Principles & Practices of Financial Management

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2019

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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 the Principles and Practices of Financial Management ("PPFM") over the period 1 January 2019 to 31 December 2019 (inclusive) and at the bonus declaration in respect of the year 2019, announced on 26 February 2020.

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

Although this report covers activity in 2019 it would be remiss not to acknowledge that it is being written in quite unprecedented times, given the Coronavirus outbreak, which we appreciate is an unsettling time for policyholders.

PAC has two clear priorities during this international emergency: serving the needs of policyholders; and protecting the well-being and safety of colleagues.

PAC's existing infrastructure has allowed a relatively seamless transition to adhere to Government guidelines on working, with the vast majority of employees now successfully, and efficiently, working from home. This operational resilience allows PAC to safeguard employees while continuing to serve policyholders as best as possible.

Thank you for your continued trust in us during this extraordinary period.

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2019

1. Introduction

Each year, the Board of PAC must report to its with-profits policyholders on compliance with PAC's obligations relating to its 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 PPFM 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.

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. They 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 2019 to 31 December 2019 (inclusive), and includes the bonus declaration announced on 26 February 2020. It describes:

- changes to the PPFM during 2019,
- 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 www.pru.co.uk/ppfm.

2. Strategic Matters

In October 2019, the UK business of Prudential plc, which includes PAC, was successfully demerged into a new FTSE 100 company called M&G plc. At the point of demerger, the Capital Support Deed (CSD) that was previously in place between PAC and Prudential plc terminated. Previously, PAC was able to rely upon the CSD to meet its obligations under the PAC Pension mis-selling cost assurance it had given for with-profit business. To ensure that PAC was able to continue to meet these obligations after demerger, a replacement "Parental Support Arrangement" was introduced that represented an enhancement over the CSD.

While the management of PAC's with-profits policyholders was not adversely impacted as a result of the demerger, it does give the UK business more control over its strategy while continuing the transformation to a more capital-efficient and customer focussed business.

As part of this transformation, the SALAS policyholder administration system was migrated in October 2019 to a new platform. While this unfortunately resulted in a fall in service standards, for which we apologise, significant work has since been done to recover service levels and we aim to continue to improve over 2020.

The Scheme, which transferred the business of SALAS to PAC contains specific provisions for the merger of the Scottish Amicable Insurance Fund (SAIF) with the PAC With-Profits Sub Fund (WPSF) once the value of SAIF falls below a specified level. The current trigger point is £1.8bn and the value of SAIF was £4.3bn at 31 December 2019. The conditions for the merger of the Funds are anticipated to happen in around three to four years' time. However, as SAIF continues to reduce in size, active consideration is being given to merging the Funds at an earlier date than required by the Scheme. Any such decision to merge early will need to consider both the interests of SAIF and WPSF policyholders and will require approval from the PAC Board and the Scottish Amicable Board, subject to agreement on the terms with the PAC Chief Actuary and SAIF Monitoring Actuary, with notice provided to the regulators (i.e. the Prudential Regulation Authority and Financial Conduct Authority).

3. Changes to the PPFM during 2019

Version 1.33 of the PPFM was published in January 2019. This included changes to reflect the transfer of:

- PAC's European business (i.e. the Poland, France & Malta business as well as the ELAS policies that were originally sold in Ireland and Germany) to PIA, effective from 1 January 2019
- Hong Kong business to Prudential Corporation Asia with effect from 14 December 2018.

This PPFM update also included the launch of the new PruFund Risk Managed 5 Fund, and the changes to the existing PruFund Risk Managed Fund names effective from 21 January 2019.

Version 1.34 of the PPFM was published in August 2019. This included changes to reflect the inclusion of a new AVC with-profits bonus series and the launch of the PruFund Risk Managed 5 ISA Fund.

Version 1.35 of the PPFM was published in November 2019. This included changes to reflect the demerger of the UK business from Prudential plc, including PAC, to form M&G plc on 21 October 2019, including the replacement of PAC's Capital Support Arrangement with Prudential plc, with a Parental Support Arrangement with M&G plc.

The current full PPFM, the current Customer Friendly versions of the PPFM, and the document summarising the notable changes to the PPFM are available at www.pru.co.uk/ppfm.

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 With-Profits Actuary (WPA) and following discussion with the With-Profits Committee (WPC) has confirmed that PAC complied with the obligations set out in the PPFM in respect of 2019. Compliance with the PPFM is subject to the investigation and appropriate addressing of the operational issues covered further in section 4.10.

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 with-profits policies is probably the single most important item of discretion that PAC has, which affects its with-profits policyholders.

Bonus declarations covering regular and final bonuses were made on 26 February 2019 and 26 February 2020. For some lines of business, final bonuses were updated in October 2019 (PAC business) and November 2019 (SAIF business).

The 2019 and 2020 bonus declarations were reviewed by both the WPA and the WPC prior to being approved by the PAC Board. For each bonus declaration, the PAC Board was supplied with sufficient information for it to be comfortable that the declaration was consistent with the requirements of the PPFM. The Scottish Amicable Board also considered and approved the 2019 and 2020 bonus declarations for SAIF business.

When setting regular bonuses a number of factors are considered, including the economic outlook and the long-term returns expected on the relevant with-profits fund. After taking these factors into account the Boards of both PAC and Scottish Amicable decided to maintain the regular bonus rates for with-profits policies at their current levels for the February 2020 declaration.

2019 was a favourable year for most asset classes, with positive returns seen in many investment markets. Overall, equity markets – including the UK – rose and long term interest rates reduced from 2018 levels. Against this background, investment returns for the main with-profit funds were 11.7% before tax in 2019. As a result, at the February 2020 bonus declaration, rates of final bonus were increased for the vast majority of with-profits policyholders leading to an overall increase in policy value at the point of claim. The change in a 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.

However, for the majority of business final bonus rates are not guaranteed and can be varied at any time without prior notice. To ensure that bonuses remain fair, existing rates are regularly reviewed and given the current extreme market volatility resulting from the Coronavirus outbreak and, in line with the PPFM, changes to bonuses may be possible.

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 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 IB asset shares. The undertaking and aggregate test continued to be satisfied at the February 2020 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 minimises the risk of customers not receiving their fair share of the fund return, or of receiving payments which are more than the fund can afford and to the detriment of the remaining policyholders.

At the February 2020 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 with-profits funds 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. In light of the current extreme market volatility following the Coronavirus outbreak this position is being monitored very closely and could result in further bonus rate changes if deemed necessary to meet our target range requirements. 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 customers. The monitoring of actual claims carried out during 2019 demonstrated that target range requirements were met.

PruFund investments are subject to separate smoothing constraints where the automatic smoothing mechanism ensures that almost all claims will fall within 10% of the underlying value of assets.

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 2019, 28 May 2019, 27 August 2019 and

25 November 2019 by the PAC Board following consultation with the WPA. The WPC is also informed of the EGRs declared. EGRs for all PruFund Funds were reduced slightly at the August 2019 quarter date due to falls in interest rates which reduced the returns we expect to earn in the longer-term. No changes were made to EGRs on PruFund Funds at any other point during 2019.

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 smoothing profits or losses; or to protect PAC's With-Profits Fund and the interests of all our with-profits policyholders. Smoothing was not suspended and there were no unit price resets on any PruFund Fund during 2019.

4.4 Surrender values

Surrender values and Market Value Reductions (MVRs) were monitored during 2019 to ensure that they remained appropriate. Surrender value bases were updated alongside changes in final bonus rates. No change was made to the MVR policy during 2019 however 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 With-Profits Sub-Fund (WPSF), the Defined Charge Participating Sub-Fund (DCPSF) and for SAIF is regularly monitored by the business and any proposals for changes in investment strategy are put before the PAC Board for approval. The investment strategy for the Scottish Amicable Funds is also monitored by the Scottish Amicable Board.

The PPFM states that the objective of each with-profits fund is to maximise investment return subject to an appropriate level of risk. In determining this level of risk, consideration is given to the overall solvency of each fund relative to its risk appetite, policyholder expectations and investment views. In light of these factors the PAC Board agreed in 2019 to retain broadly the same level of risk as the previous year, with a slight reduction in the proportion of equity assets held by the WPSF to align with PAC's long-term target allocation. This reduction in equity investment was afforded by an increase in fixed income holdings. However, given the rise in investment markets during 2019, at the end of 2019 70% of the actual assets backing the WPSF were invested in real assets such as equities and property, compared with 69% at the end of 2018.

The PAC Board, and the Scottish Amicable Board for SAIF, continue to keep investment strategy under review to ensure that the with-profits funds 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, particularly in reaction to the Coronavirus outbreak and continuing uncertainty over Brexit.

Information on the current investment allocation of the WPSF and SAIF can be found at www.pru.co.uk/ppfm.

4.6 Business Risks

In consultation with the WPC and WPA, the PAC Board and, where relevant, the Scottish Amicable Board for SAIF, continually monitor the business risks and approve any management actions required to protect the security of the with-profits funds and limit any adverse impact on with-profits policies. This continued to be the case during 2019.

4.7 Charges and expenses

PAC's apportionment of administration expenses to with-profits funds and products is regularly monitored and reviewed for fairness. In line with the PPFM, the WPA and Chief Actuary (CA) review the fairness of the cost allocation to each category of with-profits policy each year. The outcome of the 2019 review was that the cost allocation in 2019 was consistent with the agreed methodology and fair to the with-profit policyholders as a whole. The cost allocation methodology is reviewed regularly.

In addition to the expenses of administering with-profits policies, PAC pays fees from the with-profits funds to the asset managers for the investment management of PAC's assets. These investment fees are reviewed at least every three years, with the latest review completed during 2018. Separately, the triennial review of fees paid to M&G for managing the assets backing annuity business was completed during 2019. As part of this review consideration was given to the conflict of interest arising from the use of M&G, which is part of the same group, as the asset manager.

As PAC seeks to improve its operational efficiencies for the benefits of existing and new customers and shareholders, significant investment is being made in several transformational projects, the aim of which is to allow the business to operate at a fundamentally lower cost 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 customers and shareholders. Costs allocated to the with-profits funds will be borne by the inherited estate and will not directly impact 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.

In its financial management of the WPSF, the PAC Board considers the financial position of the inherited estate.

The WPSF inherited estate has been increasing in recent years and at the end of 2019 the PAC Board deemed that the value of the inherited estate exceeded the amount of working capital required to support current and future business. In such circumstances regulations require that, to the extent that retaining any part of this excess would be in breach of customers interests and result in unfair treatment, then that part of the excess should be distributed to policyholders.

As a consequence, in February 2020 we announced a distribution of excess surplus which increased policy values on eligible plans in the WPSF. If your plan is invested in PruFund we increased your unit price by 0.9% on 26 February 2020, while if your investment was in any type of plan, other than PruFund, the final bonus rates declared in February 2020 reflected a 1.25% increase in asset shares made in respect of this surplus distribution.

Please note that final bonus rates are not guaranteed and so the excess surplus distribution on non-PruFund business could be clawed back in future 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.

For full details including eligibility criteria see our website: https://www.pru.co.uk/pdf/INVB10911.pdf

SAIF's inherited estate is being distributed under the terms of the Scheme of Arrangement as an addition to the payments to its policyholders, and the Scottish Amicable Board, acting on the advice of the independent SAIF Monitoring Actuary, has approved that the enhancement applied on SAIF claims will increase from 6.0% to 7.5% with effect from the final bonus rates declared in February 2020. The assets backing SAIF's inherited estate are mainly invested in fixed interest securities and cash.

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 fixed interest securities and cash. This was reviewed during 2019 and no change in investment strategy was recommended.

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 2019 stayed within the allocated capital budget.

As a result of the continuing low level of interest rates, that increases the cost of providing guarantees, a new AVC with-profits bonus series was introduced in April 2019, while the option to write guaranteed PruFund business was suspended from November 2019.

The terms on which new business was written in 2019 met the company's guidelines to ensure that new business did not adversely affect existing with-profits policyholders. These guidelines are regularly reviewed and are an area in which PAC exercises discretion. Based on the volumes and terms of new business written in 2019, no shareholder contribution was required. 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 has had no such intention during the period. SAIF is already closed to new business.

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 WPSF, SAIF and other with-profits funds, 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 rectification.

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 HMRC was identified. The PPFM outlines PAC's practice with regards to tax, containing provision for retrospective adjustments to be made to asset shares for any significant difference in tax paid versus tax charged. This issue was addressed for in-force traditional with-profits policyholders at the Final 2020 bonus declaration and we expect this issue to be fully resolved for leavers and PruFund policyholders over the coming year.

5. Competing or conflicting rights, interests and expectations

In managing with-profits business, consideration is given to how competing or conflicting interests or expectations of policyholders and shareholders and different groups and generations of policyholders, are managed so that policyholders 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

The WPSF, SAIF and DCPSF are funds within PAC, alongside other funds, including some owned by PAC's shareholders. To ensure that the tax charged to the WPSF, SAIF and the DCPSF is fair, PAC has ensured that the tax charged to each sub-fund is no more than the tax that would have been charged if that sub-fund had been a stand-alone entity. Consistent with the PPFM and established practice, tax on the transfer of shareholder profits is paid from PAC's inherited estate.

As noted in section 4.10, an issue has been identified with regard to the historic tax charged to asset shares and that paid to HMRC. It is expected that this issue will be resolved over the coming year in line with the PPFM.

Given plans are in place to resolve the tax issue, PAC is, therefore, satisfied that the allocation of the overall tax charge for 2019 was fair to both with-profits policyholders and shareholders.

5.1.2 Expenses

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

As noted in section 4.7, the WPA and CA reviewed the overall expense apportionment for 2019. The Scottish Amicable Board also reviews the SAIF expenses to ensure these charges are consistent with the limits in the Scheme under which policies were transferred to PAC. The latest review is currently in progress and the outcome will be agreed between the Scottish Amicable Board and PAC Board.

5.1.3 Inter-fund transactions

A risk mitigation agreement has been implemented between the shareholder fund and the WPSF estate, in respect of 2019 PruFund new business, to reduce the shareholder losses incurred when investment returns are very low. In return, the WPSF benefits from some reduction in its exposure to losses which result from shareholder transfers exceeding the fixed charges deducted to cover those transfers when investment returns are very high. The WPSF will also be 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. A similar agreement applied to the new business written in 2018.

All inter-fund transactions made during 2019 were carried out at fair value (i.e. on market related terms).

5.1.4 New business pricing

PAC seeks to price new with-profits business so it is financially self-supporting over the lifetime of the business at the point the business is priced. In achieving this aim, it is possible for cross-subsidies to arise between certain product lines. Where new business is not 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, who 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.

The approach taken to smoothing during 2019 was as described in the PPFM. The bonus declarations made during 2019 and 2020 were within the normal smoothing guidelines.

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 which have been set up to ensure that PAC is managing its with-profits business in accordance with the PPFM – the With-Profits Committee (WPC) and the With-Profits Actuary (WPA). In addition, for SALAS business managed within SAIF, there is the Scottish Amicable Board and an independent Monitoring Actuary.

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 with-profits funds are 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 Treating Customers Fairly principles, and
- the investment management arrangements including general investment strategy and the relative investment performance of the with-profits fund.

The WPC comprises at least three members, all of whom are independent of the company. Christopher Daykin retired from the WPC during 2019 and there were two new appointed members, Katie Blacklock and Robert Talbut. The Committee is now comprised as follows:

- Ronald Stewart Bowie, a Partner at Hymans Robertson and past president of the Institute and Faculty of Actuaries – joined the Committee in November 2014 and is currently the Chair,
- Julius Laurence Mark Pursaill, Chair of the RBS and Heineken DC schemes, Governor of the Pensions Policy Institute and past Trustee member of NEST – joined the Committee in November 2014,
- Bruno Marcel David Geiringer, formerly a Partner specialising in financial services at international law firm Pinsent Masons and past Chairman of the board of the Investment and Life Assurance Group (ILAG), a trade body – joined the Committee in June 2015,
- David John Keeler, a consulting actuary with Towers Watson for over 25 years until 2010 and Chairman of the CIS With-Profits Committee from 2010 to 2014 – joined the Committee in October 2015,
- 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, and
- Robert Talbut, former CIO of Royal London Asset Management for 10 years until September 2014 and Non-Executive Director experience at various Financial Services Companies- joined the Committee in September 2019.

The WPC was consulted during the year on all significant matters concerning with-profits business, including investment policy, 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, succeeding Peter Needleman who had held the position since February 2015 and fulfilled the role of WPA throughout 2019. 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 2019 can be found in the Appendix.

6.3 The role of the Scottish Amicable Board and the Monitoring Actuary for SAIF

The Scottish Amicable Board reviews the management of SAIF to ensure it is managed in accordance with the Scheme under which policies were transferred to PAC. The Scottish Amicable Board is also responsible for the investment and bonus policy for SAIF.

The independent Monitoring Actuary advises the Scottish Amicable Board on the operation of SAIF to protect the interests of SAIF policyholders. John McKenzie, Head of Insurance Transfers and Reporting Service at Hymans Robertson, has been the Monitoring Actuary since August 2004.

6.4 Governance of ex-ELAS 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.

7. Maintenance of the PPFM

The PPFM content is reviewed regularly and updated as and when required to reflect significant developments. During 2019, three updates to the PPFM were published, ensuring it remained accurate. Details of the updates made during 2019 are described earlier, in section 3.

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 on 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.

While I was only appointed as WPA on 10 March 2020, throughout 2019 I was working closely with the incumbent WPA. As such, I was 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, and I have carried out a review of PAC's compliance with the PPFM and its exercise of discretion over 2019, including the bonus declaration for the year ending 31 December 2019 which was announced in February 2020.

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 customers and the PPFM.

I have based my opinions on the information and explanations provided to me and my predecessor by the Directors and 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.

Philip John Roberts, Fellow of the Institute and Faculty of Actuaries

With-Profits Actuary

June 2020

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