AVBOB MUTUAL ASSURANCE SOCIETY

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM)

1. GENERAL

AVBOB is a mutual assurance society. The policies issued by AVBOB include policies providing benefits on death, disability and critical illness of the member (and/or their family members), savings policies and linked policies.

Certain of the products issued by the Society contain clauses entitling the policyholder to participate in annual increases in benefits (or bonus declarations) at the discretion of the insurer. These products are referred to as products with Discretionary Participation Features (DPF) and include products with annual

- simple or compound reversionary bonuses
- simple or compound claim bonuses.

Because AVBOB is a mutual society, the profits made by the business each year will accrue to the members of the Society. Qualifying policyholders in terms of the Society's Regulations are deemed to be members of the Society. This includes policyholders who do not have policies with DPF, but excludes linked policies.

In accordance with the AVBOB Act and Regulations, from time to time the Society may (in its sole discretion) make ad hoc special increases to the policy benefits of its members. These special increases (or bonus declarations) are the means by which members participate in the profits made by the Society. AVBOB may also from time to time negotiate benefits for its members other than special ad hoc increases to policy benefits. These benefits may be secured from AVBOB Group companies or from third-party service providers. These benefits will be available as member benefits and not as policy benefits.

This document (the PPFM) describes the approach employed by the Society to determine:

- the rights of DPF policyholders to participate in annual bonuses;
- the method of allocation of these annual bonuses;
- the rights of members to participate in special ad hoc policy bonuses; and
- the method of allocation of these special bonuses.

2. OVERRIDING PRINCIPLES

The following overriding principles take precedence over the other principles:

- The Society will follow the requirements of all contractual obligations and other legal and regulatory requirements. Those requirements will apply if there is any inconsistency between them and any other part of these PPFM.

- Declarations of bonus are determined at the sole discretion of the Board each year and may be vesting or non-vesting. Declared non-vesting bonuses may be removed in future should the need arise.

- Bonuses can only be allocated if there is distributable surplus in the Policyholder Fund.

- The Society aims to manage the business in line with the reasonable expectations of all policyholders.

- When deciding what policyholders might reasonably expect the factors other than contractual entitlements that the Society takes into account include its past practice, industry practice and representations the Society has made to policyholders.

- Subject to the above, the Society aims to achieve fairness of treatment between different types and groups of policyholders.

3. DECLARATION OF BONUSES ON POLICIES WITH DISCRETIONARY PARTICIPATION FEATURES

- **PRINCIPLES**

Common bonus rates will be determined for appropriate groups of policies reflecting an element of cross-subsidy and pooling of risks for policies with similar characteristics. A single group may also contain policies with different characteristics. For example it may contain policies of different types, different starting dates, different sizes, different ages of lives assured and different premium rates.

Where applicable, payout values on savings type products are managed through the bonus declaration process with adjustments to surrender values being made through Market Value Adjusters (MVA).

To retain flexibility in the Society's investment policy and to protect the ongoing solvency of the business, for certain types of discretionary participation products a portion of the payout value is retained in a non-guaranteed form. Regular bonus rates are determined accordingly.

Because of their importance to both the holders of discretionary participation policies and to the financial strength of the Society, bonus rates are approved annually by the Board.

- **PRACTICES**

The main methods, parameters and assumptions used in deriving the bonus rates are summarised in Board papers.

Changes to methods, parameters and assumptions are documented and are subject to formal approval as part of the bonus-setting process.

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Bonus rates are determined annually in respect of the following categories of policy:

- Savings policies.
  Table codes: S01, S02, S03, S04, S05 and S06.
- Compound reversionary bonus policies.
  Table codes: 102, 103, 133, 203, 233, 302, 303, 333, 502, 612, 622, 712, 722, WD1, WD2, WD3, WD6, WD7 and WD8.
- Simple reversionary bonus assistance policies.
  Table codes: 023, 024, 025, 027, 029, 032, 033, 034, 035, 036, 037, 099, 800, 801, 803, 808, 809, 810, 811, 813, 820, 821, 823, 828, 829, 900, 901, 910, 911, 920, 921, W47, W48, W49, W50, W51, W52, W53, W54, W55, W56, WB1, WB2, WB3, WB6, WB7, WB8, WG1, WG2, WG6, and WG7.
- Policies with compound non-vesting claims bonuses.
  Table codes: 714, 724, 804, 805, 806, 807, 814, 815, 824, 825, 904, 905, 924, 925, T04, T05, T14, T15, T24 and T25.

• **<u>GENERAL CONSIDERATIONS IN DETERMINING BONUS RATES – SAVINGS POLICIES</u>**

For savings policies the Society will declare investment bonuses derived from the annual performance of its investment assets after allowing for the impact of taxation and charges for expenses and guarantees. The assets will be invested in a variety of instruments as determined by the Board from time to time.

The general intention is that, subject to affordability, the aggregate bonus rate will reflect at least the net return on money market instruments after deduction of management fees and at most 15% per annum. The Board will determine the proportion of the total bonus to be declared as vesting and non-vesting each year. Further to this the Board retains the discretion to adjust the parameters relating to the return allocated to policyholders from time to time to reflect changes in the investment strategy.

The final investment bonus rates will be determined annually in arrear. Throughout the course of a year an interim bonus will be allocated to each policy. The interim bonus rate will be determined by management. The benefits payable to any policyholder who surrenders a policy during the year will be determined based on this interim bonus rate. For policies remaining at the end of the year, policy values will be adjusted by replacing the interim bonuses for the year with the final bonuses for the year.

The Society retains the right to apply an MVA factor to any savings policy terminating prior to the original contractual term. The MVA adjustment will be applied to reduce benefits on early termination should the policyholder elect to terminate a policy during adverse investment conditions. The purpose of the MVA is to protect the benefit rights of the remaining policyholders.

- **GENERAL CONSIDERATIONS IN DETERMINING BONUS RATES – OTHER DPF POLICIES**

The intention behind the bonus approach is that, subject to affordability, policy benefits should increase each year to assist the beneficiaries to meet general inflation. However, the rate of increase in benefits will be consistent with the product design and structure rather than attempting to match a specific external benchmark such as inflation.

Bonus rates will be determined annually by the Board subject to affordability and the ongoing solvency requirements of the Society. Under normal circumstances the bonus rates will be stable from year to year and will not vary according to the specific experience of the business.

The Board retains the right to determine whether the bonus declared in any year will be vesting or non-vesting.

The Society will allocate an interim bonus to any claims under policies during the course of the year. The interim bonus rate will be determined based on the last declared final bonus rates.

The Society retains the right to apply an MVA factor to any policy terminating prior to the original contractual term. The MVA adjustment will be applied to reduce benefits on early termination should the policyholder elect to terminate a policy during adverse investment conditions. The purpose of the MVA is to protect the benefit rights of the remaining policyholders.

4. DECLARATION OF SPECIAL BONUSES ON ALL POLICIES

- **PRINCIPLES**

The Society will make profits or losses each year. These profits or losses will arise from the excess (or shortfall) of income over outgo each year. The outgo of the Society is determined after providing for all contingent obligations under the life insurance policies issued by the Society. These obligations will include the declaration of future bonuses on DPF policies.

The profits and losses made by the Society will accumulate over time. The accumulated profits will be used, in the first instance, to provide the working capital required by the business and to meet the statutory minimum solvency requirements in terms of the Insurance Act, 2017.

Each year the Board of the Society will review the level of the accumulated profits relative to the minimum solvency and working capital requirements. From time to time the Board may, at its own discretion, declare an ad hoc or special bonus increase in the benefits of some or all policyholders. These special increases will reflect the beneficial economic interest of policyholders in the Society by virtue of membership, rather than through the mechanism of a policy contract.

The declaration of such bonuses will be subject to the strategic and financial position of the Society and will be at the sole discretion of the Board. The bonuses will be determined separately for different groups of policies with similar characteristics in a manner which is broadly equitable. The bonuses so determined may be vesting or non-vesting in nature.

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- **PRACTICES**

The main methods, parameters and assumptions used in deriving the bonus rates will be summarised in Board papers.

The Board will only consider the declaration of such a bonus if the financial position of the business shows that the excess of assets over liabilities (as reported to the Registrar) exceeds the long-term minimum target set by the Society. This long-term minimum target will be in excess of the statutory minimum level reflecting the fact that the Society does not have access to external capital.

The annual bonus declaration will be made at the end of a financial year whilst the ad hoc special bonus may be declared at any stage at the discretion of the Board of Directors.

The bonus may be implemented in a variety of ways including (but not limited to) increasing or enhancing benefits or reducing premiums. The bonus may be implemented as a one-off adjustment to benefits or as an adjustment to the annual bonus rates on DPF policies.

Should the long-term solvency target set for the business not be achieved the Board may revoke or remove any past declared non-vesting special bonuses.

The profits of the business will include investment surpluses arising from the excess performance of the Society's assets over the return required to fund policyholder obligations and bonuses. The assets of the Society will include listed and unlisted equities, fixed-interest stocks, properties, money market instruments and derivatives based on such instruments. The assets may be held directly or indirectly through investment vehicles. The assets will include investments in subsidiary businesses.

The investment strategy adopted by the Society will be reviewed annually by the Board. The Board retains the discretion to change the investment strategy from time to time depending on the financial position of the business.

Each year the Board will consider the potential impact of new business on the financial position of the Society.

Should the proposed volumes of new business result in the Society being unable to meet its financial obligations to policyholders the Board will limit or terminate the issuing of new policies.

29 March 2023