions are fair to both the with profits policyholders and the shareholders who own ASLS.

8 The estate

8.1 Principles

The estate comprises the assets held in the Long-Term Fund in excess of those required to back the expected liabilities, which include payments of guaranteed benefits and future bonuses expected to be allocated in accordance with the PPFM.

The estate supports the operation of with profits policies. In particular, it:

- provides us with investment flexibility
- enables bonuses on with profits policies to be smoothed
- enhances the security of policy benefits generally.

We aim to maintain an estate of sufficient size to enable the above objectives to be met, and if we believe that the size of the estate will fall too low we will take action to increase it.

If the estate becomes larger than we believe is necessary to meet the above objectives, we would aim to reduce it, for example by increasing the amounts of bonus allocations over a period.

There has been no attribution of the estate, and there are no formal constraints on our freedom to deal with the estate.

As the Long-Term Fund runs off, we aim to distribute the whole of the estate in an equitable way between types and different generations of policy.

8.2 Practices

8.2.1 Allocation of costs to the estate

The estate meets all costs relating to with profits business not allowed for in the calculations of asset shares.

8.2.2 Investment strategy for the estate

The investment strategy for the estate may differ from that for the assets backing with profits business.

8.2.3 Managing the size of the estate

The amount of the estate must be sufficient to ensure that the objectives set out in the Principles are supported, and in particular that our assessment of the safety margins required to cover a wide range of risks that might affect the Long-Term Fund is met. As the Long-Term Fund runs off, we aim to distribute the whole of the estate in an equitable way between types and different generations of policy.

If we believe that the amount of the estate will fall too low to meet the above criteria, we will take action to increase it. Such action may include:

- reducing future bonus rates, subject to the conditions set out in the PPFM
- amending the investment guidelines, for example to reduce holdings in equities
- seeking additional capital

If the estate grows larger than we believe is necessary in order to support the objectives set out in the Principles, we will take action to reduce it. The maximum size of the estate will depend on a number of factors, for example the amount of capital required to meet regulatory requirements.

In order to reduce the size of the estate, we would increase the amount allocated to bonuses over a period, for example by increasing the target levels of uplifts. As the size of the estate takes account of expected future bonuses, implementing such an increase would have an immediate effect on the size of the estate.

9 New Business

9.1 Principles

We closed to new business on 31 July 2009, although we still accept increments to existing policies and new members to existing group schemes.

The estate will continue to be managed in accordance with the Principles and Practices relating to the estate. Closure to new business removes the requirement for the estate to support new business, but may require additional support due to the increased risks relevant to a smaller fund.

10 Equity between with profits policyholders and shareholders

10.1 Principles

In accordance with our Laws and Regulations, the with profits policyholders are entitled to at least 90% of the profits in the Long-Term Fund, and the shareholders are entitled to the remainder.

Any change in the proportion of profits allocated to the with profits policyholders must comply with the above, together with any regulatory requirements and would require the approval of the Board.

10.2 Practices

10.2.1 Method of calculating the profits to be divided

The with profits policyholders are currently allocated 90% of the profits in the Long-Term Fund.

The overall profits to be allocated in respect of any year are determined as a result of an actuarial valuation, carried out at the end of the year.

In any year, the profits allocated to the policyholders are the sum of the following amounts:

- for UWP and Deposit Administration policies, the amount of regular bonuses added in the form of bonus units added at the end of the year or, in the case of International With Profits Bonds, during the year through increases in the unit price
- for conventional with profits policies, the value of the regular bonus allocated at the end of the year, discounted to allow for the period until it is due for payment, i.e. on death or maturity of the policy
- the amount of interim bonuses paid during the year
- the amount of final bonuses paid during the year

less

- the amount of any market value reduction applied during the year

10% of the total profits are allocated to shareholders (that is, the profits allocated to shareholders are 10/90ths of the profits allocated to the policyholders).

However, if a market value reduction is applied to a policy during a particular year, which is greater than the sum of all profits allocated to it in previous years, then the profits allocated to shareholders may be zero in respect of that policy over its lifetime.

10.2.2 Factors affecting the shareholders' share of profits

In accordance with the above method, if the basis used to discount the value of regular bonuses for conventional with profits policies changed, the amount allocated to shareholders would also change even if bonus rates remain unchanged. However, we use the same discount rate as we use in our accounts to value the bonus allocated to policyholders, and the discount rate therefore reflects financial conditions at the date of the valuation. We believe that the calculation represents a fair way of determining the 90%:10% apportionment.

Tax in respect of the transfer of the shareholders' share of profits is met by the Long-Term Fund, but is not charged to asset shares.

Allocations of regular bonuses for International With Profits Bonds and payment of interim and final bonuses take place during the year and are made in anticipation of the profits arising for the year. The corresponding shareholders' transfer becomes due at the end of the year and is available for payment to shareholders early in the following year.

It is not our practice to grant a final bonus and apply an MVR to any policy (or in some cases any element of a policy) at the same time.

Where there is a guaranteed minimum annual rate of return under a Deposit Administration plan, this part of the overall return is not a bonus and does not attract a shareholders' transfer.

10.2.3 Payouts to policyholders

The amounts of shareholders' transfers relating to bonuses allocated to each policy are charged to the policy's asset share. In this way, shareholders' transfers are reflected in the payouts to policyholders and do not reduce the estate.

Glossary

asset share

A measure of the share of assets attributable to a with profits policy, calculated by accumulating premiums paid at the rates of return earned on the assets assumed to be backing the policy, after allowing for deductions for partial payments of benefits and charges such as expenses, mortality, distributions to shareholders and tax.

AXA Group

AXA UK plc and its subsidiaries (as defined in section 1159 Companies Act 2006).

AXA Investment Managers (AXA IM)

AXA Investment Managers UK Limited and/or AXA Investment Managers Luxembourg SA (as the case may be) a firms of investment managers, which manage most of our investments other than property.

AXA Real Estate Investment Managers UK Limited (AXA REIM)

A firm of property managers, which manages our investments in property.

AXA Sun Life Services (ASLS)

AXA Sun Life Services plc, a service company, which provides management, administration, marketing and sales services to us and other companies in the AXA Sun Life Group.

Board

The Board of Directors of Sun Life Assurance Society plc.

Bond

A type of UWP life policy used for single premium investments.

Conventional With Profits policy

A with profits policy that is not a Unitised With Profits policy or a Deposit Administration plan. Conventional with profits policies are characterised by definition of the payout to the policyholder as a total payout on death or maturity assuming that all premiums are paid, together with bonus additions.

counterparty

The other party with whom we carry out an investment transaction. The value of the investment is at risk if the counterparty fails.

Deposit Administration plan

A with profits policy used in connection with defined benefit pension schemes. An accumulation account is maintained for each scheme. The accumulation account is credited with contributions to the scheme, any guaranteed rate of return and the bonuses allocated, and debited with the cost of members' benefits and plan charges.

estate

The assets held in excess of those required to back the expected liabilities, which include payments of guaranteed benefits and future bonuses.

final bonus

A bonus which may become payable on a death, critical illness or maturity claim or on surrender or switch out of with profits. Final bonuses are normally defined as a percentage of the regular and interim bonuses. A final bonus is sometimes called a **terminal bonus**.

International With Profits Bond

A Bond written by AXA Isle of Man Ltd. where the with profits investment element is reassured to us.

Long-Term Fund (Fund)

A fund within the Society required to be established by regulations. All long-term business liabilities and associated assets are contained within the Long-Term Fund.

Market Value Reduction (MVR)

A reduction that may be applied in accordance with the provisions of the policy to the payout under a UWP policy on surrender or on switch out of with profits. The aim of applying an MVR is to protect policyholders who do not surrender from the impact on the Long-Term Fund of surrendering policies taking more than their fair share of the funds. A Market Value Reduction is sometimes called a **Market Value Adjuster**.

Maturity

The payment of policy benefits due on the maturity date specified in the policy. In the case of pension policies, the relevant date is called the **normal retirement date** or **selected retirement date**, and there is generally a requirement to secure an annuity with part or all of the policy proceeds.

miscellaneous profits or losses

Profits or losses that are not credited or charged to asset shares. These include profits and losses arising from our non-profit and unit-linked business.

Money market investments

Refers to money that is on deposit in banks, building societies and other organisations to produce interest. Also refers to what are known as 'near cash' instruments such as Certificates of Deposit, Floating Rate Notes and Treasury Bills. Unlike money on deposit these assets can fall in value, possibly below the amount invested.

payout ratio

The payout in respect of a policy, expressed as a percentage of the asset share.

policy charges

Policy charges form part of the contract agreed with the policyholder, and the amount of guaranteed benefit is affected by the charges. UWP policies are subject to a number of specific charges, for example in the form of deductions from premiums or cancellations of units. For conventional with profits policies, the policy charges are combined into the premium rate used to determine the amount of guaranteed benefit secured by a given premium.

regular bonus

A bonus that is added on a regular basis throughout the life of a with profits policy, providing an addition to the guaranteed benefits payable to the policyholder. For International With Profits Bonds, regular bonuses are added to the policy by means of increases in the unit price. For other UWP policies and Deposit Administration plans, regular bonuses are added by means of an annual addition of bonus units. For conventional with profits policies, regular bonuses are credited by means of an annual addition to the benefits payable on death or maturity. Regular bonuses are sometimes called **annual bonuses**, or, in the case of conventional with profits policies, **reversionary bonuses**.

Regulator

The Financial Services Authority, which is responsible for the regulation of UK insurance companies (or any successor or replacement body).

Shareholders' Fund

Assets held within the Society that are not within the Long-Term Fund. Transfers of surpluses from the Long-Term Fund to the Shareholders' fund may only be made in accordance with regulations. The assets of this fund are available for distribution to shareholders, and, if not distributed, are available to support our solvency.

Unitised With Profits (UWP) policy

A policy (or part of a policy) under which the value of the benefits is measured by reference to with profits units allocated to that policy.

With Profits Actuary

The function of With Profits Actuary described in the Supervision Manual of the Financial Services Authority Handbook.

With Profit Fund

The pool of assets held in respect of with profits business which can back a combination of with profits and non-profit policies.



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AXA is a worldwide insurance group. In the UK, one of the AXA companies is Sun Life Assurance Society plc.

Authorised and regulated by the Financial Services Authority, Sun Life Assurance Society plc is a company limited by shares, registered in England No. 776273, registered office: 5 Old Broad Street, London, EC2N 1AD.

As part of our commitment to quality service, telephone calls may be recorded.