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Principles & Practices of Financial Management

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2022

Contents

Summary

In the opinion of the Board ("the Board") of The Prudential Assurance Company Limited ("PAC"), PAC has complied with its obligations in relation to its Principles and Practices of Financial Management ("PPFM") over the period 1 January 2022 to 31 December 2022 (inclusive) and at the bonus declaration in respect of the year 2022, announced on 23 February 2023.

The following pages set out the PAC Board's reasons for its opinion stated above.

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2022

1. Introduction

Each year, the Board of PAC must report to its with-profits policyholders on how it has complied with its PPFM.

"Compliance" in this context means performing the obligations set out in the PPFM. Occasionally in performing these obligations, errors or operational issues arise which may impact policyholder pay-outs. However, provided such issues are managed appropriately, including redressing any policyholder detriment, they do not result in non-compliance with the PPFM.

In managing with-profits business, firms rely on their ability to use discretion, particularly in relation to the investment strategy adopted, and the smoothing and bonus policies used. The purpose of PAC's PPFM is to:

- explain the nature and extent of the discretion available;
- show how competing or conflicting interests or expectations of
  - different groups and generations of policyholders, and
  - policyholders and shareholders,

  are managed so that policyholders and shareholders are treated fairly; and
- give a knowledgeable observer (e.g. a financial adviser) an understanding of the material risks and rewards from starting and continuing an investment in a with-profits policy with PAC.

The With-Profits Fund (WPF) comprises two sub-funds to facilitate the management of the various risk-bearing and profit-sharing arrangements that apply. These are the With-Profits Sub-Fund (WPSF) and the Defined Charge Participating Sub-Fund (DCPSF). The PPFM applies to the management of both sub-funds and covers all with-profits policies issued in the UK by:

- companies in the M&G Group, i.e. by
  - PAC,
  - Scottish Amicable Life plc (SAL), which was transferred to PAC with effect from 31 December 2002,
  - Prudential (AN) Limited, which was transferred to PAC with effect from 31 October 2010,
  - Prudential International Assurance plc (PIA); and
- Scottish Amicable Life Assurance Society (SALAS) which was transferred to PAC with effect from 30 September 1997. For information, the sub-fund that contained the bulk of the transferred SALAS business, the Scottish Amicable Insurance Fund (SAIF), merged with PAC's WPSF on 1 April 2021.

The PPFM also covers the with-profits annuity business that was transferred from the Equitable Life Assurance Society (ELAS) to PAC with effect from 31 December 2007.

In general, the Principles and Practices set out in the PPFM do not apply to the overseas business written prior to 1 January 2019 in PAC's branches in Poland, France and Malta, which on 1 January 2019 was transferred to PIA and reinsured into PAC, nor the PIA Poland business written from 1 January 2019 which is reinsured into PAC. The Principles and Practices do, however, apply to all other off-shore business sold directly by PIA and Canada Life Assurance Europe Limited which is reinsured into PAC.

This report covers the period from 1 January 2022 to 31 December 2022 (inclusive), and also includes the bonus declaration announced on 23 February 2023. It describes:

- changes to the PPFM during 2022,
- how PAC has complied with the PPFM in exercising discretion in managing its with-profits business,
- how PAC has addressed competing or conflicting rights, interests and expectations,
- governance arrangements for with-profits business, and
- maintenance of the PPFM.

Any terms used in this report have the meaning set out in the PPFM which can be found at **pru.co.uk/ppfm**. Customer friendly versions of the PPFM are also available in this location, and are produced based on which type of product and/or fund you're invested in.

2. Strategic Matters

As part of our continuing transformation programme which was described in previous reports to policyholders, the SALAS policyholder administration system was migrated in October 2019 to a new third-party platform, BaNCS. The Hartlink administration system that serviced some of our corporate pensions book was also migrated to BaNCS in November 2020. These are some of the largest migrations that PAC has undertaken and some servicing difficulties arose as a result of the migration, for which we are sorry. The challenges brought about by the COVID-19 outbreak during 2020 and early 2021 had a significant further impact on service levels. In 2022 the focus was to recover service and our policyholders are now experiencing more normal levels of service. However, there are some areas where this still isn't the case and plans to recover these are in place.

We continually strive to improve our service and ensure policyholders don't experience unnecessary delays or inconvenience. Our transformation programme has resumed during 2023 and the potential impact to policyholders during this time will be a fundamental factor in the Board's decision on whether or not to proceed with the migrations.

3. Changes to the PPFM during 2022

The PPFM is updated as and when required to reflect significant developments. The 2022 review of the PPFM concluded that minor changes were required, most notably the inclusion of principles and practices related to responsible investment and sustainability in the WPF. The changes were reviewed by the With-Profits Actuary (WPA) and discussed with the With-Profits Committee (WPC) during 2023, with an updated version (v2.1) of the full PPFM published in March 2023.

The current versions of the full and Customer Friendly PPFMs are available at **pru.co.uk/ppfm**. A document summarising the notable changes to the PPFM is available at **pru.co.uk/pdf/WPGG10116.pdf**.

4. How PAC has complied with its PPFM in exercising discretion in managing its with-profits business

The PAC Board, having taken advice from the WPA and following discussion with the WPC has confirmed that PAC complied with the obligations set out in the PPFM in respect of 2022.

The key areas where PAC has exercised its discretion in managing its with-profits business are set out below.

4.1 Bonus rates

Setting the rates of regular and final bonus for non-PruFund with-profits policies is one of the most important items of discretion that PAC has which affects these policyholders. (PruFund policies receive their share of the returns in the WPF through a different mechanism, as explained in section 4.3 below.)

Bonus declarations covering regular and final bonuses were made on 24 February 2022 and 23 February 2023 in respect of the 2022 and 2023 bonus years.

The 2022 and 2023 bonus declarations were reviewed by the WPA, Chief Actuary (CA), and the WPC prior to being approved by the PAC Directors. For each bonus declaration, the PAC Directors were supplied with sufficient information for them to be comfortable that the declaration was consistent with the requirements of the PPFM.

When setting regular bonuses a number of factors are considered, including the long-term returns expected on the relevant with-profits sub-fund (or asset pool within that fund) and the level of existing guarantees. Consideration of these factors at the February 2023 bonus declaration showed that for the Accumulating With-Profits and With-Profit Immediate Annuity products, a 0.5% increase in the annual bonus rates would be appropriate and this was duly applied. For all other products, the current rates of regular bonuses were maintained at the same level since they were considered to be consistent with our expectations of future returns.

In 2022, our globally diversified WPF was resilient despite highly challenging investment markets, offering a measure of security to our investors. A small negative return of -1.5% (gross of tax) was achieved on the main asset pool in which the majority of policies are invested, while many comparable sector averages returned around -10.0%[1]. In line with this, the bonuses declared at the February 2023 bonus declaration mean that most of our policyholders will see small reductions in final bonus rates (final bonuses largely reflect the actual performance of the WPF in the previous year, after allowance for charges, smoothing and any annual bonuses). The change in any particular policy's value from one year to the next will differ from the returns earned on the fund due to the smoothing of returns and the impact of policy charges.

In normal circumstances we do not expect most pay-out values on policies to change by more than 10% up or down from one year to the next. At the February 2023 bonus declaration some of our Prudential Personal Retirement Plan (PPRP) policyholders, who have benefits defined as an annuity amount, will have seen increases in their annuity amount of more than 10%. This was caused by the significant increase in interest rates during 2022, and consequent reduction in the cost of an annuity (as seen across the insurance market), rather than by the WPF's investment performance and, as such, we did not seek to limit this movement to the normal 10% corridor. We consider that not smoothing this movement is in line with the PPFM, and both the WPA and WPC were supportive of the bonus rates declared.

It should be noted that final bonus rates are not guaranteed and for the majority of business can be changed at any time without prior notice, to ensure that outcomes remain fair to policyholders.

When PAC's Ordinary Branch (OB) assets and Industrial Branch (IB) assets were merged in 1988, PAC undertook to link IB policy bonuses to OB policy bonuses so that, for IB policies issued from July 1988, total bonus additions will be 100% of those for corresponding OB policies and for IB policies issued prior to July 1988, total bonus additions would not be less than 90% of those on corresponding OB policies. In addition, an annual test is carried out to confirm that, in aggregate, this approach produces IB pay-outs that are higher than the corresponding value of the underlying assets held in respect of IB policies (the underlying assets for a particular policy are its "asset share"; this terminology is explained in more detail in the PPFM). The undertaking and aggregate test continued to be satisfied at the February 2023 bonus declaration.

4.2 Target Ranges

In line with the requirements of the PPFM, we manage our non-PruFund with-profits business with the aim of ensuring that maturity and surrender pay-outs for at least 90% of with-profits policies fall within the target range we have set of 80%-120% of asset share. This allows us a reasonable degree of flexibility to smooth returns in periods of market volatility, and provide more stability in pay-outs. It also provides greater certainty to policyholders and reduces the risk of policyholders not receiving their fair share of the fund return, or of receiving payments which are more than the fund can afford to the detriment of the remaining policyholders.

At the February 2023 bonus declaration, PAC expected the bonus rates declared to meet its target range requirements. Pay-out levels relative to asset share do, however, vary over time, in particular as actual investment returns earned by the relevant asset pool in the WPF differ from those assumed when bonus rates and surrender value bases are set. We therefore continue to monitor pay-out levels regularly to ensure that they do not deviate too far from asset shares. Policies with claim values falling outside our target range are also investigated to ensure there is no underlying problem with our bonus setting processes and that pay-outs remain fair to policyholders. The monitoring of actual claims carried out during 2022 demonstrated that target range requirements were met.

PruFund uses an established smoothing process which ensures that almost all claims will fall within 10% of the underlying value of assets.

[1] For comparison: ABI Pension 20-60% Shares returned -10.84%, ABI Pension 40-85% Shares returned -9.99%, Investment Association (IA) 20-60% Shares returned -9.47% and Investment Association (IA) 40-85% Shares returned -10.04%

4.3 PruFund range of Funds

Policies invested in the PruFund range of Funds participate in profits via an increase in the unit price of the selected Fund at the relevant expected growth rate (EGR), subject to adjustments when the unit price moves outside specified limits. EGRs were set quarterly on 25 February 2022, 25 May 2022, 25 August 2022 and 25 November 2022 by the PAC Board following consultation with the WPA. The WPC is also informed of the EGRs declared. Unit Price Adjustments (UPAs) were triggered during 2022 across some funds; further information on the funds and size of adjustments is available at: **mandg.com/pru/customer/en-gb/funds/investment-fund-range/prufund/prufund-range**

As set out in the PPFM, a unit price reset and/or temporary suspension of smoothing are discretionary actions available to the PAC Board, if required, to manage our smoothing process or to protect the WPF and the interests of all our with-profits policyholders. In 2022, there were no unit price resets and smoothing was not suspended.

4.4 Surrender values

Surrender value bases for certain types of with-profits policies (Conventional With-Profits policies) were updated alongside changes in final bonus rates at the 2022 and 2023 bonus declarations. Surrender values were monitored during 2022 to ensure that they remained appropriate and within the target ranges referred to in Section 4.2 above.

Surrender value bases are not applied to Accumulating With-Profits Policies, where the value on surrender depends on the value of the units to which a Market Value Reductions (MVR) may potentially apply. No changes were made to the MVR policy during 2022. We continue to monitor market conditions regularly and surrender and/or MVR practice can change at any time without prior notice.

4.5 Investment strategy

The investment strategy for the asset pools that reside in the WPSF and the DCPSF was regularly monitored by the business and any proposals for changes in investment strategy were approved by PAC's Executive Investment Committee and noted by the PAC Board.

The PPFM states that the objective of each with-profits sub-fund is to maximise investment return subject to maintaining an acceptable overall risk level, maintaining an appropriate mix of investments, and protecting appropriately the relevant interests of all groups of policyholders. This is achieved by investing in a broad and well diversified portfolio of assets. The PAC Board and WPC continue to keep investment strategy under review to ensure that all the asset pools in the WPF continue to achieve an appropriate balance between risk and return, having regard to regulatory changes, the financial strength and risk appetite of the funds, the attractiveness of the expected returns available on different asset classes and the on-going volatility in investment markets. In light of these factors the PAC Board agreed in 2022 to retain broadly the same level of risk as the previous year.

The risk appetite feeds into the long-term investment strategy views via the Strategic Asset Allocation for each asset pool, which is set by M&G Treasury & Investment Office (T&IO). Additionally, the T&IO is also responsible for manager selection and portfolio implementation, which contribute towards investment outcomes.

Information on the current investment strategies of the WPF can be found at **pru.co.uk/ppfm**, section 2 and section I ('Responsible Investment and Sustainability in the With-Profits Fund') within the PPFM.

4.6 Business Risks

In consultation with the WPC and WPA, the PAC Board continually monitors the business risks and approves any management actions required to protect the security of the with-profits funds and limit any adverse impact on with-profits policies. No material actions were required during 2022.

4.7 Charges and expenses

PAC's apportionment of administration expenses to the WPF and the products within it is regularly monitored and reviewed for fairness. In line with the PPFM, the WPA and CA review the fairness of the cost allocation to each category of with-profits policy each year, and this is discussed with the WPC. In 2020 a new cost allocation methodology was developed against which the 2022 cost allocation was assessed.

The outcome of the review was that the cost allocation in 2022 was consistent with the agreed methodology and that it resulted in a fair outcome for with-profits policyholders. The cost allocation methodology will continue to be reviewed regularly to ensure the ongoing fair treatment of our policyholders.

In addition to the expenses of administering with-profits policies, PAC pays fees from the WPF to the asset managers for the investment management of PAC's assets. Where assets are managed by M&G plc's in house asset manager, M&G Investments, these investment fees are reviewed at least every three years with the latest review being completed in 2020. Updated fees were approved in early 2021, and apply for the period 2021-2023; the next fee review for the period covering 2024-2026 will take place during 2023.

As PAC seeks to improve its operational efficiency for the benefits of existing and new policyholders, and also shareholders, significant investment is being made in several transformational projects, the aim of which is to allow the business to operate more cost-effectively and provide policyholders with improved service. The allocation of costs incurred in respect of these projects was agreed with the WPA and WPC to ensure fairness for both policyholders and shareholders. Costs allocated to the WPF will be borne by the inherited estate and will not directly impact the returns to existing policyholders.

4.8 Management of the inherited estate

The WPSF contains an amount of money in excess of the amount expected to be paid to existing policyholders. This excess money, known as the inherited estate, has built up over many years from a number of sources and it provides working capital to support current and future business.

An annual exercise is carried out to determine whether the WPSF has an excess surplus (the DCPSF does not contain an inherited estate and so cannot have an excess surplus).

If the PAC Board, following the advice of the WPC and WPA, considers that an excess surplus exists, regulations require that, to the extent that retaining any part of this excess would be in breach of policyholders' interests and result in unfair treatment, then that part of the excess should be distributed to policyholders.

At the end of 2022 the PAC Board concluded there would be an excess surplus distribution of the WPSF inherited estate to relevant policyholders in that sub-fund at the February 2023 bonus declaration. If your plan was invested in PruFund we increased your unit price by 0.9% on 28 February 2023, while if your investment was in any type of plan, other than PruFund, the final bonus rates declared in February 2023 reflected a 1.25% increase in asset shares made in respect of this surplus distribution. Former SALAS, former ELAS and PIA policyholders are not eligible for the distribution. This is the third time in four years that we've shared additional money, and the total amount shared now stands at £3.5bn. However, whilst the WPF remains open and the inherited estate remains fully utilised in supporting current and expected future new business, PAC does not consider that policyholders have any expectation of a distribution of the inherited estate, other than through the normal process of smoothing and meeting guarantees in adverse investment conditions. You can find out more details on our website at: **pru.co.uk/aboutadditionalsurplus**

Please note that final bonus rates are not guaranteed. The excess surplus distribution on non-PruFund business could be clawed back prior to a future policy claim, if required to protect the interests of all policyholders and the financial strength of the WPSF. The distribution on PruFund will not be clawed back, but is lower as a result.

A number of separate asset pools are maintained within the WPSF. There are separate asset pools for the assets backing asset shares and those backing the inherited estate. This enables the inherited estate to follow a different investment strategy to that for the assets supporting asset shares, in order to help meet guarantees and maintain regulatory solvency in adverse market conditions.

Currently the assets backing the inherited estate are mainly invested in a range of fixed interest securities and cash. There was no change in this investment strategy over 2022.

Further information about how the inherited estate is managed is available at **pru.co.uk/ppfm**, section 5 within the PPFM.

4.9 Management of new business

PAC sets limits on the capital available to support new business, and the terms on which new business is written, to ensure new sales do not adversely affect existing with-profits policyholders. The new business written during 2022 stayed within the allocated capital budget.

We monitor the volumes and terms of new business written in the fund to ensure that writing new business does not adversely affect existing with-profits policyholders. This is regularly reviewed and an area in which PAC exercises discretion and in which the WPC is actively involved. In addition, shareholders currently pay a subsidy to cover any shortfall in the costs of providing certain guarantees in excess of charges taken.

PAC currently has no intention to close the WPSF or the DCPSF to new business, and had no such intention during the period covered by this report.

4.10 Operational Issues

Action is taken to rectify issues that impact with-profits business, as well as to prevent any such issues arising again. Given the number and complexity of transactions undertaken in managing the WPF, errors inevitably occur from time to time. These are carefully monitored and, in general, are of a minor nature and dealt with in an efficient manner. Corrective actions consider the causes of the error, and any policyholder impact, as well as allocation of the costs of any necessary rectification.

As mentioned in last year's report, during 2019, an error in the level of tax allowed for in the tax charged to asset shares for certain product lines, and the actual amounts paid to HM Revenue & Customs (HMRC), was identified. The remediation project was closed in 2022. Policyholders were successfully remediated in a manner that ensured they were not adversely affected by the error.

An error in PruFund unsmoothed prices occurred in September 2022 and, due to the interaction with UPAs that were applied in September and October, this resulted in incorrect smoothed prices for funds to which had a UPA had been applied. The smoothed prices were adjusted to the correct position in November 2022 and activity is underway to identify impacted policyholders and to determine the appropriate remediation.

5. Competing or conflicting rights, interests and expectations

In managing with-profits business, consideration is given to how competing or conflicting interests (e.g. the review of investment management fees and asset managers where these are in house, as explained in 4.7 above) or expectations of policyholders and shareholders, and of different groups and generations of policyholders, are managed so that policyholders and shareholders are treated fairly.

5.1 Equity between with-profits policyholders and shareholders

Inequity between with-profits policyholders and shareholders could arise in tax, in expense apportionment, in inter-fund transactions and in new business pricing.

5.1.1 Tax

PAC is assessed for tax as a single shareholder owned entity and the total tax paid is then apportioned to sub-funds fairly, subject to the requirements that the amounts charged to each of the WPSF and DCPSF are not greater than those which would be charged if each sub-fund individually comprised the entire with-profits fund of a UK proprietary life insurance company.

An assumed level of tax (based on the best information then available) is charged to asset shares and PruFund net asset values, where applicable, through the net investment return. Any difference between the assumed tax and the actual tax that is subsequently payable to HMRC is paid or accrued by the inherited estate.

Further information about the approach for tax is available at **pru.co.uk/ppfm**, section 5 within the PPFM.

5.1.2 Expenses

Expense apportionment processes are in place so that a fair and appropriate split of expenses between the WPF and shareholder-owned funds can be achieved. Exceptional expense items are included in these processes.

As noted in section 4.7 above, the WPA, WPC and CA reviewed the overall expense apportionment for 2022 and concluded it was fair.

5.1.3 Inter-fund transactions

A risk mitigation agreement is in place between the shareholder fund and the WPSF's inherited estate in respect of PruFund new business written between 2018 and 2020, to reduce the shareholder losses incurred when investment returns are very low. In return, the WPSF benefits from a reduction in its exposure to losses which result from shareholder transfers exceeding the fixed charges deducted from PruFund policies to cover those transfers when investment returns are very high. The WPSF is also paid a premium to cover the difference in the value of the shareholder and policyholder benefits. The terms of this agreement were agreed with the WPA and reviewed by the WPC to ensure the agreement was fair to the WPSF.

5.1.4 New business pricing

PAC seeks to price new with-profits business so it is expected to be financially self-supporting over the lifetime of the business. In achieving this aim, it is possible for cross-subsidies to arise between certain product lines. Where new business is not expected to be self-supporting, shareholders will make an appropriate contribution to the WPSF.

5.2 Equity between different groups of with-profits policyholders

Different groups of with-profits policyholders have potentially competing or conflicting interests. Such groups comprise, for example, holders of:

- different products,
- policies of different sizes or policy terms,
- policies with different entry dates or maturity dates, or with-profits policyholders of different ages,
- policies with different levels of guarantees,
- policies claiming for different reasons (e.g. maturity, death, surrender), and
- policies exercising different policy options, which could receive different benefits relative to each other depending on how discretion is exercised.

The main areas in which judgement and discretion are exercised in balancing the interests of these groups are:

- smoothing of policy benefits, and
- grouping of policies for setting bonus rates and surrender values, and sharing of investment and other experience, such as surrender, expense and mortality profits or losses.

In normal circumstances we do not expect most pay-out values on policies to change by more than 10% up or down from one year to the next. As explained in section 4.1 above, although some pay-outs were outside these smoothing limits at the February 2023 declaration we considered this to be appropriate in light of market movements during 2022.

The approach to grouping policies varies for different purposes (for example investment returns, expenses and mortality). For each particular purpose policies judged to have similar characteristics are grouped together, in order that a practical and equitable approach to the sharing of experience is achieved.

6. Governance arrangements for with-profits business

There are two specific roles to ensure that PAC is managing its with-profits business in accordance with the PPFM – the WPC and the WPA.

6.1 The role of the With-Profits Committee (WPC)

The WPC acts in an advisory capacity to inform the decision-making of the PAC Board to ensure that the interests of with-profits policyholders are appropriately considered within PAC's governance structures and to consider issues affecting with-profits policyholders.

The role of the WPC is to assess, report on and provide clear advice and, where appropriate, make recommendations to PAC on:

- the way in which the WPF is managed,
- the assessment of compliance with its PPFM,
- the way in which discretion is exercised in relation to with-profits business,
- how the competing or conflicting rights and interests of with-profits policyholders and other policyholders and/or shareholders have been addressed in a way that is consistent with the regulator's (the Financial Conduct Authority's) Treating Customers Fairly principles, and
- the investment management arrangements, including general investment strategy and the relative investment performance of the WPF.

The WPC comprises at least three members, all of whom are independent of the company. Bruno Geiringer retired from the WPC during 2022 and was replaced by Louise Fowler. The Committee was comprised as follows:

- Robert Talbut (Committee Chair), former Chief Investment Officer of Royal London Asset Management for 10 years until September 2014 and has Non-Executive Director experience at various Financial Services Companies – joined the Committee in September 2019 and appointed Committee Chair in 2021.
- Katie Blacklock, over 15 years of Fund Manager experience, a Non-Executive Director at two Financial Services Companies and a member of various Advisory Committees since 2012 – joined the Committee in May 2019.
- Eithne McManus, former Chief Executive of City of Westminster Assurance Ltd, Non-Executive Director at three insurance companies and chairs the Countrywide Assured WPC – joined the Committee in January 2021, and stepped down from the Committee at the end of March 2023.
- Stephen Wilson, Independent Non-Executive Member of the Phoenix Group WPC, former With Profits Actuary at Royal London with over 40 years' experience in the Life Assurance industry – joined the Committee in February 2021.
- Louise Fowler, an Independent Non-Executive Director of PAC, a Non-Executive Director of Howdens Joinery plc and Benenden Health. Previously held a variety of executive marketing roles at British Airways plc. Joined the Committee in April 2022.

The WPC was consulted during the year on all significant matters concerning with-profits business, and investment policy, including Environmental, Social and Governance (ESG) and sustainability considerations; and provided an independent view to the PAC Board on all matters where they were required to do so. The opinions provided by the WPC addressed the treatment of conflicting rights and interests of policyholders and shareholders, where relevant, as well as compliance with the PPFM.

6.2 The role of the With-Profits Actuary (WPA)

Phil Roberts was appointed as the WPA on 10 March 2020 and held the role during 2022. Following his departure, and until a permanent replacement is made, the role of WPA has been filled by Stewart Gracie of Zenith Consulting; this was effective from 1 January 2023 and was approved by the PRA effective from 20 February 2023.

The WPA reviews all material aspects of the operation of the with-profits business, including communications to with-profits policyholders, and advises PAC on compliance with the PPFM, on the interests of with-profits policyholders, on the exercise of discretion and on the management of conflicts of interests.

The WPA's report to with-profits policyholders in respect of 2022 can be found in the Appendix.

6.3 Governance of ex-ELAS and ex-SALAS policies

The business transferred from ELAS to PAC on 31 December 2007 is operated in accordance with the terms of the Scheme that effected the transfer. The WPC reviews the operation of the transferred ELAS business to ensure compliance with the Scheme.

Following the merger of SAIF with the WPSF on 1 April 2021, the Scottish Amicable Board that was responsible for the exercise of elements of discretion on this business was disbanded and all discretion in respect of former SALAS business is exercised by PAC's Board. PAC's WPC, CA and WPA advise the PAC Board on the application of discretion and the fair treatment of former SALAS with-profits policyholders.

7. Maintenance of the PPFM

The PPFM content is reviewed regularly and updated as and when required to reflect significant developments. As noted in section 3, an updated version of the PPFM with minor changes was published in March 2023.

Appendix

Report from the With-Profits Actuary

As With-Profits Actuary (WPA) for The Prudential Assurance Company Limited (PAC), I advise PAC on key aspects of the discretion that it exercises in respect of with-profits business and I am required by the Financial Conduct Authority's rules to report to with-profits policyholders as to whether PAC's annual report to with-profits policyholders and the discretion exercised by PAC in respect of the period covered by the report has taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.

I was appointed as WPA with effect from 1 January 2023 following a detailed handover from Phil Roberts, who held the post for the duration of 2022. Either myself or Phil Roberts, as WPA, were involved in consideration of all the matters referred to in the attached report on PAC's compliance with its Principles and Practices of Financial Management (PPFM). I have carried out a review of PAC's compliance with the PPFM and its exercise of discretion over 2022, including the bonus declaration for the year ending 31 December 2022 which was announced in February 2023.

In my opinion, the discretion exercised by the Directors of PAC over the period took your interests into account in a reasonable and proportionate manner, and was consistent with disclosures to policyholders and the PPFM.

I have based my opinions on the information and explanations provided to me by the outgoing WPA, the Directors and the management of PAC, and on my own knowledge and investigations. In doing so I have taken into account the relevant rules and guidance issued by the Financial Conduct Authority, the actuarial profession and the Financial Reporting Council.

S Gracie

Stewart Gracie, Fellow of the Institute and Faculty of Actuaries

With-Profits Actuary

June 2023

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