Countrywide Assured plc

Principles and Practices of Financial Management of its with-profits business that was originally issued by Save & Prosper Insurance Limited

Version 11 – 13 December 2016

1 Background

1.1 It is a requirement of the Conduct of Business Rules of the Financial Conduct Authority that a firm carrying on with-profits business produce a document containing the Principles and Practices of Financial Management according to which the business of its with-profits funds is conducted.

1.2 This document contains the Principles and Practices of Financial Management applicable only to the with-profits business of Countrywide Assured plc that was originally issued by Save & Prosper Insurance Limited and which was transferred to Countrywide Assured plc on 31 December 2011 by means of a Court approved Scheme under Part VII of the Financial Services and Markets Act 2000 (“the Court Scheme”). It is applicable to this with-profits business (“the Business”) as at 13 December 2016 having been approved by the directors (“Directors”) of Countrywide Assured plc (“Countrywide Assured”).

1.3 This document encapsulates previous statements on the Principles and Practices of Financial Management applied in the management of the Business, in product literature and other communications with its with-profit policyholders (“Policyholders”).

Purpose

1.4 These Principles and Practices of Financial Management are intended to enable Policyholders to understand better the way in which Countrywide Assured conducts the Business.

Availability of copies

1.5 A copy of this document is available free of charge on request to any Policyholder of Countrywide Assured.

1.6 A copy of this document is also available on request to any person who is not Policyholder of Countrywide Assured, although Countrywide Assured reserves the right to make a reasonable charge for providing a copy in these cases.

Principles of Financial Management

1.7 The ***With-Profits Principles*** (***“Principles”***) are enduring statements of the overarching standards that Countrywide Assured adopts in managing the Business. They describe the business model used by Countrywide Assured in meeting its duties to Policyholders and in responding to longer-term changes in the business and economic environment.

1.8 The ***Principles*** are not expected to change often. Countrywide Assured will write to Policyholders giving details of any proposed changes to the ***Principles*** at least three months in advance of the effective date of any proposed changes. Such notification may be included with the annual statements sent to Policyholders.

Practices of Financial Management

1.9 The ***With-Profits Practices*** (***"Practices"***) describe Countrywide Assured's approach to managing the Business and to responding to changes in the business and economic environment in the shorter-term. They are intended to contain sufficient detail to enable a knowledgeable observer to understand the material risks and rewards from maintaining a with-profits policy ("Policy") with Countrywide Assured.

1.10 Subject to continuing compliance with the ***Principles,*** the Practices may change from time to time to reflect changes in the business environment or to the circumstances of Countrywide Assured.

1.11 Countrywide Assured will write to Policyholders giving details of any material changes to the substance of the ***Practices***. Such notification may be included with the annual statements sent to Policyholders.

References to the Actuary

1.12 References to the Actuary should be interpreted as references to the person appointed by Countrywide Assured to the role of with-profits actuary.

References to the Fund

1.13 As a result of the Court Scheme, a With-Profits Fund has been established in Countrywide Assured to replace that previously held in Save & Prosper Insurance. References in the document to "the Fund" or "the With-Profits Fund" refer to this particular With-Profits fund in Countrywide Assured.

Scope and content of the Principles and Practices of Financial Management

1.14 The Principles and Practices of Financial Management set out in this document cover all issues that have, or it is reasonably foreseeable may have, a significant impact on Countrywide Assured's management of the Business.

Consideration is given to:

- the determination of the amount payable to individual Policyholders (in Section 2);
- the approach to smoothing (in Section 3);
- the investment strategy (in Section 4);
- exposure to business risk (in Section 5);
- charges and expenses (in Section 6);
- the balance of interests between Policyholders and Shareholders (in Section 7); and
- wind-up of the Fund (in Section 8).

2 The amount payable under a with-profits policy

With-Profits Principles

2.1 The ***Principles*** that Countrywide Assured uses to determine the amount payable to Policyholders are as follows:

- within the With-profits Fund of Countrywide Assured (“the Fund”), a clear distinction is maintained between those assets attributable to Policyholders and those assets attributable to Countrywide Assured shareholders (“Shareholders”);
- where a Policy provides family capital benefit, family income benefit or waiver of premiums benefit (“Rider Benefits”) the premiums paid in respect of these Rider Benefits are allocated to the non-profit fund of Countrywide Assured and any benefits payable arising from these Rider Benefits are payable from the non-profit fund;
- the assets attributable to Policyholders represent the accumulation of premiums received less premiums in respect of Rider Benefits less charges less the cost of benefits payable (other than the cost of any benefits arising from additional mortality and morbidity cover);
- the investment return earned on the assets in the Fund attributable to Policyholders net of tax at the Policyholder rate accrues to Policyholders;
- the investment return earned on the assets in the Fund attributable to Shareholders accrues to Shareholders;
- the charges accrue to Shareholders;
- other than expenses incurred in the management of direct property investments attributable to Policyholders, all expenses are borne by Shareholders;
- if a Policy provides additional mortality or morbidity cover, the cost of the benefits payable on mortality or morbidity in excess of the benefits that would have been payable had the Policy not included additional mortality or morbidity cover is borne by Shareholders; and
- the entire amount of the assets attributable to Policyholders in the Fund are to be distributed as benefits payable to Policyholders. Individual distributions will then be determined by a fair and equitable distribution of the assets having regard to the need to provide, out of those assets, all Policyholders with at least the minimum benefits guaranteed under their Policies.

The above ***Principles*** will be varied if considered necessary to ensure that Countrywide Assured is, at all times, able to meet its contractual obligations to all policyholders from the assets of the long term business fund and to maintain the minimum solvency and capital adequacy requirements applicable to Countrywide Assured.

Use of approximations

2.2 Approximations may be made when applying the ***Principles*** provided that, at the time they are made, the Actuary is satisfied that:

- there is no bias in the approximations which would favour Shareholders over Policyholders; and
- the potential impact of the approximations on Policyholders is not considered to be material.

Change control

2.3 Changes to the methods that Countrywide Assured uses to determine the amount payable to Policyholders are only made following consideration by and the approval of the Directors, having taken advice from the Actuary.

Changes to historical assumptions and parameters

2.4 Changes will only be made to historical assumptions or parameters relevant to the determination of the amounts payable to Policyholders (for example, previously applied investment returns or charges and other factors affecting the attribution of assets in the Fund between Policyholders and Shareholders) in the event of past error or omission in the application of the ***Principles***.

2.5 A retrospective change will always be made to correct a past material error or omission if such error or omission is considered to have had a detrimental effect on Policyholders viewed as a whole.

2.6 A retrospective change may be made to correct a past material error or omission if such error or omission is considered to have had a detrimental effect on Shareholders.

With-Profits Practices

2.7 Consistent with the ***Principles*** described above, the method that Countrywide Assured currently uses to determine the amount payable to Policyholders is as follows:

- for each Policy, Countrywide Assured maintains a record of that Policy's "asset share" in accordance with the method currently used to determine asset shares as described in 2.8;
- when the benefits become payable under a Policy, Countrywide Assured also determines a smoothed asset share as set out in Section 3;
- on the maturity of a Policy the amount of the benefits is determined so as to be equal in value to that Policy's smoothed asset share, subject to paying at least the amount of the minimum benefits guaranteed under the Policy;
- on the surrender of a Policy prior to the original maturity date, the surrender value of the Policy is determined so as to be equal in value to the lesser of the smoothed asset share and the unsmoothed asset share of that Policy; and
- on the death of the life assured under a Policy, the amount of the benefits payable is determined so as to be equal in value to the greater of that Policy's smoothed asset share and any minimum benefit on death.

Determination of a Policy's asset share

2.8 The asset share of each Policy is determined as the past accumulation, at the rate of investment return earned on the assets in the Fund attributable to Policyholders, of:

- the premiums paid less Policy charges (see 2.9);
- the cost or benefit arising from the smoothing of benefits in respect of other Policies (see 2.10 - 2.11);
- the cost or benefit arising from any contributions made to or from the Provision for Guarantee Costs ("Provision"), a provision established to meet the cost of guarantees on all Policies (see 2.12 - 2.15); and
- the deduction of an annual management charge of 1.25% per annum (see 2.16).

Policy Charges

2.9 The Policy charges are described in Section 6. These charges accrue to Shareholders. They represent part of the charges made for expenses and for providing any mortality and morbidity benefits.

Cost and benefit of smoothing

2.10 Where benefits are paid equal in value to the smoothed asset share of a Policy and the smoothed asset share exceeds the actual asset share of that Policy, pro-rata deductions are made from the asset shares of all other remaining Policies to meet the additional cost.

2.11 Where benefits are paid equal in value to the smoothed asset share of a Policy and the smoothed asset share is less than the actual asset share of that Policy, the excess is distributed as pro rata additions to the asset shares of all other remaining Policies.

Provision for Cost of guarantees

2.12 A deduction of up to 1.5% per annum ("Percentage Deduction") is made from asset shares weekly to meet the future cost of guarantees on all Policies and the Provision is increased by an amount equal to these deductions. These deductions remain part of the assets in the Fund attributable to Policyholders. The Provision is also increased by amounts equal to the investment return on the assets backing the Provision (part of the investment return earned on the assets in the Fund attributable to Policyholders) and reduced by an amount equal to the annual management charge of 1.25% per annum on those assets, which accrues to Shareholders.

The Percentage Deduction has applied since 1 September 2004 and the rates applied since then are shown in appendix 1.

2.13 Where the cost of the guaranteed minimum benefits payable under a Policy exceeds the asset share of that Policy, the excess is met from the Provision. If there are insufficient assets in the Provision at that time the residue is met from the assets in the Fund attributable to Shareholders.

2.14 The amount of such costs borne by the Shareholder in each calendar year is accumulated and to the extent that at the end of the year the Provision is in surplus, is charged to the Provision. If the Provision is insufficient to meet the accumulated costs that have been borne by the Shareholders, the balance of the costs is carried forward and accumulated with the costs borne by the Shareholders in the next calendar year.

2.15 The size of the Percentage Deduction required is reassessed at least annually. In making this assessment, calculations are carried out using assumptions which are intended to give a reasonable best estimate of the Percentage Deduction needed to meet the future cost of guarantees having regard to the availability of any Provision already built up. Taking account of their assessment of market conditions at the time and having regard to the aim to achieve a fair and equitable distribution of the assets attributable to Policyholders between those Policyholders, the Directors then come to a view on the appropriate size of the Percentage Deduction. Where, even with a zero Percentage Deduction, the existing Provision is considered more than sufficient to meet the future costs of guarantees the Directors should determine a single or set of transfers from the Provision to the aggregate asset shares with a view to removing the excess amount.

Annual management charge of 1.25% per annum

2.16 The annual management charge of 1.25% per annum is currently deducted from asset shares weekly. This charge accrues to Shareholders.

Assumptions and parameters

2.17 Other than in the application of smoothing described in Section 3, the only assumptions or parameters used in the determination of the amount payable to Policyholders are those used to determine the appropriate size of the Percentage Deduction. As there is a significant degree of uncertainty regarding future investment returns and the volatility of those returns, a number of assumptions are made in the calculations carried out as part of the assessment of the appropriate size of the Percentage Deduction.

Calculation methods, parameters and assumptions

2.18 The methods currently used to determine the amount payable to Policyholders are fully described in this document, which has been approved by the Directors.

2.19 The parameters used in the application of smoothing (see Section 3), and the assumptions used in the calculations as part of the assessment of the appropriate size of the Percentage Deduction (see 2.15), are documented in papers which are considered and approved by the Directors.

2.20 The current methods, parameters and assumptions used in the determination of the amount payable to Policyholders are reviewed annually by the Actuary, who assesses their continuing applicability and makes recommendations to the Directors for changes, if any. Changes to the methods, parameters and assumptions are only made following the formal approval of the Directors.

2.21 The Directors may also make changes to the methods, parameters and assumptions between the annual reviews.

Attribution of investment return

2.22 As described in Section 4, different assets are allocated to those assets in the Fund attributable to Policyholders and those assets attributable to Shareholders. The assets allocated to the aggregate of the asset shares of Policies (those being the entire assets attributable to Policyholders net of the Provision) are simply referred to below as “the aggregate asset shares”.

2.23 The rate of investment return allocated to the asset shares of Policies is currently the same for all Policies.

2.24 To allocate the total investment return earned on the aggregate asset shares between the asset shares of individual Policies, the aggregate asset shares are treated as being represented by a number of notional units, which are allocated between the asset shares of individual Policies. All amounts credited to (or debited from) the asset shares of individual Policies, other than the annual management charge of 1.25% per annum and contributions to or from the Provision, result in an increase or reduction in the number of notional units in existence and in the allocation of notional units to the asset shares concerned. The annual management charge of 1.25% per annum is applied weekly and reflected in a reduction in the value of the notional units. Contributions to or from the Provision are reflected in a reduction or increase in the value of the notional units.

2.25 The asset share of each individual Policy is taken to be equal to the value of a notional unit multiplied by the number of notional units allocated to that Policy.

2.26 The value of the notional units is currently determined weekly. Allocations of notional units to and from individual Policies are determined weekly at the unit value of the notional units prevailing at the time.

Attribution of expenses

2.27 Other than expenses incurred in the management of direct property investments attributable to Policyholders, all expenses charged to the Fund are met out of the assets in the Fund attributable to Shareholders.

Attribution of taxation

2.28 The tax charged to the Fund is calculated as if the Fund was a separate entity.

2.29 Tax is deducted from the investment return attributable to Policyholders at the Policyholder tax rate.

2.30 The difference between the actual amount of tax charged to the Fund and the tax deducted from the investment return attributable to Policyholders accrues to or is met by, the assets in the Fund attributable to Shareholders.

Charges

2.31 Other than taxation the only charges made on the assets in the Fund attributable to Policyholders are the charges made in the form of deductions from premiums (see 2.9) and the annual management charge of 1.25% per annum (see 2.16).

Determination of Bonuses

2.32 There are no annual bonuses.

2.33 Other than for the Personal Protection Account and Options-for-Life Plans, the only bonus payable on Policies is a final bonus, determined individually for each Policy at the date of claim as the excess, if any, of the amount payable under the Policy (determined as in 2.7) over the guaranteed minimum benefits payable under the Policy.

2.34 The Personal Protection Account and Options-for-Life Plans are whole of life policies where the benefits payable are guaranteed at one level until the next review date, as specified in the Policy document and at a different, generally lower, level after that date.

At a review date:

- The asset share of the Policy is compared to the provision required to be established in respect of the guaranteed benefits payable on death allowing for the current level of premiums and charges;
- If the asset share exceeds the required provision, current practice is to declare a bonus on the Policy, such that the required provision after increasing the guaranteed benefits payable on death by the bonus, is equal to the original provision plus 90% of the excess of the asset share over the original provision (the asset share remains unaltered);
- If the asset share is less or equal to the required provision, no bonus is declared and the guaranteed benefits payable on death remain unaltered.

3 Smoothing the value of with-profits policies

With-Profits Principles

3.1 The ***Principles*** that Countrywide Assured applies in smoothing the value of Policies are as follows:

- in determining the benefits payable under a Policy on maturity or on death, smoothing is used to avoid significant short-term fluctuations in the value of the benefits payable arising from movements in the market value of assets;
- the value of the benefits payable to Policyholders on occasions other than on maturity or on death are only smoothed if the smoothed value is less than the unsmoothed value;
- any cost (or benefit) arising from smoothing is borne by (or accrues to) the assets in the Fund attributable to Policyholders; and
- the scale of smoothing will be limited so as not to prejudice the ability of Countrywide Assured to provide a fair and equitable return to all Policyholders.

Countrywide Assured will vary its approach to smoothing if it is considered necessary to ensure that Countrywide Assured is, at all times, able to meet its contractual obligations to all Policyholders from the assets of the long-term business fund and to maintain the minimum solvency and capital adequacy requirements applicable to Countrywide Assured.

With-Profits Practices

3.2 Consistent with the ***Principles*** described above, the ***Practices*** that Countrywide Assured currently uses to determine the smoothed value of a Policy are as follows:

- where applicable to a claim (consistent with the description of the methods used to determine the amount payable to Policyholders in Section 2 – see 2.7), a single smoothing treatment is currently applied to all generations and types of Policy;
- as described in Section 2 (see 2.23), asset shares are treated as being represented by a number of notional units. The (unsmoothed) value of a notional unit is currently determined weekly. The smoothed value of a notional unit is also determined weekly as the sum of:

  95% of the previous week's smoothed value of a notional unit, increased by one week's growth at an assumed long term growth rate net of taxation and charges (see 3.4); plus

  5% of the current unsmoothed value of a notional unit; and
- the smoothed asset share of each individual Policy is equal to the smoothed value of a notional unit multiplied by the number of notional units allocated to that Policy.

3.3 The assumed long-term growth rate in the above smoothing formula is intended to represent a reasonable view of future long-term investment growth after taxation and after the annual management charge of 1.25% per annum and the deduction to meet the cost of guarantees, having regard to the investment mix applicable to the Policyholders' assets. The current assumption is shown in Appendix 1. This assumption is reviewed and amended by the Directors from time to time, having taken appropriate advice, including advice from the Actuary. Actual investment growth may be materially higher or lower than this assumption.

3.4 The net impact of smoothing on Policies will depend on how actual investment growth over time compares with the assumed long-term growth rate. Any cost of, or excess from, smoothing the benefits payable on a Policy is debited, or credited, to the asset shares of all remaining Policies.

Adjustments to the smoothing formula

3.5 No overall limit is currently applied explicitly to the accumulated cost of, or benefit arising from, smoothing on any generation of Policies. However, if the Directors, having regard to the advice of the Actuary, consider that the accumulated cost of smoothing is likely to result in inequity between generations of Policyholders, the smoothing formula is adjusted to produce a quicker convergence between the smoothed and unsmoothed values of the notional units. Such adjustment may take the form of a temporary reduction in the 95% factor and a corresponding increase in the 5% factor.

3.6 Currently, such action will be taken if the smoothed value of the notional units exceeds the unsmoothed value by more than 10% throughout a period of 1 month, 6% throughout a period of three months or 3% throughout a period of six months.

In addition, if at any time the smoothing formula gives a smoothed value which is less than 80%, or more than 120%, of the unsmoothed value, the smoothed value will be deemed to be 80%, or 120%, of the unsmoothed value as appropriate.

4 Investment strategy of with-profits policies

With-Profits Principles

4.1 The ***Principles*** applicable to the investment strategy for the Fund are as follows:

- the investment strategy is determined separately for those assets in the Fund attributable to Policyholders and those assets attributable to Shareholders;
- the primary objective of the investment strategy is that the guaranteed minimum benefits on Policies should be capable of being met entirely out of the assets attributable to Policyholders in the Fund. A secondary objective is where possible, to provide a surplus of those assets over the amounts required to meet the guaranteed minimum benefits; and
- except as provided later in this paragraph, the investment strategy for the Fund is chosen so as to ensure as far as possible that the Fund will remain solvent(*) in all reasonably foreseeable circumstances. However, if the Directors determine that it is in the interests of Countrywide Assured, its Shareholders and its Policyholders, they may choose to adopt an investment strategy that could require assets which are attributable to Shareholders and held outside of the Fund to be used to satisfy the solvency requirements of the Fund and, in extremis, to meet the cost of guarantees on Policies (i.e. the payment of guaranteed minimum benefits where these can not be met wholly from the assets attributable to Policyholders in the Fund).

In determining the investment policy consistent with the above investment strategy, the Directors seek advice both from the investment managers and the Actuary.

Subject to it being consistent with the above Principles, the Directors determine the investment strategy for those assets in the Fund attributable to Shareholders having regard to the interests of the Shareholders.

The above Principles will be varied if considered necessary to ensure that Countrywide Assured is, at all times, able to meet its contractual obligations to all Policyholders from the assets of the long term business fund and to maintain the minimum solvency and capital adequacy requirements applicable to Countrywide Assured.

Transfer of assets into the Fund

Assets will only be transferred into the Fund if this is required by the regulations or if the Directors determine that it is in the interests of Countrywide Assured, its Shareholders and its Policyholders. Any assets transferred into the Fund will be treated as assets attributable to Shareholders.

(*) *Remaining solvent means that the value of the net assets in the Fund should exceed the technical provisions of the Fund*

Use of derivatives

4.2 Provided that it is consistent with the ***Principles*** in 4.1, derivatives and other instruments that may alter the economic out-turn from assets may be used for the purposes of reduction in investment risks or efficient portfolio management.

Limitations on exposure to any one counterparty

4.3 The Directors set limits on Countrywide Assured's exposure to any one counterparty, including derivative exposures, having regard to the available resources of Countrywide Assured and the need to avoid prejudicing its ability to meet its contractual obligations to all Policyholders and to maintain the minimum solvency and capital adequacy requirements applicable to Countrywide Assured at all times.

With-Profits Practices

4.4 Consistent with the ***Principles***, the current ***Practices*** with regard to the investment policy of the Fund are as follows:

- the assets in the Fund attributable to Shareholders are chosen first with the objective of ensuring that the Fund will remain solvent in all reasonably foreseeable circumstances. To the extent that this constraint applies, the assets are normally invested in fixed interest securities and/or cash. Such exposure may be achieved by investment in collective investment schemes. To the extent, if any, that the Shareholder assets in the Fund are not constrained by solvency requirements, they are invested having regard only to the interests of the Shareholders; and
- the assets attributed to Policyholders in the Fund backing the asset shares of Policies may be invested in a mixture of asset classes including property, equities, fixed interest securities, convertibles, cash and derivatives, and both in UK and overseas investments. Such exposure may be achieved by investment in collective investment schemes (including such schemes with total or absolute return objectives or which include investments in commodities).
- The current investment guidelines restrict the exposure to certain asset categories of the assets backing the asset shares of Policies:

- a maximum exposure to equities and property is set having regard to the principle that the Fund be managed so as to ensure as far as possible that the Fund will remain solvent in all reasonably foreseeable circumstances. To the extent that the Directors have determined, consistent with the ***Principles***, that the investment strategy can place reliance on assets which are attributable to Shareholders and held outside of the Fund to satisfy the solvency requirements of the Fund, this is taken into account in determining the maximum exposure to equities and property. The current maximum exposure to equities and property is 65%, of which the maximum exposure to property is 15%;

  a minimum exposure to equities and property is set having regard to the Directors' assessment of investment conditions. Such minimum exposure may be significantly below the maximum permitted exposure to equities and property. The current minimum exposure to equities and property is 5%, of which the minimum exposure to property is 0%; and

  a maximum exposure to a single equity holding is set at a level intended to avoid assets being inadmissible for solvency purposes. In determining the exposure to equities and property for this purpose it is the effective exposure which is considered having regard to the impact of any holdings of derivatives and looking through to the underlying investments of any holdings in collective investment schemes.

Other investment guidelines

4.5 Other investment guidelines currently applied to investments in the Fund include the following:

- no more than 10% of the total Fund is permitted to be invested in holdings of corporate bonds with a rating lower than BBB. For the avoidance of doubt BBB+, BBB and BBB- are considered part of BBB;
- no short sales or trading of stocks on margin are permitted;
- no direct investments in commodities or gold bullion are permitted;
- no leverage or gearing is permitted except for short term borrowing resulting from the normal operation of the Fund;
- where the assets of the Fund are invested directly (i.e. other than via collective investment vehicles) no more than 5% of the Fund's assets may be invested in unlisted securities;
- loans of securities to approved counterparties are permitted;
- other than as a result of temporary suspension of a listing, all securities held by the Fund must be readily realisable;
- investment in assets which would not be readily realisable by virtue of their strategic importance to Chesnara plc, or any of its subsidiaries or suppliers is not permitted (for example buildings occupied by one of these companies); and

- direct investment in the stock of Chesnara plc, the ultimate parent company of Countrywide Assured, is not permitted.

Counterparty exposure

4.6 Other than for approved securities [(**)], the current investment guidelines restrict exposure to counterparties depending upon their credit rating. These limits are reviewed annually by reference to the then credit rating of the counterparty and the current free assets of Countrywide Assured.

Review of investment guidelines

4.7 The investment guidelines are reviewed formally at a quarterly meeting of the Investment Committee, a sub-committee of the Board of Countrywide Assured.

Matching of assets and liabilities

4.8 There is currently no explicit matching of the assets and liabilities in the Fund although the investments in fixed interest bonds tend to be in dated bonds reflecting the duration of the liabilities.

4.9 The Directors may choose to match the liabilities in the Fund more closely in future.

4.10 Where investment denominated in currencies other than sterling are held, to the extent that it is possible and practical, currency hedges are used to minimise foreign exchange exposures.

Investment in novel investment instruments

4.11 Investment in novel investment instruments would only take place after prior approval by the Board of Countrywide Assured, the Directors having taken advice from the investment managers and the Actuary.

[(**)] *"Approved securities", "approved credit institutions" and "approved counterparties" are as defined in the Glossary of the PRA Rulebook.*

5 Exposure of the with-profits business to business risk

With-Profits Principles

5.1 The ***Principles*** that Countrywide Assured applies in the management of business risk are that the only risks to which the business should be exposed are:

- exposure to guarantee and smoothing costs as described in Section 2;
- exposure to investment risks consistent with the investment strategy described in Section 4; and
- exposure to business risks arising from the writing of increments on existing business to the extent that Countrywide Assured has a contractual obligation to accept these. These business risks are restricted to the resultant additional exposure to guarantee and smoothing costs and investment risks, and to any implications arising from the need to establish mathematical reserves in respect of these increments on investment flexibility.

5.2 In exceptional circumstances, having taken advice, Countrywide Assured may change the Principles of Financial Management set out elsewhere in this document as appropriate to take into account any of the following matters:

- Countrywide Assured is no longer able to invest in any assets or there is a limit on the assets Countrywide Assured may hold, arising from changes to the regulatory or legal conditions to which Countrywide Assured is subject; or
- the basis of taxation of Countrywide Assured or a Policy is changed; including (but not restricted to) any future imposition of Value Added Tax in connection with a Policy; or
- Countrywide Assured become bound to pay any tax or levy (including Value Added Tax) in respect of any benefits or any action Countrywide Assured take to provide any benefits, or Countrywide Assured become bound to pay any other relevant levy or charge; or
- there is a change in the law governing the tax which Countrywide Assured may get back from HMRC in respect of the assets Countrywide Assured hold in respect of a Policy; or
- there is a change in the law concerning a particular type of with-profits policy or scheme.

With-Profits Practices

5.3 The current ***Practice*** with regard to the business risks identified above as being applicable to the business is for the out-turn from these business risks to be shared across all Policies.

6 Charges and expenses

With-Profits Principles

6.1 The ***Principles*** with regard to the application of charges and expenses to the Business are as follows:

- other than where charges are linked to increases in the Retail Prices Index, the charges currently applied to Policies will only be increased if there are unforeseen circumstances which lead to a material increase in either the expenses incurred by Countrywide Assured in maintaining the Business or in the cost of providing mortality and morbidity benefits on the Business;
- other than expenses incurred in the management of direct investments in property, all expenses, including investment costs, commissions and charges borne from investment through collective investment schemes, are charged to the assets in the Fund attributable to the Shareholder; and
- if a Policy provides additional mortality or morbidity cover, the cost of the benefits payable on mortality or morbidity in excess of the benefits that would have been payable had the Policy not included additional mortality or morbidity cover, is charged to the assets in the Fund attributable to the Shareholder.

With-Profits Practices

6.2 Consistent with the ***Principles***, the ***Practices*** with regard to the application of charges and expenses to the Business are as follows:

- the charges are made up of Policy charges deducted from Policyholders asset shares and an annual management charge of 1.25% per annum on the assets in the Fund attributable to Policyholders;
- the current Policy charges are described in 6.3 – 6.5;
- where the assets in the Fund attributable to Policyholders are invested in collective investment schemes managed by a member of the same group as Chesnara plc or JPMorgan Asset Management, any charges made by the manager of the collective investment scheme (whether they are rebated to Countrywide Assured or not) are deducted from the annual charge made on the assets in the Fund attributable to Policyholders. If the charge made by the manager of the collective investment scheme exceeds the 1.25% annual charge, the assets in the Fund attributable to Policyholders are credited with the difference; and
- since, other than where charges are linked to increases in the Retail Prices Index or in unforeseen circumstances, the charges on Policies are fixed, there is no direct relationship between the charges made on Policies and the actual charges and expenses borne by the Fund.

Policy Charges

6.3 The Policy charges are made up of an initial charge to reflect the costs of selling and setting up the Policy and annual charges which vary over the term of the Policy to reflect the amount of guaranteed benefits payable on death and the variation in the cost of providing those benefits according to the age of the Policyholder.

6.4 The Policy charges were determined at the time the Policy was set up so that after allowing for mortality, the present value of the premiums payable less charges was equal to the present value of the guaranteed benefits payable on death.

6.5 The discount rates applicable to Policies effected before 1 November 1993 was 3.5% per annum and for Policies effected from 1 November 1993, 3.0% per annum.

Apportionment of expenses

6.6 Expenses which are directly attributable to either the With-Profits Fund or any other fund or sub-fund of the Company are charged to that fund or sub-fund.

6.7 Unless, having regard to the nature of the expense, an alternative approach is considered more appropriate, expenses which are not directly attributable to any particular fund or sub-fund of the Company are apportioned on an appropriate basis depending on the nature of the expense.

7 Balance between the interests of with-profits policyholders and shareholders

With-Profits Principles

7.1 The ***Principles*** with respect to achieving a balance between the interests of Policyholders and the interests of Shareholders are:

- the attribution of profits between Shareholders and Policyholders depends on the source of profit and is fully described in the ***Principles*** contained in earlier sections of this document;
- the scope for changes in the attribution of profits between Shareholders and Policyholders is restricted only by any relevant contractual provisions and by implied terms of contracts and regulatory obligations;
- changes in the attribution of profits between Shareholders and Policyholders from those described in the ***Principles*** contained in earlier sections of this document would however only be made after careful consideration by the Directors of Countrywide Assured, having taken appropriate advice, including advice from the Actuary; and
- subject to regulatory constraints on the timing of distributions of the assets attributable to Shareholders in the Fund to Shareholders, the ***Principles*** permit the distribution of these assets provided that the Directors of Countrywide Assured, having taken advice from the Actuary, are satisfied that the distribution is unlikely to have any adverse effect on Policyholders.

With-Profits Practices

7.2 The ***Practices*** regarding the balance between the interests of Policyholders and the interests of Shareholders are described in the ***Practices*** contained in earlier sections of this document.

Other than in the following two respects the assets attributable to Shareholders in the Fund are intended to be used solely for the benefit of Shareholders. The two respects in which the assets attributable to Shareholders in the Fund benefit the Policyholders are as follows:

- in extremis, they could be called upon to meet the cost of guarantees (i.e. the payment of guaranteed minimum benefits on Policies in excess of the corresponding Policies asset shares); and
- they permit greater investment flexibility for the assets backing the asset shares of Policies than would be the case in the absence of the assets attributable to Shareholders in the Fund.

7.3 The Practices in respect of distributions from the Fund to Policyholders and Shareholders are as follows:

- amounts distributed to Policyholders are made from the assets attributable to Policyholders in the Fund and are determined in accordance with the Principles and Practices applicable to the determination of amounts payable to Policyholders contained in Section 2 of this document.
- amounts distributable to Shareholders are made from the assets attributable to Shareholders in the Fund and are determined having regard to the requirements of the Principles contained in 7.1 above.
- there is no required link between the amounts distributed to Policyholders and the amounts distributed to Shareholders. Consequently, in any particular period, the amount distributed to Policyholders as a percentage of the total amount distributed from the Fund can be anywhere between 0% and 100%; such percentage varying from time to time, sometimes significantly. However, at all times, 100% of any distribution from the assets attributable to Policyholders in the Fund will be distributed to Policyholders and 100% of any distribution from the assets attributable to Shareholders in the Fund will be distributed to Shareholders.

8 Wind-up of the With-Profits Fund

With-Profits Principles

- Under the terms of the Court Scheme, Countrywide Assured has the right to close this Fund if, having taken advice from the Actuary, it considers that the maintenance of the Fund is no longer in the interests of the policyholders. This would be subject to prior notification to the then insurance supervisor and compliance with supervisory rules relating to treating customers fairly.

Appendix 1: Variable Factors

1) The Percentage Deduction, as described in section 2.12, has applied since 1 September 2004, with the rates applied being:

   - 0.00% per annum from 1 September 2004 to 30 June 2010
   - 0.25% per annum from 1 July 2010 to 18 December 2013
   - 0.00% per annum from 19 December 2013.

2) The long-term investment growth assumed within the smoothing formula, as covered in section 3.3, may be varied from time to time reflecting the Directors' assessment of an appropriate assumption. The current assumption is 3.50% per annum (net of taxation and charges).

Appendix 2: Revisions

01/12/2005 v2	3.6	Change to the basis to be used to determine if the smoothing formula should be adjusted.
17/01/2006 v3	4.4	Change in the maximum exposure to property from 5% to 15%.
01/09/2008 v4	1.3 1.12	Reference to there being no previous versions of this document deleted. Reference to Appointed Actuary deleted.
01/07/2009 v5	4.4 4.5 4.10	The maximum exposure to equities and property increased to 65% and the minimum exposure to equities and property reduced to 5%. Introduced permission to invest up to 10% of the Fund to be invested in corporate bonds with a rating of less than BBB. Introduced requirement for investments denominated in currencies other than sterling to be hedged back to sterling.
01/03/2010 v6	2.12 3.3	Change in the rate of deduction for Cost of Guarantees to 0.25% per annum. Change in the current assumption for rate of future long term investment growth in the smoothing formula.
01/10/2010 v7	7.3	To further clarify the practice applied when making distributions from the Fund.
14/06/2011 v8	4.5	Revision of rule concerning investment in corporate bonds with a rating of less than BBB and updating of “J.P.Morgan Chase & Co.” to “Chesnara plc.”
24/05/2012 V9	1.2 1.13 2.17 6.2 8.1 All	Clarification of document background New paragraph inserted to explain references to the fund “approximations” replaced by “assumptions” Paragraph revised New paragraph inserted to explain wind-up of the fund Entire document revised to replace “S&P Insurance” with “Countrywide Assured” where appropriate following completion of Part VII Transfer

28/11/2013 V10	1.1 2.1 2.12 3.3 4.6 6.7	Reference to Financial Services Authority updated to FCA For clarity, “direct” added to reference to property expenses. History of rates moved to Appendix 1. Current assumption moved to Appendix 1, and updated from 3.75% to 3.50%. Definitions in footnote updated to reflect change in regulator. Updated the description of expense apportionment to more closely reflect actual practice.
13/12/2016 V11	2.15 4.1 4.5	Additional sentence added to the end of the paragraph to clarify treatment when Guarantee Fund is deemed too large. Footnote updated to reflect Solvency II regulations effectively from 1 January 2016. Administrative amendment to clarify first bullet point.