

Principles & Practices of Financial Management

Report to With-Profits Policyholders
on the Prudential Assurance
Company's Compliance for 2023

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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 its Principles and Practices of Financial Management (“PPFM”) for its With-Profits Fund (“WPF”) over the period 1 January 2023 to 31 December 2023 (inclusive) and at the bonus declaration in respect of the year 2023, announced on 27 February 2024.

The following report sets out the PAC Board’s reasons for its opinion.

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2023

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. In performing these obligations, errors or operational issues can arise which may impact policyholder pay-outs. However, provided such issues are managed appropriately, including addressing 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.

PAC's 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

- the Scottish Amicable Life Assurance Society (SALAS), which was transferred to PAC with effect from 30 September 1997. 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 2023 to 31 December 2023 (inclusive), and also includes the bonus declaration announced on 27 February 2024. This report describes:

- changes to the PPFM during 2023,
- 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 has been described in previous reports to policyholders, the 'OB Main' policyholder administration system, that services our Ordinary Branch (OB) and Industrial Branch (IB) policyholders, was migrated in May 2023 to our strategic administration platform, BaNCS, which is owned and maintained by a third-party. Having learned from the service difficulties experienced as a result of previous migrations, the experience following the 'OB Main' migration was much improved. Our focus in 2023 was also to recover service to our target levels following past migrations, and we are pleased to report a material improvement in standards, with our target levels largely being met by the end of the year. Simplifying the business and improving our ability to serve our customers remains a key priority for the business.

In September 2023, Clive Bolton joined the company as the Chief Executive Officer of PAC and also joined the Board of PAC's parent company, M&G plc. Clive's responsibilities include developing and growing M&G's Life insurance business, which includes PAC's With-Profits Fund, in line with M&G's wider strategic priorities of growth, simplification and maintaining financial strength. More information can be found at mandg.com/news-and-media/press-releases/mandg-plc

3. Changes to the PPFM during 2023

The PPFM is updated as and when required to reflect significant developments. The latest review was undertaken in 2022. This review 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 made to the PPFM is available at pru.co.uk/pdf/WPGG10116.pdf.

A review of the PPFM is currently underway and any changes are expected to be published in the second half of 2024.

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 2023.

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 rates for non-PruFund with-profits policies is a key area of PAC's discretion 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 23 February 2023 and 27 February 2024 in respect of the 2023 and 2024 bonus years.

The 2023 and 2024 bonus declarations were reviewed by the WPA and the WPC prior to being approved by the PAC Board. For each bonus declaration, the PAC Directors were supplied with sufficient information for them to be satisfied that the declaration was consistent with the requirements of the PPFM.

When setting annual 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 guarantees applying to the policies in question. Having considered these factors, annual bonus rates were either maintained or increased at the February 2024 bonus declaration for the majority of business. For ELAS With-Profits Annuities the reduction in the extent to which guarantees were biting meant that we were able to declare a regular (annual) bonus for the first time of 0.5%.

In 2023, our globally diversified WPF produced a positive return in changeable, and fast moving, economic conditions, achieving a return of 4.3% (gross of tax) on the main asset pool. In line with this, final bonus rates for most customers at the February 2024 bonus declaration increased when compared with those declared last year, which means that most customers will see an increase in the value of their plans compared with the February 2023 declaration (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.

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, if considered necessary by the Board (to ensure that outcomes remain fair to policyholders (for example, in the event of a material and sustained fall in investment markets)).

When PAC's OB assets and 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 2024 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 some of the ups and downs in periods of investment market volatility, and provide more stable pay-outs to our policyholders. It also helps to reduce 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 2024 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 monitor pay-out levels on most policy types (where bonuses are set based on asset shares) regularly to ensure that they do not deviate too far from asset shares. A sample of policies with claim values falling outside our target range are 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 that was carried out during 2023 demonstrated that target range requirements were met in respect of 2022. Monitoring in respect of 2023 will be completed in 2024.

PruFund uses an established smoothing process which 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 reviewed quarterly during February, May, August and November 2023 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 2023 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 on PruFund Funds 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. There were no unit price resets, and smoothing was not suspended, in 2023.

4.4 Surrender values

Surrender value bases across most policy types for certain types of with-profits policies (Conventional With-Profits policies) were updated alongside changes in final bonus rates at the 2023 and 2024 bonus declarations. Surrender values on most policy types were monitored during 2023 to ensure that they remained appropriate and within the target ranges referred to in Section 4.2 above. The monitoring that was carried during 2023 (in respect of claims in 2022) confirmed that surrender values were appropriate and within the target ranges. Monitoring in respect of 2023 will be completed in 2024.

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 Reduction (MVR) may potentially apply if the value of units materially exceeds the value of asset shares. No changes were made to the MVR policy during 2023. 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 is regularly monitored and all proposals for changes in investment strategy during 2023 were approved by PAC's Executive Investment Committee and noted by the PAC Board and the WPC. A risk appetite is maintained for the WPF (and the various sub-funds and asset pools within it) which sets out the level of risk that the PAC Board believes is appropriate to take on behalf of the various different types of with-profits policyholders. This feeds into the investment strategy views via the Strategic Asset Allocation (SAAs) for each asset pool, which is set by PAC's Treasury and Investment Office (T&IO). Additionally, the T&IO is also responsible for investment manager selection and portfolio implementation, which contribute towards the WPF's investment outcomes.

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 (the risk appetite), 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 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 any regulatory changes, the financial strength of the WPF, the attractiveness of the expected returns available on different asset classes, and the on-going volatility in investment markets. Given the move to a higher interest rate environment, SAAs for the main with-profits asset share funds were reviewed twice during 2023 (section 2.3.1 of the PPFM requires at least an annual review of investment practices and policies, including a review of SAAs), resulting in a level of switch out of equities and into fixed interest assets.

Information on the current investment strategies of the WPF can be found at pru.co.uk/ppfm, Introduction Section I ('Responsible Investment and Sustainability in the With-Profits Fund') and Section 2 ('Investment Strategy') 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 WPF and limit any adverse impact on with-profits policies. No material actions were required during 2023.

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 Chief Actuary (CA) review the fairness of the cost allocation to each category of with-profits policy each year, and the outcome of this review is discussed with the WPC. The WPA and CA reviewed the allocation of expenses to the WPF in 2023, and concluded that it was fair and in line with the PPFM. The outcome of this review was also discussed with the WPC and the PAC Board.

An expense tariff was introduced by the PAC Board during 2023 between policies that had previously borne expenses directly and the WPSF's inherited estate (as explained in the PPFM, the inherited estate is the term for the assets in the fund in excess of the amounts that a company expects to pay out to meet its obligations to existing policyholders). The expense tariff aims to provide these policyholders with some protection against future increases in administration expenses, putting them in a similar position to other policyholders in the fund, who pay fixed or capped expense charges.

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 the WPF's assets. Where assets are managed by M&G's in house asset manager, M&G Investments, these investment fees are reviewed at least every three years, with oversight from the WPA and WPC. The latest review was completed in 2023 and the updated fees apply to the period covering 2024 to 2026; the next review will be in 2026 for the period covering 2027 to 2029.

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 during 2023 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

As noted above, the WPSF contains an amount of money in excess of the amount expected to be paid to existing policyholders, known as the inherited estate. 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" in its inherited estate (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, and retaining the excess surplus would be in breach of policyholders' interests, regulations require that it should be distributed to policyholders.

At the end of 2023 the PAC Board considered whether an excess surplus existed in the WPSF and concluded that relevant policyholders in that sub-fund should share in a £1bn distribution. If your plan was invested in PruFund we increased your unit price by 0.9% on 27 February 2024, while if your investment was in any type of plan, other than PruFund, the final bonus rates declared in February 2024 reflected a 1.25% increase in asset shares made in respect of this surplus distribution. DCPSF policyholders (including former ELAS policyholders), former SALAS policyholders and PIA policyholders are not eligible for the distribution. Whilst the WPSF 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/aboutadditional surplus

As noted above, final bonus rates are not guaranteed. The excess surplus distribution on non-PruFund business could potentially 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, however, we would not expect to have to do this unless something very unusual happened. The distribution on PruFund cannot be clawed back, and so consequently was set at a lower level.

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 policy 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 2023.

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 for the capital available to support new business, and the terms on which new business are written, and reviews the actual position against those limits, to ensure new sales do not adversely affect existing with-profits policyholders. The new business written during 2023 stayed within the allocated capital limit and, whilst it was found that the charges on new business were not sufficient to cover their costs during 2023, shareholders paid 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. Corrective actions consider the causes of the error, and any policyholder impact, as well as allocation of the costs of any necessary remediation between the WPF and PAC's shareholders.

As mentioned in last year's report, an error in PruFund unsmoothed prices occurred in September 2022 and, due to the interaction with Unit Price Adjustments (UPAs) that were applied in September and October, this resulted in incorrect smoothed prices for Funds to which a UPA had been applied. The smoothed prices were adjusted to the correct position in November 2022 and activity to remediate impacted policyholders is nearing completion.

A number of other issues affecting a range of policy types are currently under investigation by a new team that PAC has established to ensure better management and prioritisation of operational issues. PAC is fully aware of the importance of ensuring that such issues are resolved fairly and in a timely manner and, as part of seeking to deliver good customer outcomes, makes additional 'interest' payments to customers in respect of any delays in resolving these matters. The fact that there are currently open issues is not, therefore, considered to result in any non-compliance with the PPFM during 2023.

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 selection of 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. PAC regards fair outcomes to be equivalent to good outcomes for policyholders in respect of exercising financial discretion in the management of the WPF.

5.1 Equity between with-profits policyholders and shareholders

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

5.1.3 Inter-fund transactions

An inter-fund risk mitigation transaction was agreed during 2023, which involved the WPSF's inherited estate making a cash payment to the PAC shareholder fund to settle a future liability relating to the shareholder's share of expected profits on certain PruFund business. This provided benefits to both parties and replaced certain risk mitigations that had been put in place in previous years. The terms of this agreement were reviewed by an independent actuary, as well as the WPA and WPC, to ensure they were fair to both the WPSF and the shareholder fund.

5.1.4 New business pricing

PAC seeks to price new with-profits business so it is expected to be financially self-supporting (i.e. cover its expenses) 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 in:

- smoothing of policy benefits, and
- grouping of policies for setting bonus rates and surrender values, which encompasses the 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.

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. The WPA and WPC have appropriate oversight of the grouping that is applied for these purposes and, in particular, the groupings used to set bonus rates and surrender values.

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 (FCA's)) Treating Customers Fairly principles (as noted above, PAC regards fair outcomes to be equivalent to good outcomes in respect of exercising financial discretion in the management of the WPF), and
- the investment management arrangements, including general investment strategy and the relative investment performance of the WPF.

In 2023 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 with 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.
- Nick Rowley, a senior life actuary with 36 years' experience, including 23 years at Aviva where he served in a number of senior actuarial roles including Chief Finance Actuary and With Profits Actuary at Aviva UK Life – joined the Committee in March 2023 replacing Eithne McManus.
- Stephen Wilson, who is currently also an Independent Non-Executive Member of the Phoenix Group WPC, and a 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)

Following the departure of PAC's previous permanent WPA in 2022, the role of the WPA in 2023 was performed on an interim basis by Stewart Gracie of Zenith Actuarial Consulting, supported by Jeremy Gillman, who was intended to undertake the role on a permanent basis. Jeremy Gillman took over the role on 26 September 2023, after the Prudential Regulation Authority (PRA) gave their formal approval for him to become PAC's WPA.

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 2023 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.

PAC's review of compliance with the SALAS and ELAS Court schemes for 2023 concluded that PAC complied with the requirements of the SALAS and ELAS Schemes.

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 and a further review of the PPFM has recently commenced.

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 its with-profits business. I am required by the FCA'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 formally took over the role as PAC's WPA on 26 September 2023 following a detailed handover from Stewart Gracie, who held the post for from 1 January 2023 to 25 September 2023, having worked alongside him during this period. Either myself or Stewart Gracie were involved in the 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 2023, including the bonus declaration for the year ending 31 December 2023 which was announced in February 2024. 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 during 2023. In doing so I have taken into account the relevant rules and guidance issued by the FCA, the Actuarial Profession and the Financial Reporting Council.



Jeremy Gillman, Fellow of the Institute and Faculty of Actuaries

With-Profits Actuary

June 2024

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