Principles and Practices of Financial Management (PPFM)

for the Irish With-Profits Fund of Aviva Life & Pensions Ireland Designated Activity Company

Version 5

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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 or Practices.

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 Irish With-Profits Fund of the Company ("the Irish WPF").

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 Irish WPF are Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC"), Aviva Life & Pensions Ireland Limited, Norwich Union Ireland, Norwich Union Insurance Ireland Limited, Hibernian Life Limited and Hibernian Life & Pensions Limited.

1.3 Purpose of PPFM

What is a PPFM?

A PPFM is a document that sets out the Principles and Practices that a company follows when managing its with-profits business. The PPFM for the Irish WPF 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 Irish WPF has been managed in accordance with the PPFM.

The PPFM will be provided on request free of charge to Irish WPF with-profits policyholders and for a reasonable charge to any other person. The location of the PPFM 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.

What are Practices?

The with-profits Practices provide more detail on the current approach taken by a company when managing a with-profits sub-fund.

Changes to Principles and Practices

If we propose to make a material change to any Principle in this PPFM we will inform policyholders with a with-profits policy in the Irish WPF in writing at least three months in advance, unless the Board consider that advanced notice is not necessary, having taken advice from the Head of Actuarial Function and considered the views of the With-Profits Committee. Any proposed change to a Principle would be decided by the Board, having considered the views of the With-Profits Committee and having taken appropriate actuarial advice, including from the Head of Actuarial Function.

Any proposed change to a Practice would be decided by the Board, having considered the views of the With-Profits Committee and having taken appropriate actuarial advice, including from the Head of Actuarial Function.

Any changes to Sections 1.3 and 1.4 of this PPFM must also follow the governance described above for changes to Principles.

Details of all changes to Principles and Practices will be displayed on the Company's website **aviva.ie/ppfm** as soon as possible after they are implemented. A link to the website page will also be included in annual statements.

Regardless of any such changes we will review this document at least yearly to ensure that it continues to accurately reflect the Principles and Practices we apply and to ensure continued compliance with Irish regulatory requirements. Such review will also have regard to changes in UK legislation affecting with-profits business, in particular the FCA's Conduct of Business Standards, to enable potential improvements to with-profits management practices to be identified, provided that these do not conflict with Irish regulatory requirements.

We would only change a Principle or a Practice when we consider the change to be justified by the need to:

- Respond to changes in the business, regulatory or economic environment;
- Protect the interests of policyholders, for example to improve the fairness of a Principle;
- Change a Practice to better achieve a Principle;
- Correct an error or omission in the PPFM; or
- Improve the clarity or presentation of the PPFM.

Whenever the PPFM is changed we will:

- Document the changes and keep the previous versions of the document for at least five years; and
- Ensure that any amendments to the Principles and Practices are compliant with all legal and regulatory requirements.

1.4 Governance arrangements surrounding the PPFM

It is the responsibility of the Board to ensure that the Company manages the Irish WPF in line with the Principles and Practices set out in this document.

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

- The Board will produce a 'With-Profits Policyholder Report' annually that includes information on compliance with the PPFM 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 **aviva.ie/ppfm** 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 ll" 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 Company also requires the Head of Actuarial Function to take on additional responsibilities to those required in the regulatory regime. These are defined in the Head of Actuarial Function's role profile and are set out in the relevant sections of this PPFM. Changes to the role profile would be decided by the Board having consulted the Head of Actuarial Function, who will take into account the views of the With-Profits Committee.
- The Head of Actuarial Function will report annually to the Board, and a summary will be available for with-profits policyholders as an Annex to the With-Profits Policyholder Report mentioned above.

A With-Profits Committee, with a majority of independent members, has been formed to provide independent oversight and challenge to the Company to ensure that fairness and with-profits customers' interests are appropriately considered in the Company's governance structures and decision making processes. More details including its membership and terms of reference can be found on our website at **aviva.ie/ppfm**. The With-Profits Committee may also report annually to with-profits policyholders if it considers it appropriate. This would be made available to policyholders as an Annex to the With-Profits Policyholder Report mentioned above.

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 in 2019, 'the 2019 Ireland Scheme' (known as 'the Scheme' in the remainder of this document). In the event of any conflict between the terms of the Scheme and this document, the terms of the Scheme will take precedence. If we wish to change a Principle or Practice in this document, and it is directly related to a provision in the Scheme, then the Scheme would first need to be changed, which would normally require Court approval.

The PPFM 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:

- Annual bonuses, which are added throughout the policy term, although at certain times the annual bonus may be zero; and
- Terminal bonuses, which may be added whenever the policy benefits are taken. Again, the terminal 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 annual bonuses added from time to time increase the value of the initial guarantee set out in the policy. A terminal 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. Annual 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 terminal 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 Reduction' ('MVR') 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 annual bonus. The terminal bonus rates that apply to the group will typically depend on the year the benefits were purchased.

Section 2: The amount payable under a with-profits policy

Amount payable

2.1 Principles

The amount paid on maturity or death for a policy in the Irish WPF will be the initial guaranteed benefits, plus bonuses constituting an equitable share of the distributable surplus earned by the Irish WPF over the period of investment, subject to the terms of the policy conditions which take precedence.

Where a policy is eligible for a surrender value, the amount paid on surrender will have regard to the initial guaranteed benefits and bonuses, and the desire to avoid surrenders causing a strain on the Irish WPF for continuing policyholders.

Common bonus rates are used for appropriate groupings of policies reflecting an element of cross-subsidy and pooling of risks for policies with similar characteristics. A single group may contain policies of different type, age, year of entry, size and premium history.

In order to provide an element of stability in the returns to policyholders at maturity, 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. No such year-on-year smoothing is applied when reviewing surrender values and, in the case of unitised with-profits policies, other non-contractual cancellation of units. In between such reviews smoothing applies as described in the practices.

The level and timing of the Company's guarantee obligations to policyholders relative to the size of the Irish WPF's assets may also affect both the change in payouts and the bonus rates themselves. The security of the guaranteed values of the Irish WPF's is paramount and if threatened this may over-ride other considerations.

With the approval of the Board, following recommendations from the Head of Actuarial Function:

- Different systems and different methodologies may be used for the purposes of determining bonuses or payouts for different types of business. The systems and methods used to determine bonuses or payouts may be changed from time to time, as a result of changes in circumstances including systems upgrades or to improve the management of the bonus process. Approximate methods may be used where necessary, or if deemed appropriate:
  - Where approximations are not expected to significantly affect the resulting bonuses or payouts, or
  - Where the historical data required to perform precise calculations is no longer available or is difficult or costly to access. In this case the calculations will be carried out as accurately as is reasonably possible in the Head of Actuarial Function's opinion.
- Historical assumptions and parameters may be updated to support a change to the systems or to improve further the accuracy of the calculations.

2.2 Practices

Where practicable, asset share calculations for specimen policies are used as a guide to determine bonus rates and the amounts payable to policyholders. Asset share methodology is described in sections 2.3 and 2.4. The Board determines the appropriate level and timing of distributions to policyholders. The bonus methodology has been established and refined over many years and will be further refined as required. For some small blocks of business where asset shares are not available or are inappropriate as a measure, the Company may use a comparable policy as a proxy to determine payouts or take account of past practice.

The aim in the long term in determining terminal bonus is to return to maturing policies, as a group, on average 100% of asset shares. The amounts payable on maturity in any year, or to any particular policyholder may be more or less than 100% due to the effects of smoothing, guarantees and grouping of policies.

Current practice in determining bonus rates is to target an average payment on maturity for each group of policies equal to asset share, subject to the smoothing process. Maturity and surrender payouts for a group of policies should normally fall in the range 80% to 170% of asset shares for regular premium conventional with-profits policies, 80% to 200% of asset shares for single premium conventional with-profits policies and 80% to 120% of asset shares for unitised with-profits policies. Payouts that are towards the top of the ranges quoted are likely to be as a result of guarantees applying to the policy. Payouts may, however, lie outside of this range following exceptional stock market conditions. In these circumstances the Company would aim to bring the average payout for unitised with-profits policies back in line with 100% of asset share over a maximum 5 year period, subject to meeting guarantees already built up.

Bonus rates are smoothed so that the full extent of changes in the market value of assets in the Irish WPF is not always immediately reflected in claim payments. The aim of the current smoothing policy is that changes in maturity payouts on comparable conventional regular premium with-profits policies over consecutive six-month periods between bonus declarations are normally limited to no more than 10%. Although this aim also applies to single premium and paid-up policies, the change in maturity payouts may need to exceed 10% in particular periods (for the reasons outlined above). The aim for unitised with-profits business is that policy payout changes for a specimen policy are normally limited to be no more than 5% over consecutive six-month periods between bonus declarations. The aim is that in normal circumstances the cost of smoothing will be broadly neutral over the long term. There is no specific overall limit to the accumulated cost or surplus of smoothing beyond the principle of maintaining regulatory solvency at an acceptable level.

For unitised with-profits policies, smoothing is managed principally on a single premium basis (i.e. claim values are considered separately for each year of unit purchase). The claim value of regular premium policies is the total of claim values for premiums invested in each calendar year.

For conventional with-profits policies, over the long term, the approach for non-guaranteed surrender values is to target an average payout of 100% of asset shares less any deductions required at surrender to protect the interests of remaining policyholders, subject to policy conditions. At present the Company does not make any deductions but may do so in future having considered the advice of the Head of Actuarial Function (who will take into account the views of the With-Profits Committee) and any regulatory requirements. For some policies, e.g. whole life, standard actuarial formulae may be applied as the use of asset share may not be appropriate. Where available, the directly calculated asset share for policies will be used as a basis for calculating the amounts payable on surrender. Individual policies may receive more or less than the average payout percentage of the group. The bases are reviewed when there is a 5% movement in underlying market indicators from when the bases were last changed and some sign of stability at that new level. In addition there would be a review when terminal bonus rates are changed. At any one time the Company may pay more or less than target due to changes in investment conditions.

A glide path approach is used to ensure that surrender values approach maturity values. The surrender basis and factors will be modified so that the surrender payout blends into the expected maturity payout, over a period of up to five years.

Whilst there are no formal smoothing practices on surrender equivalent to the 10% change limit between bonus declarations normally applied to maturities, the Company may choose to limit the maximum change in surrender values on a policy as a result of a review.

For unitised with-profits policies, the terminal bonus rate used for surrenders and non-contractual unit cancellations is the same as that used for maturity and death claims of the same duration.

Such claim values may, however, be reduced by the application of a Market Value Adjustment (MVA) as described in sections 2.7 and 2.8 and, in the case of surrenders, by the application of any early redemption charge specified in the policy and any required deductions to protect the interests of remaining policyholders. At present the Company does not make any deductions but may do so in future having considered the advice of the Head of Actuarial Function (who will take into account the views of the With-Profits Committee) and any regulatory requirements.

Any changes to systems, methods, assumptions or parameters are documented and are subject to formal change control procedures with appropriate levels of authorisation. In particular, minor changes in assumptions would normally be authorised by the Head of Actuarial Function. More significant changes in methodology and parameters would be agreed with the Head of Actuarial Function and would be subject to the formal approval of the Board and subject to With-Profits Committee review.

The same assumptions and parameters are applied across different types of policies and across different generations of policies where, in the opinion of the Board, the experience of different groups is felt to be reasonably homogeneous or where the experience of different groups is not separately available. Where appropriate, current practice for the Company is to apply

- A common scale of terminal bonus rates to all Life unitised with-profits policies within the same series written before 1 January 2001 (commonly called Life (net) business),
- A common scale of terminal bonus rates to all Life unitised with-profits policies (both Series 1 and Series 2) within the same series written after 1 January 2001 (commonly called GRU or gross roll-up business); and
- A common scale of terminal bonus rates to all Pension / Personal Retirement Savings Account unitised with-profits policies within the same series. Current practice is also to apply the same terminal bonus rates to conventional whole life policies as would apply to endowment policies.

Asset share methodology

2.3 Principles

Where asset shares are used as a guide to determine the amount payable under a policy they appropriately reflect the sources of profit or loss to the Irish WPF in which they share. Major sources of profit or loss are described in section 2.4.

2.4 Practices

Where asset shares are calculated, similar types of product may be grouped together. Asset shares are calculated for specimen policies or groups of policies from assumptions derived from the actual experience of the Irish WPF. The experience may be measured across different generations or types of policies if it is considered appropriate by the Board, following the recommendation of the Head of Actuarial Function. The approach is not used for altered policies; for these the bonus philosophy will follow similar unaltered policies.

The parameters and assumptions used are reviewed each year and changed where appropriate. Any changes are documented and are subject to formal change control procedures with approval of the Head of Actuarial Function.

For conventional with-profits policies
Asset shares for conventional with-profits policies are in general the accumulation of:

premiums paid

\+ an allocation of investment return

\+ an allocation of miscellaneous profits/losses from the Irish WPF

– the amounts of any government levy or duty

– the costs of selling and administering the business

– the cost of death or other risk benefits

– an adjustment for taxation appropriate for the class of business

– the shareholders’ share of distributable surplus in respect of business written after the demutualisation of Norwich Union only

– any contribution for the use of capital, provision of guarantees, glide path costs or smoothing costs.

This approach is described in more detail below.

Past allocations in respect of miscellaneous income can be removed from calculations altogether or even reversed to being a deduction, depending on the strength of the Irish WPF. The Board, on the advice of the Head of Actuarial Function may also include additional charges to asset share as appropriate.

Investment return

Separate identifiable assets are currently held for both Series 1 and Series 2 with-profits business and the inherited estate. The investment returns used in the asset share calculations are based on the assets backing the respective with-profits policies. For dates prior to the demutualisation, assets deemed to be backing the with-profits business are used. For all dates, annual returns spread evenly over each month are used as an approximation for monthly returns.

Where past practice has differed from that described above (as an example, before there was a separate inherited estate or Series 2 fund), the principle of using the actual return earned on allocated assets still applies.

Periodic rebalancing of the funds is required in order to reflect changes in the mix of the underlying assets and liabilities. In the periods between rebalancing, the investment return on the assets actually held will continue to be used to calculate asset shares, provided there are no significant deviations from the revised mix.

For some years before demutualisation where actual returns are unavailable, index returns and other methods have been used.

Derivative investments are predominantly allocated to meet Guaranteed Annuity Options.

Allocation of miscellaneous profits/losses

Prior to the demutualisation in 1997, allowance for profits on non-profit business was made by making a smooth adjustment to the investment return. For with-profits business written before demutualisation, an enhancement (the ‘flotation enhancement’) was made to the investment return allocated to asset shares, in lieu of profits on non-profit business. The enhancements were made from an earmarked fund.

With effect from 1 January 2002, the flotation enhancement was discontinued by the Board, on the advice of the Ireland Appointed Actuary, to maintain an adequate inherited estate in accordance with the Demutualisation Scheme.

Asset shares for policies may be adjusted by an additional allocation (or deduction) reflecting any miscellaneous profits (or losses) arising within the Irish WPF, as described in section 4.

Cost of selling and administering the business

For conventional with-profits policies, the expenses of selling and administering the policies are allowed for in the asset share calculations. Certain development expenses charged to the Company are normally not charged to asset shares but are instead met by the inherited estate, as decided by the Board, after consultation with the With-Profits Committee, from time to time. Where a development is identified as clearly providing expected benefit to policyholders then a proportion of the cost may, after consultation with the With-Profits Committee, be charged to asset shares. Where such costs have initially been applied to the inherited estate then, when charged to asset shares, a corresponding amount will be credited to the inherited estate.

Acquisition expenses are based on the expenses loaded into the premium. Maintenance expenses are approved by the Board having taken appropriate actuarial advice, including consulting the Head of Actuarial Function who will take into account the views of the With-Profits Committee.

Investment expenses charged to asset shares are based on the fee rates charged to the Company under an investment management agreement (see section 3).

Average commission levels for each class of business over each time period are assumed to apply for all policies at that time.

Cost of death or other risk benefits

For conventional with-profits business, mortality costs are charged to asset shares based on assumed mortality rates. Any difference between the assumed mortality costs and actual experience will be met from (or allocated to) the inherited estate.

Adjustment for taxation

Appropriate allowance for income and capital gains tax is made in the investment return for Life business sold before 1 January 2001. On income, the prevailing rate of policyholder tax is applied to the gross income yield. On capital gains, indexed gains are taxed at a policyholder tax rate, allowing for the deferral of realisation.

Allowance is made for tax relief on expenses for Life business sold before 1 January 2001. The prevailing rate of policyholder tax is applied to gross expenses with allowance for any deferral of relief.

Tax associated with shareholder transfers is met from the inherited estate.

Any difference between the tax liability of the Irish WPF and the aggregate tax allowances described above is attributable to the inherited estate.

Cost of shareholder transfer

Shareholders receive a share (currently 10%) of the distributable surplus arising. The cost of shareholder transfers in respect of conventional with-profits business in force at demutualisation is not charged to asset shares, but instead is met from the inherited estate in line with the Demutualisation Scheme. For conventional business written after demutualisation, the cost of shareholder transfers is charged to asset shares. The shareholders' share is one ninth of the cost of new annual and terminal bonus, determined using the prevailing valuation basis.

Use of capital

An additional charge may be levied on asset shares where permitted to reflect the provision of capital, guarantees, costs and smoothing in the Irish WPF, or to maintain the inherited estate or regulatory solvency of the Irish WPF at appropriate levels. The appropriateness and level of any charge is reviewed at least annually. A major change in the value of underlying guarantees would trigger an immediate review of the level of charge required to maintain adequate capital cover. Any change would be approved by the Board following the recommendation of the Head of Actuarial Function. Such charges, if applied, accrue to the inherited estate. If it subsequently transpired that the amount deducted was in excess of that required this would be used to enhance returns to asset shares in future.

Deductions from asset shares for projected Guaranteed Annuity Option (GAO) costs have been made historically, but no deductions are currently being made. The size of this deduction is not fixed and may be increased or decreased to reflect changes in the anticipated cost of this option.

A 'smoothing deduction' may also be made from asset shares for all conventional with-profits policies and is transferred to the inherited estate too. The size of this deduction would not be fixed and may be increased or decreased to reflect changes in the anticipated costs of smoothing. In the long term, the aim of this deduction is not to increase or reduce the inherited estate but just to meet smoothing costs. Other than in extreme circumstances, such as a threat to the solvency of the Irish WPF, the charge will be limited to no more than 5% of the asset share before reduction and is recalculated whenever bonuses are being determined. For clarity, other than in extreme circumstances, such as a threat to the solvency of the Irish WPF, on policies with GAOs, the overall charge for guarantees and smoothing will be limited to no more than 20% of the asset share. For other policies, the overall charge will be limited to no more than 10% of the asset share.

In extreme conditions, the current intention is that the effect of these deductions can be increased by up to 5% of asset share. However, the overriding responsibility of the Board is to ensure that the Irish WPF remains solvent and there is no limit to the actions available to the Board to achieve this. For the avoidance of doubt, expected shareholder transfers are a liability of the Irish WPF and will be assumed payable in all circumstances.

Currently, no further allocations or deductions are made to asset shares in respect of other miscellaneous profits or losses arising within the Irish WPF.

For unitised with-profits policies

Asset shares for unitised with-profits business depend on the dates at which units were allocated to a policy. The total asset share for a policy is the sum of the asset shares for all units allocated to that policy. The asset share for units allocated at a given time is:

initial investment (less any initial charge);

+ an allocation of investment return

+ an allocation of miscellaneous profits/losses from the Irish WPF

– the amounts of any government levy or duty

– the annual management charge (where this is not taken by way of unit cancellation)

– an adjustment for taxation appropriate for the class of business

– any contribution for the use of capital, provision of guarantees, or smoothing.

Where expenses and charges for risk or government levies / duties are taken by way of explicit charges, these are deducted by way of unit cancellation, and so no further deduction needs to be made to the asset share of units.

This approach is described in more detail below.

Units are allocated when premiums are paid and may be cancelled to cover contractual management and expense charges, partial surrenders and charges for risk benefits (e.g. mortality).

For unitised with-profits business, policy charges are used instead of actual expenses and actual mortality costs. These charges are taken account of in the calculation of asset shares for a policy or group of policies by a reduction in the number of units held. The policy charges are passed to the Non-Profit Sub-Fund.

Investment return
See conventional with-profits.

Allocation of miscellaneous profits/losses
See conventional with-profits.

Annual management charge
Where an annual management charge (AMC) is taken into account as part of the accumulation as opposed to being an explicit charge by way of unit cancellation, the asset share for unitised with-profits policies will be reduced by the AMC after crediting with all after-tax investment earnings. The AMC is expressed as a percentage of the asset share and, in accordance with the Appointed Actuary's Report following demutualisation, is set at a similar level to the AMC for policies investing in unit-linked funds. The AMC can be changed in line with policy conditions.

Use of capital
An additional charge, where permitted, may be levied on asset share to reflect the provision of capital, guarantees, costs and smoothing in the Irish WPF, or to maintain the inherited estate or regulatory solvency of the current and potential Irish WPF, at appropriate levels. The appropriateness and level of any charge is reviewed at least annually. A major change in the value of underlying guarantees would trigger an immediate review of the level of charge required to maintain adequate capital cover. Any change would be approved by the Board following the recommendation of the Head of Actuarial Function. Such charges, if applied, accrue to the inherited estate. If it subsequently transpired that the amount deducted was in excess of that required this would be used to enhance returns to asset share in future. Other than in extreme circumstances, such as a threat to the solvency of the Irish WPF, the Board would, when annual guarantee charges of this nature have applied for a number of years, seek to limit the aggregate amount of such charges to no more than 10% of the asset share in respect of any policy. Currently this charge is zero.

Bonus philosophy

2.5 Principles

Annual bonus rates are set with the aim of providing a progressive build up of guaranteed benefits over the lifetime of the policy with an overarching aim of retaining sufficient profits to provide an appropriate margin for terminal bonus. Annual bonus rates may be changed to reflect past investment performance, changes in expected long-term investment returns and any guarantees in the policies to which they apply. Annual bonus rates will be smoothed to limit the changes in these rates from year to year; however the annual bonus rate could be zero if appropriate subject to policy conditions.

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.

Terminal 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. Terminal bonus rates are smoothed as described in sections 2.1 and 2.2.

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

2.6 Practices

In determining an equitable distribution of profits for the purposes of section 2.1, the Company will consider:

- The need to ensure that the Irish WPF is able to meet its regulatory liabilities
- The current and projected capital needs of the Irish WPF
- The investment strategy of the Irish WPF
- The bonus philosophy of the Irish WPF
- The need for an appropriate level of security for policyholders' benefits; and
- The need to ensure that policyholders' reasonable benefit expectations are maintained and that policyholders are treated fairly.

In addition, any new regulatory requirements would be taken into consideration.

Furthermore, the Board will ensure that the inherited estate is applied progressively and equitably during the anticipated period of existence of the Irish WPF in the provision of bonuses (allowing for shareholder transfers). The aim is to distribute all of the inherited estate by the time the last payouts on with-profits policies are made, but the balance of risks in following the above practices and prudent management will require that if there is any doubt, a policy favouring later distribution will be preferred. However, before any distribution of the inherited estate, the preferred management approach is to first refund any asset share deductions.

The Scheme approved by the Court in 2019 provides that when the Irish WPF reduces in size to €250m the Company may declare a fixed scale of bonuses by distributing all of the assets in the Irish WPF at that time. These fixed bonuses will take the place of normal discretionary bonuses and all the remaining business in the Irish WPF will be converted to non-profit and the provisions of the PPFM will then no longer apply.

The paragraphs below describe how bonus rates are determined in normal financial circumstances. The Company may change these arrangements when circumstances are not considered normal. Examples of circumstances which would not be considered normal include a prolonged period of depressed asset values, a heavy incidence of surrenders, substantial business losses in the Irish WPF, or regulatory solvency issues.

The amount of annual bonus depends on:

- The prospective terminal bonus margin;
- The profits earned in the Irish WPF over recent years;
- The investment return expected in the long term;
- The expected cost of guarantees on all existing with-profits policies in the Irish WPF; and
- Regulatory solvency levels, now and in the future.

Annual bonus declarations take into account the rates which the Company expects to be able to maintain over the terms of both existing and, where appropriate, new policies within a bonus series based on best estimates. This is currently achieved by projecting current asset shares for specimen policies each year for a range of future investment returns on the Irish WPF, and choosing a target annual bonus rate which aims for an adequate margin for terminal bonus. The projections allow for potential variations in the future investment returns. Suitable allowance will be made to finance terminal bonus to reduce the risk of asset shares falling below initial guaranteed benefits plus previously declared bonuses. Part of the profits is shared out as annual bonus. The Company aims to do this so that there is an appropriate balance paid as an additional or a terminal bonus, taking account of the overall strength of the Irish WPF. At any time the Company may pay more or less depending upon actual experience.

No undue weighting is given to recent economic experience.

Interim bonus rates where appropriate are determined having regard to the estimates of the level of annual bonus rates expected to be declared at the next declaration.

In normal conditions, annual bonus rates will be reviewed once a year. Although changes are smoothed, there is no maximum amount by which annual bonus rates would alter.

Terminal bonus rates are set to achieve the overall aim of returning to maturing with-profits policyholders, as a group, on average 100% of asset shares in the long term, given the annual bonus rates determined as described in section 2.5 and 2.6. They are set so as to achieve the smoothing objectives described in section 2.2. Terminal bonus rates are influenced by the total return on investments and so are reviewed in the light of prevailing financial conditions. In normal circumstances, the Company will aim to limit the recovery of past smoothing costs to 5% of asset share.

In normal conditions, terminal bonus rates will be reviewed at least twice a year. However, the Company may change terminal bonus at any time during the year, particularly in changing financial conditions. The Company would expect to change terminal bonus rates when there is a sustained movement in asset shares of 10% or more since terminal bonus rates had last been set. Terminal bonus rates are currently based on calendar year of entry (or year of unit purchase for unitised with-profits policies) for representative specimen policies, rather than the underlying policy asset share itself, unless there are large discontinuities, in which case a time period shorter than one year may be used.

Terminal bonus, where applicable, is payable on all claims arising on death, maturity and retirement under the terms of the contract for conventional with-profits policies. On surrender, an allowance for terminal bonus, where applicable, is made in the surrender value basis. Terminal bonus, where applicable, is payable on all cancellations of units in the unitised with-profits funds and depends on the date of unit purchase. The terminal bonus rate could be zero.

The bonuses described in this section also apply to policies that have been altered in some way and/or stopped payment of premiums.

Market Value Adjustment

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 a Market Value Adjustment (MVA) is one of the key aspects in the protection of payouts for policyholders still invested in the Irish WPF.

2.7 Principles

For unitised with-profits policies, a Market Value Adjustment (MVA) may be used whenever it is necessary to protect the Irish WPF or other with-profits investors in the Irish WPF from loss arising from unit cancellations. An MVA may be used whenever the asset share is lower than the value of units, including any terminal bonus, subject to policy conditions.

2.8 Practices

The MVA is an adjustment to the value of units, including any terminal bonus, and is intended to ensure the Irish WPF does not incur a loss. The decision to apply MVAs and the application and review process is actively managed.

The effect of an MVA is to reduce the terminal bonus payable on the cancellation of units. If the MVA exceeds the terminal bonus, then the effect is to reduce the amount payable to a level which is below the face value of the units cancelled. An MVA will never apply on payment of a death benefit. There may be certain other times when an MVA cannot be applied (such as on specified maturity dates or policy anniversaries or on regular withdrawals up to certain specified levels) depending on the product terms. This is covered in detail in the product’s policy document.

MVAs may be used to target average payouts (after MVA) that represent 100% of the asset share less any deductions required to protect the interests of remaining policyholders. At present deductions are not made but the Board may approve their application in future having considered the advice of the Head of Actuarial Function (who will take into account the views of the With-Profits Committee) and any regulatory requirements. Payouts for individual policies may fall within the range 80% to 120% of asset share, mainly as a result of accommodating short term market fluctuations. However, payouts may lie outside these ranges on certain policies or in changing investment conditions. MVAs are currently determined by calendar year of unit purchase and the surrender value is the sum of the value (after allowance for terminal bonus and MVA) of the units encashed. A surrender value may therefore include units to which an MVA has been applied and units to which no MVA has been applied.

It is most likely that an MVA will be needed following a large or sustained fall in stock markets or after a period where investment returns are regularly below the levels that had been expected when setting bonus rates. The Company will look to reduce the MVA as markets improve or increase it if markets worsen. The Company will look to rebalance MVA rates back to target payouts (after MVA) that represent 100% of asset share when there is a 5% movement in underlying market indicators and some sign of stability at that new level.

Section 3: Investment strategy

Introduction

Information (which has previously been made publicly available) on the mix of assets and investment returns in recent years is given on the Irish With-Profits Fund investment information sheet which is available on the website **aviva.ie/ppfm**.

3.1 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, having regard to:

- The nature and term of the with-profits liabilities and the management of cashflows;
- The current and expected level of guarantees;
- Regulatory solvency requirements and future possible scenarios;
- The size of the inherited estate and any freedom or restrictions in investment flexibility that it may provide;
- Advice from the Fund Managers;
- Short-term and long-term anticipated returns in different asset classes;
- Volatility of different asset classes;
- Policyholders' Reasonable Expectations;
- Asset Liability Matching; and
- The Risk Appetite of the Irish WPF.

The monies of the Irish WPF will be invested in a range of assets where this reduces risk. Investment returns are benchmarked against appropriate indices, taking into consideration the levels of risk inherent in each asset class and stock. Maximum and minimum exposures to, and performance benchmarks for different investment classes and/or individual investments will be set from time to time in accordance with Irish WPF objectives. Maximum exposures to investments in any one counterparty are specified. Intended holding ranges in various asset classes may be changed in order to improve long-term performance or to improve the likelihood that the Irish WPF can meet its guarantees.

In accordance with the Scheme, the Company maintains a separate register of assets for the Irish WPF. In normal circumstances, the investment strategy for the Irish WPF will be determined according to the composition of the Irish WPF alone. The Irish WPF may have recourse to the assets in the Shareholder Fund and Other Business fund of the Company, should this be necessary in order to meet guarantees or otherwise to treat customers fairly.

Investments may be made in derivatives or similar instruments if they are appropriate to the objectives of the Irish WPF. Such investments are subject to the appropriate internal governance procedures of the Company.

The investment strategy of the Irish WPF takes into account the nature and term of the liabilities, by considering appropriate assets for different classes of with-profits policy and different generations of with-profits policyholders. No other investment constraints are placed on parts of the Irish WPF, other than those detailed in the rest of this section which apply to the entire Irish WPF.

3.2 Practices

Aviva Investors Global Services Limited is currently the main appointed Discretionary Fund Manager ('the Fund Manager') for the Irish WPF. An investment management agreement exists between the Company and the Fund Manager, which sets out investment strategy and guidelines. The Board appoints committees to manage the relationship with the Fund Managers, set the strategic direction and review performance against benchmarks. Their activities include: agreeing the appointment of Fund Managers, investment management agreements, credit and counterparty limits and approving major, special or strategic investment decisions. These committees are responsible for determining the asset allocation strategy, setting risk appetite and reviewing economic outlook alongside expected returns on different asset classes (short term and long term).

Historically, the assets of the Irish WPF were predominantly invested in equities, Irish commercial property, fixed-interest securities and cash. The percentage of the assets of the Irish WPF that is invested in equities (company shares) and property is known as an Equity Backing Ratio (EBR). In the past, the EBR was assessed by calculating the probability that the Irish WPF could continue to meet its liabilities under a wide range of investment scenarios. The EBR was set so that this probability remained at an acceptable level.

However, as a result of the global financial crisis, the majority of the equities of ALPI DAC's With-Profits Fund were sold in October 2008. This was done to ensure that the With-Profits Fund of ALPI DAC could continue to meet its guaranteed liabilities. As a result, the assets of the Irish WPF are predominantly invested in Eurozone fixed-interest securities, cash and Irish commercial property together with equities for specific bonus series. The Irish WPF's capital position is currently constrained and the investment strategy therefore places a high emphasis on close matching of income and maturity proceeds from the assets with the expected liability cashflows.

Investment strategy is reviewed formally at least once per year culminating in a report to the committee responsible for investment strategy. Smaller reviews occur more frequently to monitor and, where appropriate, take account of the experience of the Irish WPF. Allocations within but not between asset categories can currently be varied by the Fund Manager within tight constraints and the result of this activity is reviewed monthly by the committee.

The EBR for the asset shares is calculated to allow for the cost of guarantees on policies within the Irish WPF and takes into account the strength of the Irish WPF and the size of the inherited estate. Currently, the same EBR is used across all conventional and Series 1 unitised classes of with-profits policy written in the Irish WPF and a different (higher) EBR is used for Series II unitised with-profits business reflecting the lower guarantees on this class.

The investment strategy for asset shares is set by the Board having regard to the financial position of the Irish WPF, views on future investment returns and the need to treat policyholders fairly. The EBR is not static and floats according to the performance of underlying assets or indices.

In deciding to change the EBR, the Board may take into account:

- The asset distributions of other with-profits funds or companies;
- Its view of the outlook for different categories of investment;
- The current holdings in the Irish WPF and the desirability of selling any currently illiquid assets solely to achieve a level for the EBR when compared to the longer term prospects for those assets;
- The projected trend of EBRs; and
- The desire to avoid frequent changes in the EBR.

Periodically the split of benchmarks for more specific equity and non-equity type asset class benchmarks may be reviewed to reflect the strategic view of investment experts, subject to approval by the relevant committee.

Asset allocation ranges to be specified to the Fund Manager are then determined based on the overall EBR as agreed by the Board.

The use of derivatives in the Irish WPF is set out in the investment management agreement and is otherwise subject to approval through the appropriate internal governance procedures regarding the use of derivatives. These governance procedures seek to control the risks in using such contracts, and therefore consider amongst other things:

- The types of derivative contracts which may be used; and
- Maximum gross exposures which may be held in each derivative type.

The total exposure to an asset class within a sub-fund allowing for derivatives must be within the benchmark asset allocation ranges specified for that sub-fund in the investment management agreement unless otherwise agreed by the relevant committee.

Derivatives are used to hedge the financial exposures of policyholders and shareholders. The uses of derivatives that are permitted are for:

- Efficient portfolio management; and
- Reduction in investment risk.

Appropriate credit quality of the investments of the Irish WPF is maintained by prescribing benchmarks for the credit ratings in the investment management agreement. Within this framework, additional limits may be specified to avoid concentrations of risk with a limited number of counterparties.

The Irish WPF invests predominantly in quoted investments in order to maintain the liquidity quality at a high level. Cash and deposit-type investments are also used to back current liabilities to provide a greater level of liquidity within the Irish WPF than would otherwise be achieved by investing solely in longer-term assets.

The flexibility to use new investment instruments will be balanced with the need to identify the risk inherent in them and to ensure that they will be subject to adequate controls before their acquisition. No investments will be made in new investment instruments unless a proposal has first been made and approved by the Board or the committee responsible for investment strategy.

As part of the investment management activities we may lend some assets of the Irish WPF to selected financial institutions to generate additional fee income from the Irish WPF. All revenue derived from this process is passed directly to the Irish WPF less any associated cost incurred. In certain circumstances, for example, if the institution encountered financial difficulties and was unable to return lent assets, the Irish WPF could suffer a loss. We have, however, in place a number of controls, such as always obtaining security from each borrower as well as monitoring their credit ratings, in order to reduce the risk to the Irish WPF.

Under certain conditions, the Irish WPF may make a loan to, or investment in, any other Aviva group company. This is described further in sections 4.1 and 4.2.

Under certain conditions, the Irish WPF may give financial assistance or support to other sub-funds within the Company. This is described further in sections 4.1 and 4.2.

There are no material strategic investments within the Irish WPF and there is no intention for any in the future.

Section 4: Business risk

Introduction

The with-profits policyholders are entitled to a share of the distributable surplus of the Irish WPF, 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 Irish WPF.

4.1 Principles

With the exception of increments to existing policies, the Irish WPF is closed to new business.

The Irish WPF may make investments in accordance with applicable legal and regulatory requirements.

Control of existing business risk is exercised through the Company's governance arrangements which include regular monitoring of all significant business risks. Processes are established to determine the impact of the various business risks, for example insurance, market, credit, liquidity, operational, on the financial position of the Irish WPF and where necessary to identify and implement appropriate mitigating actions.

Where compensation costs from a business risk will be borne depends on the nature of the compensation and the need to ensure fairness of treatment between policyholders and shareholders.

4.2 Practices

In general, when considering whether to undertake a business risk the Company will consider:

- Existing business risks;
- Potential rewards to policyholders and shareholders;
- Potential rewards to policyholders and shareholders of alternatives including risk-free investments; and
- Size of, and possible impact on, both the Irish WPF and the inherited estate.

The Irish WPF does not accept new business risks apart from increments to existing policies. The Company's procedures for deciding what terms to offer for incremental new business, where the basis is not guaranteed under the policy, are as follows:

- The profitability of a range of policies written on the proposed terms is projected on a standard set of assumptions regarding future experience. Profitability measures are compared against approved hurdles to test acceptability. Sensitivities are also calculated by recalculating the profitability of the policies on alternative sets of assumptions designed to establish the impact of adverse experience in each of the most significant areas of business risk. If these are acceptable the Board approves the terms;
- In deciding whether such business may be written in the Irish WPF or reinsured into the Irish WPF, the Board may impose restrictions on the amount of such business which may be written in order to avoid the build up of excessive concentrations of risk when existing business is taken into account. Reinsurance accepted by the Irish WPF from other Aviva group companies will be on commercial terms approved in advance by the Board; and
- The level of analysis will reflect the materiality of the likely volumes being considered.

The Company will not enter into any other material transaction relating to the fund unless in the reasonable opinion of the Board, the transaction is unlikely to have a material adverse effect on the interests of policyholders in the Irish WPF, having taken appropriate actuarial advice, including consulting the Head of Actuarial Function, who will take into account the views of the With-Profits Committee.

In considering whether the Irish WPF may make a loan to, or investment in, any other Aviva group company, the Board, having had regard to the advice of the Head of Actuarial Function and having consulted the With-Profits Committee, will need to be satisfied that:

- The extent and terms of the loan or investment are no less favourable than would be the case if the other company were not an Aviva group company;
- The loan or investment is appropriate for the Irish WPF; and
- The reasonable benefit expectations of policyholders will not be impaired as a result and that policyholders will be treated fairly.

There are no specific limits covering investments or loans to Aviva group companies, but admissibility limits of investments of this type will be borne in mind by the Company.

The Irish WPF is not currently providing any loans to other Aviva group companies.

The Irish WPF is not currently giving any financial assistance or support to other sub-funds within the Company.

The Company regularly reviews risks to which the Irish WPF is subject, including projecting the Irish WPF's business over time under a variety of assumptions. As a result of this process the Company may implement measures to reduce or limit risks. Such measures may include changes to investment strategy, hedging, reinsurance of mortality and morbidity risks, underwriting strategy, terms on which incremental new business is written, outsourcing, measures to improve persistency, reductions in annual and terminal bonus rates and changes in the parameters defining the Irish WPF's smoothing policy.

Profits or losses from business risks arising from existing policies are applied to with-profits payouts as described in section 2.4.

Compensation costs arising from mis-selling or maladministration will not be charged to the Irish WPF. However, rectification payments made to correct an error and which have the effect of restoring policyholders, or former policyholders, and the Irish WPF to the position they would have been in had the error not occurred, may be made using assets of the Irish WPF.

Exposure to group risk is limited because the Scheme requires the Irish WPF to be administered in many respects in isolation from other business of the group and because the Irish WPF is closed to new business. The Irish WPF does not currently provide financial support to other sub-funds of the Company or to other funds in the Aviva group.

Investments in other Aviva group companies and in strategic investments or loans to such companies are allocated to the inherited estate and profits or losses arising from such investments are applied accordingly.

The general approach to the smoothing of profits or losses from business risks to the extent that these are a determinant of amounts payable under with-profits policies is described in section 2.4.

There is no specific minimum level of profit or loss from business risks before the Irish WPF will treat them as a determinant of the amounts payable under with-profits policies. The Board reserves the right to review this policy. Losses which are currently borne by the inherited estate may in future be applied to with-profits policies where, in the opinion of the Board, (on the advice of the Head of Actuarial Function), such action is required to maintain the regulatory solvency and the inherited estate at an appropriate level.

Except where stated otherwise in section 2.4, profits or losses from business risks are currently pooled across all with-profits policies. Should losses which are currently borne by the inherited estate be applied instead to with-profits policies, it is likely that a degree of differentiation will be made. The particular classes or generations of policies which will bear such losses will depend on the nature of the loss and the circumstances at the time.

Compensation costs from a business risk will be borne by the inherited estate unless it is determined by the Board that they should be borne by policyholders through a charge to asset shares.

The Company will not charge the Irish WPF should any financial penalties be imposed by the regulator. The Company will not allow any mortgage or charge on the assets in the fund other than in respect of, and for the purposes of, the business in the Irish WPF.

An annual review is undertaken of the funding of Staff Pension Funds and the results, in relation to life funds' contributions, will be submitted to the With-Profits Committee and the Board. Any proposed adjustment, by way of a charge or credit to the Irish WPF would be decided by the Board having taken appropriate actuarial advice, including from the Head of Actuarial Function who will take into account the views of the With-Profits Committee. No general allocation of the costs of any pension scheme maintained for the UK staff of the Aviva group may be charged to the Irish WPF except in respect of any UK employees of the Irish WPF providing services to the Irish WPF. A proportion of the pension scheme costs for the Company may be allocated to the Irish WPF. This proportion is determined by the Board, having taken appropriate actuarial advice, including from the Head of Actuarial Function who will take into account the views of the With-Profits Committee.

Section 5: Charges and expenses

5.1 Principles

The expense charges allocated to the Irish WPF shall be as determined by the Board to be fairly attributable to the Irish WPF, having taken appropriate actuarial advice and having consulted the With-Profits Committee.

The amount of tax attributable to the Irish WPF is set based on the level that would be borne if the Irish WPF were to be a separate Irish proprietary life insurance company subject to Tax in Ireland. Should the Board of ALPI DAC consider this to be inappropriate, having taken the advice of the Head of Actuarial Function, who will consult the With-Profits Committee, it may charge a different amount.

5.2 Practices

Prior to 29 March 2019, the Company outsourced its administration, distribution and development functions to Aviva Life Services Ireland Limited, (ALSI), which is a company wholly owned by Aviva Life Holdings UK Limited. A Management Services Agreement (MSA) governed this arrangement, which included business within the UKLAP Irish WPF. The MSA described the services provided and the charges for the services. These charges were made to the Irish WPF in lieu of the expenses incurred in running the with-profits business. Commission has always been directly allocated to the Irish WPF where appropriate.

From 1 January 2016 to 29 March 2019, under the MSA, the UKLAP Irish WPSF was charged based on specified fees per policy (varying by policy type). As the UKLAP Irish WPSF was closed to new business, this basis of allocation is more appropriate as the UKLAP Irish WPSF reduces in size.

From 30 March 2019, reflecting the transfer of this business from the UK to Ireland, the MSA was terminated and the functions previously outsourced to ALSI in respect of the UKLAP Irish WPSF reverted to the Company. In place of the MSA, the Company put in place a Memorandum of Understanding (“MOU) to apply for the lifetime of the Irish WPF. The service standards and basis of allocation of expenses to the Irish WPF under the previous MSA were unchanged. The initial MOU charges for administration were set equal to those in the previous MSA. The MOU permits the per policy costs to increase annually in line with a defined index of inflation. The MOU outlines the costs that may be charged to the Irish WPF. The costs of agreed developments may be charged to the Irish WPF if the development benefits the Irish WPF or if the development is required to comply with relevant legislation or regulation.

The MOU is subject to adjustment if, in the reasonable opinion of the Board, having obtained appropriate actuarial advice, consulted the Head of Actuarial Function, who will consider the advice of the With-Profits Committee, the basis for allocation of expenses to the Irish WPF which would otherwise apply would not over time be fair to policies allocated to the Irish WPF.

Fees for developments requested by the Company are based upon agreed costs, and will be charged to the Irish WPF to the extent that these will benefit the Irish WPF in the future and/or are to cover regulatory requirements.

Fees for Investment Management will be those charged to the Company by the Fund Manager which reflect market terms in line with the investment management agreement.

Fees for other costs which are incurred by the Company and which are directly attributable to the Irish WPF (e.g. audit fees and regulatory fees) are charged to the Irish WPF at cost. Other fees may only be charged to the Irish WPF as agreed with the Board, having taken account of appropriate actuarial advice and consulted the With-Profits Committee.

MOU transfers risk from the Irish WPF to the Company. The risks transferred relate to falls in the volume of business and increases in expenses.

The fees agreed with the Company will include a risk loading to allow for this. If the risk does not emerge, the risk loading will fall into the profit of the Company.

Section 6: Management of the inherited estate

6.1 Principles

The inherited estate of the Irish WPF is held and managed independently of other inherited estates within the Aviva group. The inherited estate will be managed in accordance with any applicable legal and regulatory requirements, including the Company's duty to maintain adequate financial resources and to take reasonable care to organise and control its affairs responsibly and effectively.

The Board will ensure that the inherited estate is applied equitably during the anticipated period of existence of the Irish WPF in the provision of bonuses (allowing for shareholder transfers) with the aim of distributing all of the inherited estate by the time the last payouts on with-profits policies are made.

The Scheme approved by the Court in 2019 provides that when the Irish WPF reduces in size to €250m the Company may declare a fixed scale of bonuses by distributing all of the assets in the Irish WPF (including any inherited estate) at that time.

Subject to this paramount requirement, the inherited estate may be used, at the Board's discretion, to:

- Provide investment flexibility by enabling a higher proportion of the investments to be held in potentially higher reward but higher risk assets than would otherwise be the case;
- Provide a cushion of additional security against unexpected adverse events;
- Permit flexibility in the smoothing of maturity and surrender payouts for with-profits policies;
- Pay any amounts as required in the Scheme; and
- Meet such other purposes as permitted by law and consistent with the Company duty to maintain adequate financial resources.

The inherited estate constitutes the working capital of the Irish WPF.

Bonus rates and investment policy will be managed in order to keep the inherited estate of the Irish WPF at levels which, in the opinion of the Board (on the advice of the Head of Actuarial Function), is appropriate for the level of risk 'run' by the business.

In view of the fact that the inherited estate bears the risk associated with the provision of smoothing and guarantees, an appropriate charge may be made to policies to maintain the inherited estate at an appropriate level. Any such charge may differ by policy type.

6.2 Practices

In calculating the inherited estate, current practice is to use it to pay the costs of the following items:

- Tax associated with additional tax on shareholder transfers out of the Irish WPF;
- Meeting any cost of rectification payments;
- Guaranteed Annuity Option costs in excess of those charged to policies and other guarantee costs where these exceed the asset share;
- Guarantee costs where these exceed the asset share;
- Costs arising from payouts at MVA free points;
- Meeting the costs associated with restricting charges to asset shares for certain contracts, including the cost of the shareholder transfer;
- Any expenses not charged to asset share;
- Meeting the costs of any approximations in the calculations; and
- Any financing of smoothing of payouts (over the longer term the cost of smoothing is expected to be neutral).

In addition, the inherited estate may be used to pay other costs as agreed by the Board, following the recommendation of the Head of Actuarial Function and having consulted the With-Profits Committee.

Investment strategy for the inherited estate may differ from that of the rest of the Irish WPF. The investment strategy for the inherited estate adopts the Principles and Practices as described in section 3. The main aims are to ensure guarantees can be met and to maintain regulatory solvency in adverse market conditions.

There is currently no specific target for the size or scale of the inherited estate. However, whilst the Irish WPF remains exposed to potentially significant guarantee costs, it is not the intention to distribute the inherited estate through the addition of bonuses. This is particularly the case with Guaranteed Annuity Options (GAOs) where the extent of future guarantee costs is uncertain (as they are dependent on future option take-up rates and improvements in longevity). As discussed in section 2.4, a deduction from asset shares may be made for all conventional with-profits pension policies to contribute to the estimated cost of GAOs. The aim is to set the level of the GAO deduction such that the accumulated deductions for current policyholders plus the expected future deductions are no greater than the expected future GAO costs for those policyholders. With all other things being equal, if the deductions equal the actual costs then this would neither increase nor decrease the size of the inherited estate.

If there is no inherited estate, and a cost arises, part or all of the cost will be distributed equitably across the remaining policies, as determined by the Board having taken appropriate actuarial advice and consulted the With-Profits Committee and subject to policy guarantees being met. Some costs may be allocated to the Other Business Fund or Shareholder Fund.

The Irish WPF is managed so that the risk of assets failing to exceed liabilities is small. There is a preferred range for the estate, the bottom of which is set such that the level of risk over 1 year (that assets would fail to exceed liabilities) is broadly equivalent to 1 year historic default probabilities on AA rated corporate bonds. The top of the preferred range is broadly 135% of the bottom of the preferred range. The top of the preferred range is known as the AAA Capital Threshold (AAA CT).

Discretionary distributions may be made from the inherited estate in accordance with the Risk Appetite Framework and referencing the preferred AA to AAA range. The Board will determine whether such distributions should be made subject to the rules of our regulator, the fair treatment of policyholders, having consulted the With-Profits Committee and having regard to the advice of the Head of Actuarial Function.

Section 7: Volumes of new business

7.1 Principles

No new business is written in the Irish WPF except for incremental business and business written following the exercise of options on existing contracts, which requires the Irish WPF to accept such business.

7.2 Practices

No new business is written in the Irish WPF except for very limited volumes of incremental business written in tightly controlled circumstances and business written following the exercise of options on existing contracts which the Scheme requires the Irish WPF to accept.

The Company periodically reviews the volumes and terms of incremental business, and maintains a run off plan that outlines how the company will ensure a fair distribution of the inherited estate.

Section 8: Equity between the Irish WPF and shareholders

8.1 Principles

For business transferred on demutualisation, the Demutualisation Scheme specifies the maximum transfer to shareholders. In respect of conventional with-profits business, it is one-ninth of the cost of bonus allocated to policyholders. Unitised with-profits business was previously transferred from Aviva Life & Pensions Ireland Limited into the Non-Profit Sub-Fund of Aviva Life & Pensions UK Limited, and has now been transferred to the Company as part of the Scheme, with the investment element held within the Irish WPF; in respect of this the transfer to shareholders is in the form of an annual management charge: shareholders do not share in the distribution of profits to unitised with-profits policies.

In accordance with the Demutualisation Scheme, business written since demutualisation is issued on the basis that the maximum transfer to shareholders is specified in advance of issue.

Any change in the maximum transfer to shareholders as described above could not be altered without:

- A change to the Scheme subject to the approval of the regulator, and in addition, dependent on the nature of the change, the approval of an independent expert and sanction by the High Court of England and Wales may be required;
- In the context of an insurance business transfer scheme, prior notification to policyholders, the approval of an independent expert and sanction by the High Court of Ireland; and
- In the context of a re-attribution of the inherited estate that would involve a change in the profit-sharing arrangement, the approvals required by regulation or as required for any other mechanism for the re-attribution of the inherited estate permitted by law.

All transactions between the Irish WPF and other sub-funds of the Company or Aviva group companies should be fair and equitable, defined by being consistent with established market practice and with the terms available under similar arm's length agreements.

As an overarching Principle, the Company reserves its right to proceed with any reorganisation or transfer of business, or merging or dividing or closing of the Irish WPF, or any combination of the above in accordance with any legal or regulatory requirements.

8.2 Practices

Since demutualisation, the transfer made to shareholders in respect both of business transferred on demutualisation and of business written since, has been at the maximum permitted under the Demutualisation Scheme.

Shareholder transfers, distributable surplus and the cost of new bonuses are discounted to allow for the period until it is due for payment i.e. on death or maturity of the policy. If the basis used for the discounting changes, the amount allocated to shareholders would also change. The cost of bonuses used in the calculations includes any distributions made in anticipation of a profit in the form of terminal or interim bonuses.

For unitised with-profits business, the cost of new bonus is calculated as the increase in unit values above any guaranteed rate to which shareholders are not entitled to receive a share, plus the value of any terminal bonuses payable, reduced by the value of any MVA applied.

The pricing of incremental new business is such that it does not significantly reduce the inherited estate.

Appendix A: Glossary

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

Amount paid on maturity
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.

Amount payable 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.

Annual 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 Irish WPF. For conventional with-profits policies this is done by adding further to previously declared bonuses. Once added, annual bonus is guaranteed to be paid on death and, if the investment has a maturity date, at the end of the term.

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.

Appointed Actuary
Historically an actuary appointed by an insurance company with special responsibilities towards the policyholders. This role has been replaced in Ireland by the Head of Actuarial Function since 2016, in line with regulatory requirements.

Appropriate actuarial advice
'The Board having taken account of appropriate actuarial advice' means that the Board has taken such internal actuarial advice as the Board decides in the context of the relevant matter, which must always include the advice of the Head of Actuarial Function in matters relating to the security or benefit expectations of holders of with-profits policies. The Board may also in its absolute discretion obtain external actuarial advice, and in this case, the reference shall be to the Board having also taken account of that external actuarial advice.

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 Irish WPF.

Benchmark
The standard position, for example, for the percentage of assets to be held in equities, fixed interest and property and against which any difference would be measured for assessing performance of investment managers.

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 Irish WPF.

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 Irish WPF and share in the return on the Irish WPF 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.

Credit limits
These are the limits within which a type of asset may be held with reference to the underlying credit rating (e.g. AAA).

Credit rating
This is an independent, relative assessment of financial risk, e.g. Standard and Poor's.

Demutualisation Scheme
The scheme of transfer on 15 June 1997 by which Norwich Union effectively became a shareholder owned company rather than a company owned by its policyholders, by transferring policies to Norwich Union Life & Pensions Limited and Norwich Union life Insurance Ireland Limited.

Efficient portfolio management
This is the construction of an asset portfolio so as to achieve the maximum expected return for a given level of risk.

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.

Equity backing ratio
This is the proportion of assets invested in equities (company shares), property or other assets that are considered to have a similar level of investment risk.

Glide path
Sometimes payouts on maturity, retirement or earlier surrender are at a level above or below that justified by asset shares. This happens as a result of the smoothing of investment performance, a feature of with-profits policies. The planned smooth progression of payouts back to the level of asset shares is known as the glide path. This can also refer to the mechanism designed to ensure that surrender values blend into the expected maturity payout, as the context requires.

Group of policies
Unless stated otherwise, or the context suggests otherwise, a group of policies is defined as a group of similar policies for which the Company declares the same terminal bonus so that the appropriate percentage of asset share is paid.

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 ll” document of 2015.

Following the transfer of the Irish WPF from the United Kingdom to Ireland on 29 March 2019 under a Court approved Scheme (‘the 2019 Ireland Scheme’), the Company requires the Head of Actuarial Function to fulfil additional responsibilities, set out throughout this PPFM, in order to maintain the level of protection the transferring policies had immediately prior to the transfer.

Hedging
Specific investments can be made to reduce the risks with a particular asset or liability. This is known as hedging.

Inherited estate
The inherited estate is the excess of assets held within the Irish WPF, over and above the amount required to meet the liabilities. The assets over and above the assets backing guarantee costs in excess of asset share are sometimes known as the realistic inherited estate. The liabilities, for this purpose, include those that arise from the regulatory duty to treat customers fairly in setting discretionary benefits, such as terminal bonuses. The inherited estate acts as working capital of the business. It is used to support the business by, for example, providing investment flexibility and a ‘cushion’ against adverse stock market conditions.

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 an annual 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.

Irish WPF
The Irish With-Profits Fund of Aviva Life & Pensions Ireland Designated Activity Company.

Management Services Agreement
This is the agreement under which the service company, Aviva Life Services Ireland Limited, provided management and administration services to the Company pre 29 March 2019.

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 Irish WPF. 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.

Memorandum of Understanding
The Memorandum of Understanding ("MOU") documents the provision of services to the Irish WPF by Aviva Life & Pensions Ireland DAC from 29 March 2019.

Mortality costs
These are the cost of providing life cover over a specific period.

Mortality rates
These are the expected or actual proportions of people dying at a certain age.

Non-contractual cancellations (of units)
For unitised with-profits policies, units that are cancelled on dates other than on maturity, death or other specified dates in the policy conditions.

Other Businesss Fund
The main non profit fund of the Company.

Pooling
The sharing of investments or risks between sub-funds or parts of sub-funds.

Quota share
This is a form of reinsurance where a group of sub-funds or companies agree that for all new business they will each take a set percentage of the risk, this being their quota.

Quoted/unquoted investments
Quoted investments are those for which there is a regular price quoted, usually on one of the world's stock markets. These then have an easily assessed point in time value and ability to trade. Unquoted investments are not part of an organised market and so may be more difficult to value or trade.

Regulatory solvency
The required minimum level of assets in excess of liabilities including any required regulatory buffer.

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').

Series 1 with-profits business
This is unitised with-profits business other than Series 2 with-profits business.

Series 2 with-profits business
Series 2 business was only written in unitised form for life gross roll-up business from 2003 and gave lower guarantees compared to Series 1 business, typically a 'return of premium' guarantee compared to a 'no MVA' guarantee.

Shareholder Fund
Assets held within the Company that are not within the Irish WPF, the Other Business Fund, the Participating Fund, the Closed 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 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.

Specimen policy
The Company uses specimen policies in its calculations where it is not feasible to use all policy data.

A specimen policy may, for example, be a suitable example policy that represents the relevant block of business. It may be a policy that is based on averaging the available policy data for the block of business.

Alternatively, the specimen policies may be a group of actual policies that, in combination, represent a significant proportion of the block of business.

Strategic investment
Investments in companies in which the Irish WPF, or any other Aviva group company, has a strategic connection or interest, other than investments in other Aviva group companies or properties that are used by such companies to undertake their business.

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

Terminal Bonus
This may be added to investments in the Irish WPF when a claim arises. The terminal bonus is not guaranteed and may be changed or removed at any time.

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 annual bonus rate declared. A terminal 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 Committee
A committee set up to provide some independent judgement in assessing compliance with the PPFM and addressing conflicting rights and interests of policyholders and, if applicable, shareholders. Certain decisions, specified in the Scheme or PPFM, may only be taken after consultation with the With-Profits Committee, but in the main, the Head of Actuarial Function advises the Board having consulted the With-Profits Committee. Where the views of the With-Profits Committee differ, the Head of Actuarial Function must present both views to the Board.

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 Irish With-Profits Fund is one.

Working capital
An amount representing the fair market value of the with-profits assets less the realistic value of liabilities of a with-profits sub-fund. This is also known as the inherited estate of a with-profits sub-fund.

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 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.

Sub-Fund Background: Irish With-Profits Fund
Norwich Union Life Insurance Society was founded as a mutual company, owned by its with-profits policyholders, in Norwich, England, in 1808. On 15 June 1997 the company 'demutualised' to form Norwich Union Life & Pensions Limited (NULAP), a company owned by shareholders.

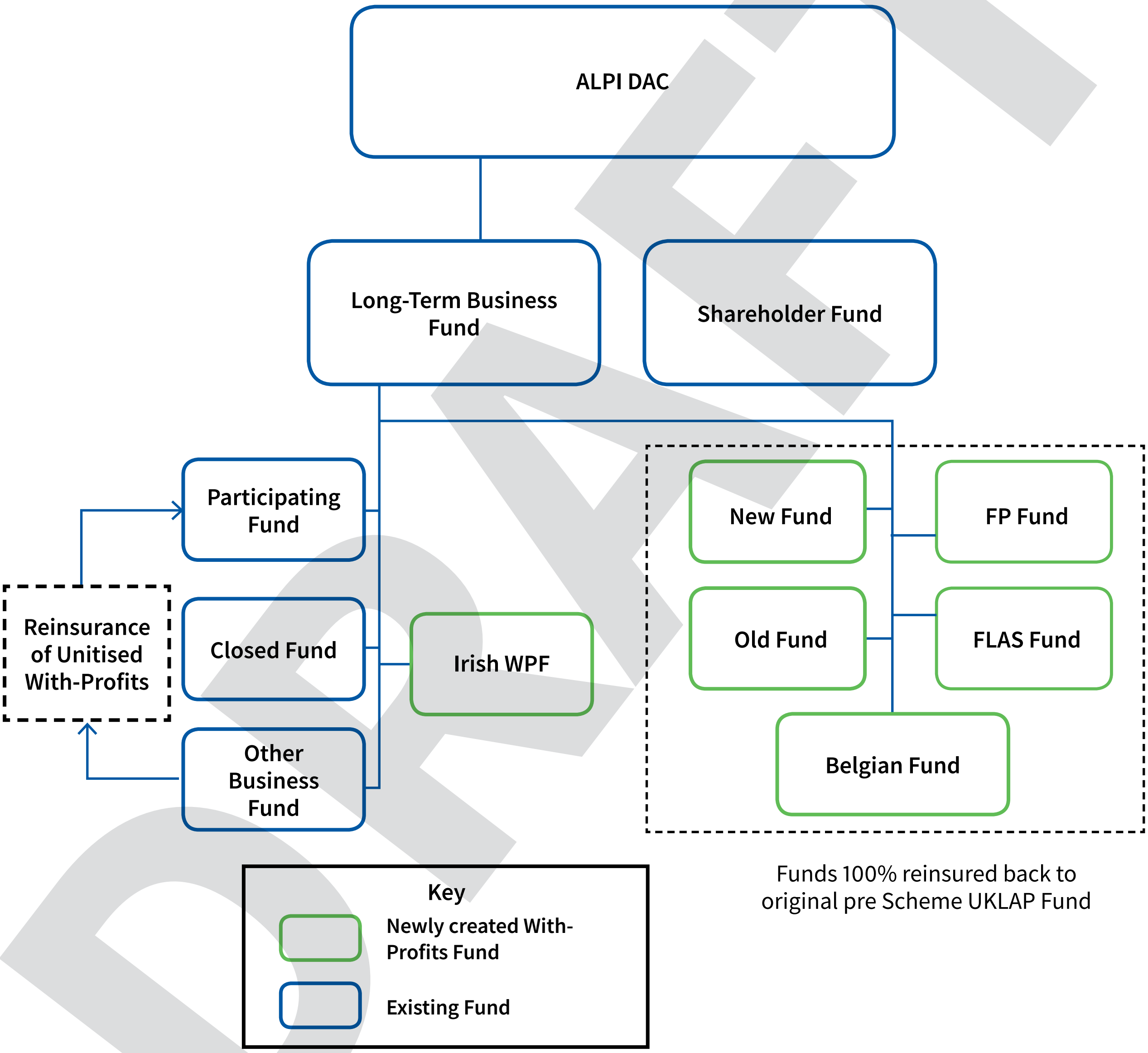
When Norwich Union demutualised any Irish business written in the Norwich Union Ireland branch was transferred to an Irish company, Norwich Union Life Insurance Ireland Limited (NULIIL).

In 2000, Norwich Union plc (which owned NULAP) merged with CGU plc. CGU plc wrote life insurance business (but not with-profits business) in Ireland via its subsidiary company Hibernian Life Limited. NULIIL was renamed Hibernian Life & Pensions Ltd on 2 October 2000 and a transfer of business took place which transferred all the assets and liabilities from Hibernian Life to Hibernian Life & Pensions on 1 January 2001. In 2010, Hibernian Life & Pensions was renamed Hibernian Aviva Life and Pensions which was subsequently renamed Aviva Life and Pensions Ireland Limited.

On 1 January 2015, all the business of Aviva Life & Pensions Ireland Limited was transferred into Aviva Life & Pensions UK Limited and a separate sub-fund was established for the former with-profits business of Aviva Life & Pensions Ireland Limited, the Irish With-Profits Sub-Fund.

Under a Scheme approved by the High Court of England in 2019, on 29 March 2019 certain business, including the Irish With-Profits Sub-Fund, 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 of Freedom of Establishment.

Appendix C: Aviva Life & Pensions Ireland Designated Activity Company – Fund structure chart at 29 March 2019



Aviva Life & Pensions Ireland Designated Activity Company, a private company limited by shares.
Registered in Ireland No. 165970. Registered office at One Park Place, Hatch Street, Dublin 2, D02 E651.
Aviva Life & Pensions Ireland Designated Activity Company, trading as Aviva Life & Pensions Ireland, is regulated by the Central Bank of Ireland.
Tel (01) 898 7950 **www.aviva.ie**

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