With Profit Operating Principles (WPOP)

For the Participating Fund of Aviva Life & Pensions Ireland Designated Activity Company

Contents

Section 1: Introduction

The Introduction and any statements at the start of subsequent sections of this document, together with the appendices, are provided by way of background information and do not form part of the Principles.

1.1 Company information

Aviva Life & Pensions Ireland Designated Activity Company ("the Company") is owned by Aviva Life & Pensions UK Limited, which is owned by Aviva Life Holdings UK Limited, whose ultimate holding company, Aviva plc, is incorporated in England.

Further information on the company names and background is provided in Appendix B. The Company sells products throughout Ireland under the Aviva brand.

1.2 What business is covered by this document?

This document covers the With-Profits business in the Participating Fund of the Company ("the Par Fund").

The Company contains policies originally issued by a number of other insurance companies. The structure chart in Appendix C shows the composition of funds under the Company.

The most common names that exist on what are now policies of the Participating Fund are Friends Provident Life Office, Friends Provident Life Assurance Company and Friends First Life Assurance Company. There are no policies issued by "Aviva Life & Pensions Ireland Limited", "Norwich Union Ireland", "Norwich Union Insurance Ireland Limited", "Hibernian Life Limited and Hibernian Life & Pensions Limited" in the Participating Fund.

In 2018 Friends First Life Assurance Company Ltd ("FFLAC") was purchased by Aviva plc. It became a wholly owned subsidiary of Aviva Life & Pensions UK Ltd and was renamed Aviva Life & Pensions Ireland Designated Activity Company (ALPI DAC). The Par Fund was a sub fund within FFLAC before this purchase.

1.3 Purpose of WPOP

What is a WPOP?

A WPOP is a document that sets out the Principles that a company follows when managing its With-Profits business. A WPOP must comply with Central Bank of Ireland (CBI) regulations. The WPOP for the Participating Fund has been approved by the Board of Directors of Aviva Life & Pensions Ireland Designated Activity Company ('the Board'). The Board will report each year on whether the Participating Fund has been managed in accordance with the WPOP.

The WPOP will be provided on request free of charge to Participating Fund With-Profits policyholders and for a reasonable charge to any other person. The location of the WPOP on the Company's website will be prominently signposted.

What are Principles?

The With-Profits Principles are enduring statements of overarching standards followed by a company when managing a With-Profits sub-fund bearing in mind its duties to With-Profits policyholders in both the current and future economic environments, its need to be fair to all policyholders, and comply with any relevant legislation and policy terms and conditions.

Changes to Principles

Changes to the WPOP will only be made in accordance with CBI regulations, subject to the governance set out below and in compliance with any requirements of the Scheme as set out below.

1.4 Governance arrangements surrounding the WPOP

It is the responsibility of the Board to ensure that the Company manages the Participating Fund With-Profits business in line with the Principles set out in this document.

The Company has put in place the following governance arrangements to offer assurance that WPOP have been adhered to:

- The Board will produce a 'With-Profits Policyholder Report' annually that includes information on compliance with the WPOP and the way the firm has exercised discretion and addressed any competing or conflicting rights and expectations. This will be made available to policyholders on the website friendsfirst.ie/with-profits and on request.
- The Board appoints a Head of Actuarial Function whose responsibilities are defined by the Central Bank of Ireland under their "Domestic Actuarial Regime and Related Governance Requirements under Solvency II" document of 2015. The individual appointed as Head of Actuarial Function must be approved by the Central Bank of Ireland before taking up the role. The Head of Actuarial Function responsibilities include advising the Board in relation to the WPOP.

1.5 Court Scheme

The management of Aviva Life & Pensions Ireland Designated Activity Company is also governed by a Scheme approved by the High Court of England and Wales, 'the 2019 Ireland Scheme' (known as 'the Scheme' in the remainder of this document). This scheme did not change any of the requirements from the original scheme transferring the Par Fund from FPLO to FPLAC. This is described in more detail in Appendix B.

The WPOP and the Scheme are not intended to alter the rights and obligations we have under any policy documents issued to policyholders.

1.6 Glossary

Appendix A defines the key words and phrases used within this report. The following section also gives some background information on types of With-Profits policies, and types of bonus.

1.7 Background information on With-Profits policies

With-Profits policies typically provide benefits at certain contractual dates specified in the policy.

The contractual date is typically the end of the policy term, called the 'maturity date' for endowment policies or the 'retirement date' for pensions policies. For other policies such as With-Profits bonds, the policy may specify particular contractual dates, for example the 10th policy anniversary. The benefits are also, typically, guaranteed on the death of the policyholder. Benefits may be taken at other times, but the payout received in this case is not usually guaranteed in any way.

Bonuses may be added to increase the value of the benefits of the policy. There are typically two forms of bonus:

- Regular bonuses, which are added throughout the policy term, although at certain times the regular bonus may be zero; and

- Final bonuses, which may be added whenever the policy benefits are taken. Again, the final bonus may be zero.

There are two types of With-Profits policies:

- ‘Conventional’ With-Profits (‘CWP’) policies typically provide a guaranteed amount of money on a set date or dates (‘the contractual date(s)’) and/or on death, provided that all the premiums are paid when due. The regular bonuses added from time to time increase the value of the initial guarantee set out in the policy. A final bonus may be added on the contractual date. Policies may be ended early, but the proceeds are then not usually guaranteed.
- ‘Unitised’ With-Profits (‘UWP’) policies are different. Typically, each premium paid buys a number of units. Regular bonus may be added either by increasing the price of the units held and/or by adding extra units to the policy. Units may be cashed in at any time and a final bonus may be added. However, if the units are cashed in at any time that is not one of the contractual dates, a deduction called a ‘Market Value Adjustment’ (‘MVA’) may be made from their value.

Not all policies receive the same bonus rates. For the purposes of setting bonuses, policies are grouped, mainly by type of policy. All policies in the group, known as a ‘bonus series’, will receive the same rate of regular bonus. The final bonus rates that apply to the group will typically depend on the year the benefits were purchased.

Section 2: Core Principles

Principles

ALPI DAC will manage the Participating Fund in accordance with all legal and regulatory requirements. This will include managing the Participating Fund in accordance with the Scheme and observing all contractual terms set out in policy documents. In the event of any conflict between the terms of the Scheme and this document, the terms of the Scheme shall prevail.

ALPI DAC will manage the Participating Fund in a sound and prudent manner and with due regard to the interests of its policyholders and with a view to treating all policyholders fairly.

ALPI DAC will aim to manage the Participating Fund in order to ensure that all guaranteed benefits can be paid as they fall due.

The assets of the Participating Fund are intended to be sufficient in all but exceptional circumstances. No further working capital is normally expected to be provided to the Participating Fund from the Other Business Fund or the Shareholder Fund. Further, whilst from time to time assets outside the Participating Fund may be used to provide part of the risk capital (i.e. solvency capital requirement) required by the Participating Fund, the Participating Fund is intended to be managed so that over time it will provide all of this risk capital itself.

Section 3: The amount payable under a With-Profits policy

Amount payable

Introduction

The amounts paid (payouts) at maturity or at the contractual retirement date in respect of with profits policies are calculated as follows (reference should be made to the policy document for the exact terms):

- Payouts in respect of most classes of conventional with profits policies are calculated as the sum of the guaranteed amount including the regular bonuses added during the term of the policy, together with any interim and final bonus added at the date of claim. A different approach is used for 'conventional accumulating with profits' used by group pension schemes. Premiums paid increase the fund value, which is entitled to guaranteed interest additions and regular bonuses. Most 'conventional accumulating with profits' policies are not entitled to final bonus.
- Payouts on UWP business are determined as the value of the with profits units at the quoted bid price, together with any final bonus added, at the date of claim. Where applicable, the amount payable may be reduced by application of a Market Value Adjustment ("MVA").

Some with profits policies do not have a maturity date and benefits are payable only on death or surrender.

The method for calculating payouts on death depends on the contractual terms of each policy and whether it is designed principally for savings or protection. Some pensions policies do not pay out a benefit on death.

Typically, one of the following methods is used to determine death benefits:

(i) The basic sum assured and bonuses added to date or the bid value of the with profits units, plus any interim and final bonus.

(ii) A percentage of the face or bid value of the account.

(iii) A formula is applied, typically a return of premiums, possibly accumulated at a particular interest rate (this method is commonly used for conventional pensions policies).

(iv) As (i) but subject to a minimum death benefit.

Surrender values paid on conventional with profits policies, including pensions payable on early and late retirement, are, unless specified in the policy document, calculated in accordance with bases determined by the Directors of ALPI DAC and reviewed periodically.

Surrender values for UWP policies are determined as the value of the with profits units at the quoted bid price, increased by any final bonus that the policy is eligible for and reduced by any MVA that may apply at the date of surrender. A further surrender charge may also apply during an initial period in accordance with the policy conditions. Payouts on surrender are not generally guaranteed in advance of an application to surrender.

Principles

ALPI DAC will use appropriate models, methods and techniques in order to manage the Participating Fund and determine payouts.

For most classes of with profits business payouts will be determined having regard to Adjusted Asset

Shares to endeavour to ensure that fairness is maintained between different groups and generations of policies.

For classes of business where Adjusted Asset Share does not represent an equitable guide to payouts, or where it is not calculated, payouts will be determined using other methods. Approximations should not materially affect resulting payouts or bonuses compared to the result of more precise methods which could practicably have been used at a reasonable cost.

Approach used to set bonus rates

Principles

Bonus rates, MVAs and surrender value bases will be kept under regular review in order to manage the with profits policies in line with the Principles detailed in this section and to maintain equity between policyholders of different generations and bonus series and between those leaving the Participating Fund and those remaining.

Different bonus rates may apply to different types of policy, for example to reflect significant differences in investment mix, guarantees and charges, premium rates, policy types and series. New bonus series may be created in a variety of circumstances, including in order to maintain equity between different policy classes, policies written under different premium rates and different generations of policyholders.

Regular bonuses will be added when appropriate to provide policyholders with additional guaranteed benefits. When necessary, the Directors will restrict regular bonus rates for particular bonus series in order to protect the solvency of the Participating Fund or to ensure the maintenance of a reasonable balance between the guaranteed benefits and final bonuses payable at maturity or on retirement.

Final bonus rates are set with the aim of distributing the balance of the distributable surplus earned over the

lifetime of the policy, to the extent that such profits have not previously been distributed by way of annual or other bonus additions. Final bonus rates are smoothed as described in the 'Approach to smoothing' section. Regular and final bonus rates may be zero.

The Board may alter conditions for payment of final bonuses or cease paying final bonuses at any time without notice. Factors which might lead to a change include changes in the financial circumstances of the Par Fund and anticipated future experience of an exceptional nature.

Approach to smoothing

Principles

In order to provide an element of stability in the returns to policyholders at maturity and surrender, smoothing is applied by spreading profits and losses from one year to the next.

It is intended that the long-term cost of smoothing is broadly neutral across generations of policyholders.

Surrender Values

Introduction

It is the responsibility of the Board to ensure any current activity does not adversely affect ongoing policyholders and their rights. For unitised With-Profits policies, the use of an MVA is one of the key aspects in the protection of payouts for policyholders still invested in the Par Fund. Therefore, the Board may alter the surrender value basis if permitted from time to time.

Principles

ALPI DAC reserves the right to apply an MVA to the bid price of units on surrender of a UWP policy when unit values exceed Adjusted Asset Share and are not guaranteed (details of when the unit price is not guaranteed are set out in the relevant policy document). An MVA may be used whenever it is necessary to protect the Par Fund or other With-Profits investors in the Par Fund from loss arising from unit cancellations.

Surrender value bases for conventional with profits business and rates of final bonus payable on UWP policies will be set in order to achieve a target percentage of Adjusted Asset Share averaged across all policies within each class.

Section 4: Investment strategy

Introduction

With-Profits fund information is provided from time to time in the investment centre on the friendsfirst.ie website regarding the investments of the With-Profits fund.

Principles

The investment strategy aims to provide the highest long-term returns (allowing for the effect of taxation) consistent with the interests of policyholders and commensurate with acceptable levels of solvency risk. The investment strategy for the Participating Fund will be determined after taking into account:

- The overall strategy to achieve above average returns in the longer term;
- The current and projected financial position of the Participating Fund (treating the Participating Fund as if it were a notional mutual life company);
- Advice from the investment manager for the ALPI DAC Funds;
- Advice from the Head of Actuarial Function, and relevant committees of the ALPI DAC Board;
- The investment expectations of all classes of policyholder resulting from information provided to them;
- The advantages of reducing overall volatility by investing in a wide range of assets; and provided that the existence of these requirements shall not prevent short term tactical asset allocation

decisions from being implemented from time to time.

The liabilities of the Participating Fund may be grouped into separate pools within the Participating Fund as a whole (for example non-profit business, conventional and UWP business, or parts thereof) and the investment strategy for each of the resulting pools determined separately.

ALPI DAC may instruct the investment manager to use derivatives as part of an investment strategy to help manage risk or to aid efficient portfolio management. ALPI DAC uses a range of counterparties inorder to limit exposure to any one counterparty.

Assets that would not normally be traded may be held by the Participating Fund. Their performance will be reflected in the amounts payable under with profits policies. Such assets may be held provided that in the opinion of Directors of ALPI DAC, after taking advice from the Head of Actuarial Function, they offer sufficient expectation of reward to the Participating Fund to compensate for lack of liquidity and credit risk taking into account the current and projected financial position of the Participating Fund.

Section 5: Business risk

Introduction

The With-Profits policyholders are entitled to a share of the distributable surplus of the Par Fund, as determined by the Board, and are exposed to general business risk of miscellaneous profits and losses that may arise from various sources within the Par Fund.

Principles

The Participating Fund bears financial, operational and insurance risk in respect of business written directly within the fund and bears financial risk in respect of business reinsured into the fund. In return any profits resulting from bearing these risks contributes to the surplus within the Fund.

Section 6: Charges and expenses

Principles

The expense charges to the Participating Fund consist of a fair share of the Company's total expenses. This is reviewed by the Head of Actuarial Function each year. Such expenses are charged to Asset Shares taking into account the cost of selling and administering each type of contract.

The tax charge (or credit) to the Participating Fund will be calculated on the basis that the Participating Fund pay a fair share of the tax attributable to the company as a whole. The Par Fund will be liable for any tax arising on transfers to the Shareholder Fund from Surplus. If the transfer results in a reduction in tax that would otherwise be payable, then the Participating Fund shall receive a credit equal to the reduction.

Section 7: Volumes of new business

Principles

No new business is written in the Par Fund except for incremental business and business written following the exercise of options on existing contracts. It is at the discretion of the Board to write policies arising from options into a separate fund. The Board and management monitor the terms on which it accepts new business to ensure that the interests of existing customers are considered.

Section 8: Equity between the Par Fund and shareholders

Principles

Distributions of surplus to policyholders and shareholders will be determined by the Directors of ALPI DAC after taking into account the advice of the Head of Actuarial Function and after consideration by a sub-committee of the Board if it considers it appropriate. In giving this advice the Head of Actuarial Function will take into account:

- The need to ensure that the Long-Term Business Fund in aggregate is able to meet the statutory liabilities of ALPI DAC and that the Other Business Fund is able to meet its own statutory liabilities;
- The current and projected capital needs of each ALPI DAC Fund;
- The investment strategy of each ALPI DAC Fund;
- The bonus policy;
- The need for an appropriate level of security in each ALPI DAC Fund for policyholders' benefits, taking into account the nature of each type of business; and
- The need to ensure that existing and new policyholders are treated fairly.

Shareholders are entitled to an amount equal to one ninth of surplus distributed to with profits policyholders.

The Participating Fund has no entitlement to any of the surplus from other sub-funds of the long-term business fund and vice versa.

Shareholders are entitled to all of the surplus from the Other Business Fund while surplus within the Closed Fund will be distributed to its With Profit policyholders in accordance with its WPOP.

Appendix A: Glossary

Annual management charge
A deduction made from unitised With-Profits policies to cover administration and investment management expenses. This is either taken explicitly by the cancellation of units or implicitly being built into the bonus rate declared.

(Adjusted) Asset share
The premiums paid, less deductions for expenses, guarantees, tax and other charges, plus any allocations of business profits, accumulated at the investment return achieved on relevant assets of the Par Fund.

Central Bank of Ireland
The Central Bank of Ireland (CBI) is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in Ireland. It is the lead regulatory body responsible for the Par Fund.

Conventional With-Profits
Life and pension policies written with an initial guaranteed benefit and all charges are allowed for within the premium rates. The policies are invested in the Par Fund and share in the return on the Par Fund through the addition of bonuses.

Counterparty
Investment contracts impose an obligation on both parties to meet with the terms of the contract. The other party is known as the counterparty

Counterparty limits
The Company set limits on the amount of investments it can have with a particular counterparty. This prevents excessive exposure to one company and the risk that would entail.

Endowment assurance
A life assurance plan that pays a sum of money on the survival of the life assured to a specific date, or upon their earlier death, in return for regular premiums or a one-off payment.

Final Bonus
This may be added to investments in the Par Fund when a claim arises. The final bonus is not guaranteed and may be changed or removed at any time.

Head of Actuarial Function
The Head of Actuarial Function role is defined by the Central Bank of Ireland under their "Domestic Actuarial Regime and Related Governance Requirements under Solvency II" document of 2015.

Initial guaranteed benefits
When a conventional With-Profits policy is taken out the policy defines a basic benefit that is guaranteed to be paid at maturity or earlier death or other specific times (together with any bonuses declared subsequently on the policy) as long as all premiums are paid when they are due and the policy is kept in force.

Interim bonus
Where a regular bonus rate has only been declared up to a certain date, then an interim bonus covers the period before a next declaration for claims made during that period.

Market Value Adjustment (MVA)
This applies to unitised With-Profits products only. It is a reduction that may be applied to the total unit value if the policyholder moves money out of the Par Fund. It is applied to achieve a fair level of payouts, and to be fair to the remaining policyholders. It is most likely to be applied following large or prolonged stock market falls or when returns are below those normally to be expected. The policy conditions specify when it is guaranteed that an MVA will not be applied.

Maturity date
When an endowment policy is taken out there is an agreed date, the maturity date, when the benefits will be paid so long as the policy is kept in force. For a pension policy it is the selected retirement date at commencement of the policy.

Other Business Fund
The main non-profit fund of the Company.

Participating Fund
The Participating Fund of Aviva Life & Pensions Ireland Designated Activity Company.

Payouts at maturity or at the contractual retirement date
The total amount payable at the date originally agreed as being the termination date of the policy if it is still in force at that time.

Payouts on death
The total amount payable if the insured person dies while the policy is still in force.

Payouts on surrender
The total amount payable if the policyholder decides to cash in (or transfer in respect of a pension) the benefits at a date other than the originally agreed termination date.

Regular bonus
These are the distributions of surplus added to the policy each year. For unitised With-Profits policies investments this is done by increasing the price of the units held in the Par Fund. For conventional With-Profits policies this is done by adding further to previously declared bonuses. Once added, regular bonus is guaranteed to be paid on death and, if the investment has a maturity date, at the end of the term.

Scheme/Scheme of Transfer
With the exception of the Introduction and Appendix B, all references throughout this document refer to the Scheme of Transfer approved by the High Court of England and Wales in 2019 and effective from 29 March 2019 (the ‘Scheme Date’).

Shareholder Fund
Assets held within the Company that are not within the Par Fund, the Other Business Fund, the Closed Fund, the Irish With Profit Fund or the Other ALPI DAC UKLAP funds introduced by the Scheme on 29 March 2019. The assets of this fund are available to meet the Solvency Risk Appetite and, to the extent not required for this, may be distributed to shareholders.

Smoothing
The claim payout under a With-Profits policy aims to dampen the volatility of return from the underlying assets.

Solvency Capital
The required minimum level of assets in excess of liabilities including any required regulatory buffer.

Solvency Risk Appetite

The Solvency Risk Appetite describes the Company's approach to the management of its Capital position. The Solvency Risk Appetite is the preferred level of capital in excess of the minimum required by regulations. It provides protection to the Company against the risk of breaching regulatory requirements and restricts the ability of the Company to pay dividends.

Surrender

The termination of a contract prior to maturity or for a pension policy earlier than its initial selected retirement date.

Unitised With-Profits

With-Profits business in which each premium paid purchases a number of units at the price relevant on that day. The unit price increases at a daily rate through the application of the regular bonus rate declared. A final bonus and/or market value adjustment may also apply at the time of a claim. An annual management charge is made, implicitly or explicitly.

With-Profits business

This is that part of the business, which includes the issuing of With-Profits policies.

With-Profits sub-fund

This is a pool of assets held in respect of With-Profits business which can back a combination of With-Profits and non-profit policies. There are a number of With-Profits sub-funds within the Company, of which the Participating Fund is one.

Appendix B: Background

Company Information

Aviva Life & Pensions Ireland Designated Activity Company ("the Company") is an authorised life insurance company incorporated in Ireland. Its registered office and head office are in Dublin. It is a wholly owned subsidiary of Aviva Life & Pensions UK Limited.

The history of the Company is briefly described below.

Friends' Provident Life Office (FPLO) was founded in 1832 as a mutual life company. It wrote business in both the UK and Ireland. In 1990 it transferred its Irish branch business to Friends Provident Life Assurance Company Limited (FPLAC) under a Scheme of Transfer approved by the High Court.

In 1993 FPLAC acquired control of NM Life Assurance Ireland Limited, which in 1995 was transferred into FPLAC under a Scheme of Transfer approved by the High Court.

In 1998 FPLAC was renamed Friends First Life Assurance Company Ltd (FFLAC). In 2016 it became Friends First Life Assurance Company dac.

In 2018 FFLAC was purchased by Aviva plc. It became a wholly owned subsidiary of Aviva Life & Pensions UK Ltd and was renamed Aviva Life & Pensions Ireland Designated Activity Company (ALPI DAC).

Fund Structure

The fund structure of Aviva Life & Pensions Ireland Designated Activity Company is shown in Appendix C below.

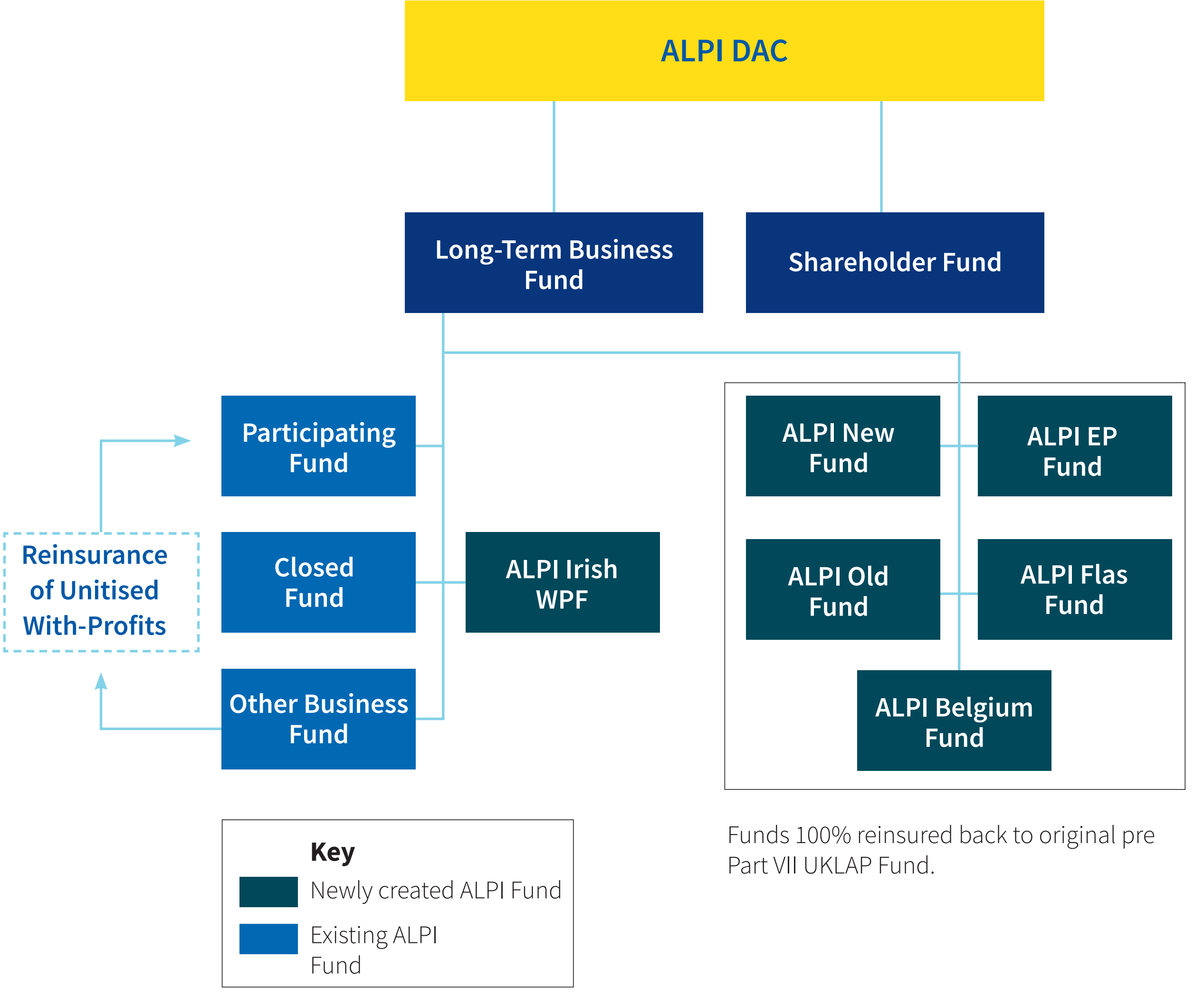
ALPI DAC consists of a Long-Term Business Fund in which all policies are written and a Shareholder Fund. Within the Long-Term Business Fund there are nine sub-funds of which five are 100% reinsured to the original pre-Part VII transfer UKLAP Fund. The four funds which are not 100% reinsured are: the Participating Fund, the Closed Fund, the Other Business Fund and the Irish With-Profit Fund. When used in this document, the expression "ALPI DAC Fund(s)" means any or all of the funds maintained by ALPI DAC from time to time including the Participating Fund, the Closed Fund, the Other Business Fund, the Irish-With Profit Fund and the Shareholder Fund.

The Participating Fund contains all policies transferred from FPLO to FFLAC in accordance with the Scheme of Transfer, other than PHI and unit-linked business, which were allocated to the Other Business Fund.

New business written by the Group since the transfer in 1990 has been written in the Other Business Fund except for conventional with profit business which continues to be written in the Participating Fund. ALPI DAC generally only accepts increases to existing conventional policies. Some non-profit business lines were written for a period in the Participating Fund after the transfer for operational reasons. Such lines are now written in the Other Business Fund ("OBF") with the exception of immediate annuities which largely arise from maturities on conventional business – these continue to be written in the Participating Fund. Where a unit-linked contract invests in a UWP fund, the UWP investment element of this business is reassured to the Participating Fund.

Under a Scheme approved by the High Court of England and Wales, on 29 March 2019 certain business, including the Irish With-Profits Sub-Fund (Irish WPF), was transferred into the Company from Aviva Life & Pensions UK Limited. The transferred business comprised all the EEA (non-UK) business targeted exclusively to local nationals' resident within their home country, under local laws and regulations, and sold under Freedom of Services or Freedom of Establishment.

Appendix C: Aviva Life & Pensions Ireland Designated Activity Company – Fund structure chart



Funds 100% reinsured back to original pre Part VII UKLAP Fund.

It takes Aviva

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