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Update on **how we manage the With-Profits Fund**

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

Conventional with-profits policyholders

This update tells you how the With-Profits Fund has performed recently and summarises the approach we've taken to managing your investment.

Our With-Profits Operating Principles (WPOP) and Practices of Financial Management (PFM) give more detailed and technical information about how we manage the With-Profits Fund. You can download a copy from our website
aviva.ie/ppfm

You can also ask your financial broker or contact us directly for a copy of these documents.

You can call us on 01 898 7950.

Calls may be recorded and/or monitored for our joint protection.

Or write to us at: **Aviva Life & Pensions DAC**
One Park Place, Hatch Street, Dublin 2, D02 E651.

Contents

1. What is a with-profits investment?

An Aviva with-profits investment at a glance

- It's a low to medium risk investment.
- It pools your money with that of other investors into the With-Profits Fund.
- The value of the With-Profits Fund will move up and down over the short to medium term, so you may get back less than you put in.
- With-profits investments share out the profits and losses of the fund to its investors. This is achieved through a system of bonuses. In deciding the bonuses we aim to smooth the return on your policy over the long term.
- It benefits from smoothing, so the value doesn't fluctuate as much as direct investments. We explain smoothing in Section 4.
- The Fund is closed to new business.

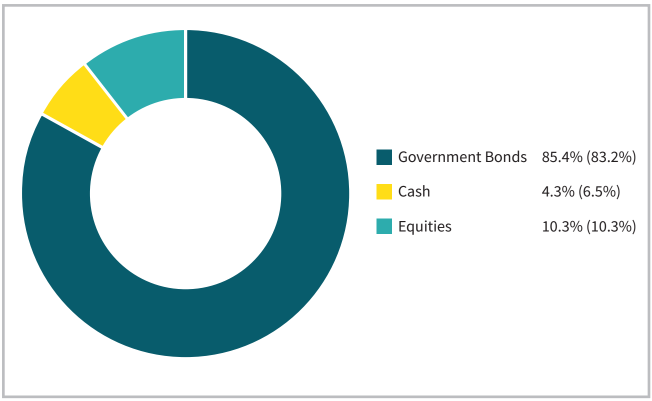
2. How does Aviva invest my money?

We invest your money into a range of assets called the asset mix.

The asset mix diagram below shows which assets the fund invests in and the weighting currently given to each.

The performance of your policy depends on the mix of assets backing your policy and how each asset performs.

As at the end of December 2020, we'd invested the fund like this (as at the end of December 2019 we'd invested the funds as shown in brackets):



What does it mean?

Equities

Equities are shares in companies listed on stock exchanges around the world. As shares can rise and fall in value very easily, equities are riskier than some other investments, but they usually offer the greatest chance of higher returns over the long term.

Property

This is investment in commercial property such as shopping centres and business offices. The value of property can go down as well as up, and property may take longer to buy and sell than other types of investment.

Government Bonds

These are loans to the Irish and other Eurozone governments. The governments pay interest on the loan and pledge to repay the debt at a certain point in time. The value of bonds will rise and fall.

Cash

This includes a range of short term deposits – similar to a bank/building society account – and money market securities, which are interest generating investments, issued by governments, banks and other major institutions. The value of cash and money market securities can go down as well as up.

We currently hold approximately 10.3% of the fund in higher risk assets, such as equities and property. The rest is in medium and low risk investments, such as government bonds and cash.

3. How has the fund performed?

The table below shows the performance of the With-Profits Fund in recent years.

	Returns achieved by the With-Profits Fund				
	2016	**2017**	**2018**	**2019**	**2020**
% before tax	**3.1%**	**-0.4%**	**0.7%**	**2.8%**	**1.2%**
% after tax	**2.4%**	**-0.3%**	**0.6%**	**2.2%**	**0.9%**

WARNING: The value of your investment may go down as well as up.
WARNING: If you invest in these funds you may lose some or all of the money you invest.
WARNING: Past performance is not a reliable guide to future performance.
WARNING: These funds may be affected by changes in currency exchange rates.

4. What affects how much I might get?

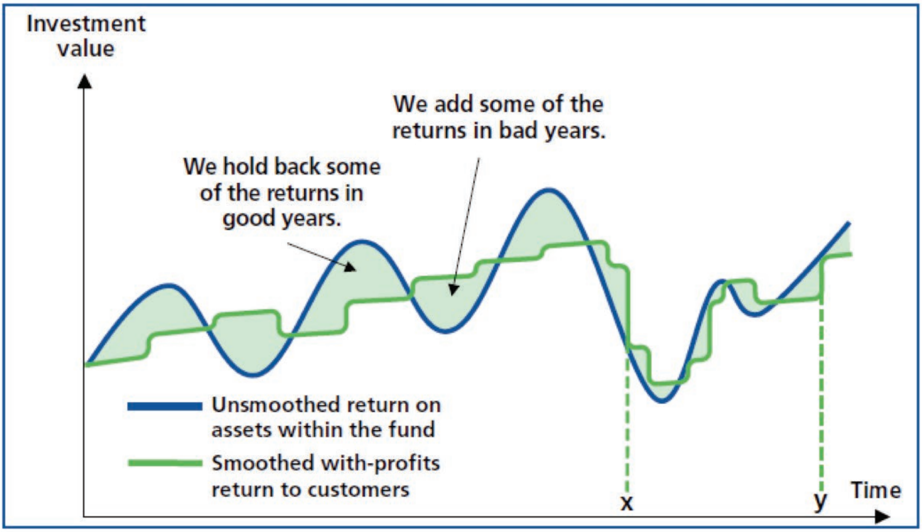
The amount that you get back will depend on the amount you invest, plus:

- How the fund has performed during the time you have invested with us.
- The way we apply the smoothing process.
- The effect of any guarantees.
- Our charges for administration, expenses, investment management, guarantees and any financial broker commission or charges. The difference between the charges we set and the expenses we incur, contributes towards our business profit.
- An annual deduction to cover the guaranteed and capital costs that apply to your policy.
- Any tax we pay and any future tax changes.

How smoothing works

Smoothing keeps back some of the gains earned in good investment years and uses them to help pay bonuses in poor investment years. Equally, losses made in poor investment years may also reduce gains in good investment years.

In a with-profits fund, instead of simply sharing out what the fund makes - or loses - each year, the fund aims to even out some of these variations in performance (as shown by the green line in the diagram below). In contrast, the unsmoothed fund value changes each day as the value of the assets goes up and down (as shown by the blue line in the diagram).



This diagram is for illustration purposes only and shows a period of positive growth overall. The smoothed line represents the surrender or transfer value of your policy.

Things you need to be aware of

There may be times in poor market conditions when smoothing can't fully protect your investment, as illustrated between the points **x** and **y** in the diagram above. This can happen following a large or sustained fall in the stock markets or when investment returns are below the level we normally expect. This will reduce the surrender or transfer value of your policy.

5. What are the bonuses?

We add the returns earned by the With-Profits Fund to your investment through bonuses. Essentially, the bonuses represent your share of the profits in the fund.

There are two standard types of bonus:

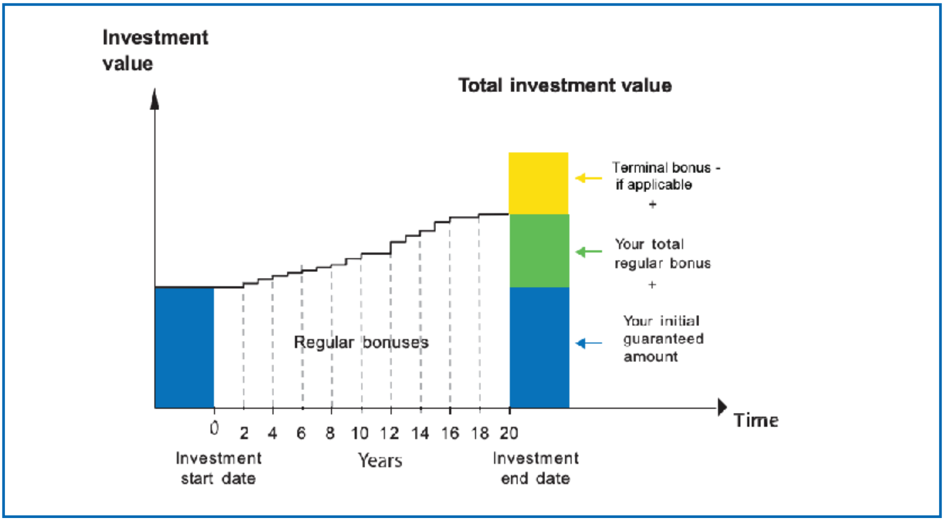
- regular bonus
- terminal bonus

We decide the bonuses by looking at:

- How the fund has performed in the current year (after charges and tax).
- Any gains or losses we haven't shared out through smoothing from earlier years.
- What we expect to earn in future years, and the impact of smoothing.

We have wide discretion in deciding bonuses and investment strategy and can't guarantee we will apply a bonus every year. However, when changing bonuses we do so in accordance with the guidelines outlined in the With-Profits Operating Principles and Practices of Financial Management, details of which can be found on page 2.

The diagram below shows how we add regular bonuses to your initial guaranteed amount to build up a larger lump sum. We may also add a terminal bonus when you withdraw all your money from the fund, but it is not guaranteed and could be zero.



This diagram is for illustration purposes only and shows a period of positive growth overall. 20 years is not the minimum or maximum period of investment for with-profits.

Regular bonus

- We confirm regular bonus rates at least once a year.
- The regular bonuses are designed to provide steady growth in the value of your policy over time.
- One of the most important factors is how we think investment returns will fare in the long term. Depending on our expectations, we may adjust the regular bonus up or down.
- However, regular bonuses have mostly been zero in recent years due to the weakness of the fund caused by the fall in asset values in 2008. Recently some modest regular bonuses have been applied for some products.

Things you need to be aware of

- A regular bonus is not the same as interest from a bank or building society.
- It is not guaranteed that a regular bonus will be added each year.

Terminal bonus

Terminal bonus rates aim to pay the balance between the regular bonus already added and the performance of the fund over the whole period of the investment.

We aim to pay a terminal bonus to increase the value of your policy:

- If you die.
- If you transfer or cash in your policy.
- At maturity, for endowments, or at your chosen retirement date, for pensions.

Things you need to be aware of

- The terminal bonus is based on the year in which you invested and the point at which you leave the fund. It may vary with returns earned over the life time of your investment and is not guaranteed.
- If the investment return has been low over the period you invested, you may not receive a terminal bonus as you will have already received your share of the returns through regular bonuses.
- We use a typical policy rather than individual policies when setting terminal bonus rates for policies issued in the same year.

6. What are the guarantees?

At the end of your policy term, we'll pay the basic guaranteed benefit as well as any regular bonus we've already added. We'll do this even if the stock market falls significantly.

If you choose to transfer or cash in your policy during the term, you won't have a guaranteed amount.

Pensions

Some pension policies may offer guaranteed annuity options. Please read your policy document to find out if this applies to you. You should also read your policy documents to find out what happens if you die before the end of your policy term. It will tell you how we work out the death benefit.

Life policies

If you die with your life policy still in place, we'll pay the greater of:

- The basic guaranteed benefit plus any regular bonus we've already added.

and

- The minimum life assurance amount.

As these guarantees are valuable, we recommend you seek financial advice before withdrawing or surrendering any benefits in the future.

7. What else do I need to know?

With Profits Committee

Our customers are at the heart of everything we do and Aviva is fully committed to treating customers, as a group, fairly at all times.

To support this, we have a With Profits Committee which brings independent expertise and oversight, to ensure fairness is fully considered in our with-profits decision making**.**

You can find out more about our With Profits Committee at **aviva.ie/wpcommittee**

Managing the business risks the With-Profits Fund may be exposed to.

There are a few factors which could have an impact on the fund. We call these factors business risks. These may change over time and may include:

- The cost of any guarantees we offer.
- The fund's expenses being higher than planned.

As business risks could affect the returns earned by the With-Profits Fund, we continually assess the risks to see if they:

- Are acceptable to the fund.
- Provide an adequate return compared with the risk we take.

The inherited estate

Our With-Profits Fund is supported by an amount of money in excess of the amount we expect to pay out to existing policyholders. The excess money is known as the inherited estate and we use this to provide working capital to support smoothing and capital guarantees.

The size of the inherited estate is important as it gives us:

- A cushion of additional security to protect investors when investment returns are low.
- A greater capacity for smoothing the returns you receive.

The estate also provides **solvency capital** for our with-profits business, and will normally absorb any profits or losses that arise from business risks (described below).

What does it mean?

Solvency capital

Capital that allows Aviva to demonstrate that our With-Profits Fund is solvent and able to meet its obligations even if it were to suffer losses.

Policyholder and shareholder interests

There are two groups who have an interest in the With-Profits Fund: **policyholders** and **shareholders**.

We must make sure that any decisions we make on the running of the fund are fair to everyone. This means we have to balance the interests of:

- Policyholders whose investments start at different times.
- Policyholders remaining in the fund and those leaving the fund.
- Our shareholders.

We take all this into consideration in the way we run the fund. For policies like yours, we will allocate at least 90% of distributed returns to policyholders. We will allocate up to 10% of distributed returns to shareholders. The shareholders cost is met by the estate for policies taken out prior 15 June 1997 (the demutualisation date).

What does it mean?

Policyholder and shareholder interests

- Policyholders have invested their money in the fund.
- Shareholders own a stake in our total business as Aviva.

8. What if I decide to move out of the With-Profits Fund?

You should view with-profits investments as a long-term investment. This means leaving the fund early may be the wrong option for you, especially if you have guarantees.

If you're considering leaving the fund, **we'd strongly suggest that you talk to your financial broker.** You can call us on the telephone number shown on your annual statement.

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Registered in Ireland No. 165970. Registered office at One Park Place, Hatch Street, Dublin 2, D02 E651.
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Tel (01) 898 7950 www.aviva.ie

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