Prudential International Assurance Plc.

With-Profits Operating Principles (“WPOP”) for the Defined Charge Participating Sub-Fund (“DCPSF”)

1. Introduction to the WPOP

This WPOP sets out the principles that the Prudential International Assurance plc ("PIA", "we" or "us") and the Prudential Assurance Company Limited ("PAC"), our parent company, use to manage policies which are invested in the DCPSF. The DCPSF is owned and managed by PAC and the way the DCPSF is managed is described in the PAC Principles and Practices of Financial Management ("PPFM") document.

The PPFM is a technical document that describes in detail how the DCPSF is managed. The principles in this WPOP cover the relevant key points of the PPFM, but if you require more detail you can refer to the PPFM directly, which can be found at the following website address: **www.mandg.com/pru/customer/en-gb/funds/ppfm**

Alongside the WPOP, the PIA Board of Directors produce a written report detailing whether the DCPSF has been managed in accordance with the principles covered in this WPOP. This report is produced annually and is available on our website **www.mandg.com/dam/pru/shared/documents/en/genm1132304.pdf** within six months of the end of the financial year. Alternatively, a copy can be provided upon request by email or by post.

If PAC makes significant changes to its approach to managing the DCPSF, we will notify you in writing and an updated copy of this WPOP will be made available on our website.

This WPOP covers the different ways in which a PIA policyholder may ultimately be invested in the DCPSF. This may be via the following:

- Unitised With-Profits ("UWP") or
- PruFund

The above are discussed further in Section 2, below.

2. Products which access the DCPSF

Your Annual Statement will tell you the name of your product and the funds you are invested in.

UWP:

- Investment into the PAC With-Profits funds; investment is granted using either the Prudential International Investment Bond ("PIIB") or the International Prudence Bond ("IPB") products.

PruFund:

- Investment into the PruFund Range of Funds; products such as International Portfolio Bond, and both PIIB and IPB products may be invested in the PruFund Range of Funds.

3. Overview of the DCPSF

The investment in the DCPSF is granted via the reinsurance arrangements that PIA have in place with PAC. This means that any policyholder investment into the funds specified in Section 2 are all invested in the DCPSF via these arrangements. As such, we will refer to these collectively as "policyholders invested in the DCPSF", throughout this WPOP.

As noted in Section 1, PAC produce a PPFM which covers the DCPSF. This applies to all policies covered by this WPOP. The investments of all PIA policyholders which have been reinsured into the DCPSF will be managed in accordance with this WPOP.

The DCPSF is a 100:0 with-profits fund, which means that the profit in the DCPSF arises solely through investment performance, which is then fully attributable to those invested within it.

4. Determining Pay-out Values

PIA and PAC aim to treat all policyholders invested in the DCPSF fairly, and aim to provide pay-out values that:

- On death and maturity are fair across different types and generations of policyholders, and;
- On surrender and retirement (other than on preselected date) are fair to the policyholders leaving and remaining in the DCPSF.

Pay-out values are targeted to reflect the value of the investments backing your policy (referred to as the unsmoothed value in this WPOP), however, in some circumstances, for example if you were to die, there is a guaranteed minimum pay-out which may increase the total amount payable. The unsmoothed value of your investment will take into account items such as premiums paid, the length of time that the premium has been invested, the investment performance over the duration of the investment, any withdrawals you may have taken and any charges deducted (for example product charges, guarantee charges or adviser charges).

A target range is set for maturity payments expressed as a percentage of the unsmoothed value. The aim is to ensure that maturity and surrender payments for at least 90% of with-profit policies fall within the target range of 80% to 120% of assets shares.

Pay-out values are managed through the bonus declaration process (or alternative profit sharing process), with any adjustments being made through Market Value Reductions (MVRs) or the surrender value, as appropriate when exiting the DCPSF in any way other than through death or maturity. The bonus declaration or alternative profit sharing processes are explained in Section 5.

Policyholders invested in the DCPSF also benefit from smoothing, which smooths out the ups and downs of investment performance and may affect the pay-out received; smoothing is explained further in Section 6.

5. Bonuses and Profit Sharing

Bonuses or profits are applied to your investments in an effort to distribute the profits from the assets backing your investment in the DCPSF.

The main objectives of the bonus declaration or profit sharing process are:

- To give each policyholder invested in the DCPSF a return on premiums paid reflecting the return on the underlying investments over the time the policyholder has held the policy, smoothing the ups and downs of investment performance, and;
- To provide each policyholder invested in the DCPSF a fair share of the profits arising across the portfolio by way of bonus addition to their policy.

The process varies depending on the product or the fund in which you are invested, and we have summarised these different approaches below.

UWP

Normally investment returns have the most significant impact on the return you get on your policy. The aim of the bonuses is to increase the return you receive on your policy.

For UWP there are two types of bonuses that may be declared: regular bonus and final bonus.

A regular bonus may be declared annually, and, if declared, will be added to your policy on a daily basis. The declaration of a regular bonus is not guaranteed each year, but when added, it acts to increase the guaranteed minimum pay-out where it applies.

A final bonus is an additional bonus that may be paid when money is taken from your policy, though, if the investment return has been poor over the lifetime of your policy, a final bonus may not be paid.

Regular bonuses will be set in reference to the expected future investment returns on the assets backing your policy. This expected investment return is reduced as appropriate to allow for items such as expenses, charges and tax. Not all of this expected investment return is given in the form of regular bonus; some of the investment return is held back, with the aim of paying out a proportion of the proceeds as a final bonus. The aim of holding some of this investment return back is to provide you with a higher final pay-out value than if this return was paid out via guaranteed regular bonuses.

The final bonuses which may apply will be set in reference to the unsmoothed values of your policy. In normal investment conditions they will be set so that pay-out values change only gradually over time. This is because a process known as smoothing may also apply when determining your pay-out value. Smoothing helps iron out the ups and downs of investment performance and is explained further in Section 6.

PruFund Range of Funds

Expected Growth Rates ("EGR") are set for the PruFund Range of Funds. These are annualised rates which increase the unit price of the funds daily. PAC set these every three months (quarterly) and in doing so take into account the investment returns that they expect the assets of the funds to earn over the long term. PAC will publish these quarterly for each product at the following website: **www.mandg.com/pru/customer/en-gb/funds/investment-fund-range/prufund/prufund-range**. Your investment will normally change in line with this growth rate on a daily basis through the price of the units you hold (known as the unit price). Like most stock market based investments, the value of the underlying assets change daily, and therefore may decrease or increase. PAC aim to smooth the unit price to take account of these ups and downs; this smoothing process is explained in section 6.

6. The Smoothing Process

Your investment is cushioned from day-to-day fluctuations in the value of the assets in the fund by smoothing out the effects of some of the ups and downs. Instead of adding large bonuses to your investment in good years and no bonuses in bad years, some of the investment profit is held back in the good years and added in the bad years, thereby 'smoothing' the return you receive. For example, if your policy ended on a day when the stock market fell substantially, the smoothing of returns might help to protect it from a sudden drop in value. Policyholders in funds that don't smooth investment returns could see the value of their investment rise or fall faster than those in a smoothed fund.

The intention is for the 'smoothing' of ups and downs to balance out over time, so that, on average, the unsmoothed value will be paid.

Whilst the principle aim of smoothing is applicable to all types of policyholder, the smoothing methodology can differ. We have provided information on the differing smoothing methodologies below.

UWP

The value of your investment changes every day as the value of the assets in the fund change; these day-to-day fluctuations are cushioned by paying out a smoothed value. It is the intention that the difference between the smoothed value and the unsmoothed value will rarely be more than 20%.

As the values of the assets change during a year, the value of the fund is automatically affected. If this causes more than a 20% difference between the smoothed and unsmoothed values of a high number of bonds, consideration will be given to changing the bonus rates for all bonds.

PruFund Range of Funds

The unit price will increase by the EGR and this is the only published price. An unsmoothed price and a five day rolling average of this unsmoothed price will also be calculated. The unsmoothed price is calculated by dividing the value of the underlying fund by the total number of units.

Every day, the smoothing process checks the gap between the smoothed price and unsmoothed price. For this purpose, the gap is calculated using both the unsmoothed price and a five working day rolling average of the unsmoothed price. If the gap is ever equal to, or more than, the Daily Smoothing Limit, PAC will adjust the smoothed price straight away, thereby reducing the gap.

In addition, on each quarter date if there is a gap which is equal to, or more than, the Quarterly Smoothing Limit, when PAC compare the unsmoothed and smoothed prices for that day, the gap will be reduced by half, by adjusting the smoothed price. Where necessary, this process will be repeated until the gap is less than the Quarterly Smoothing Limit.

Any adjustments made to the smoothed price can be down or up, depending on whether it's above or below the unsmoothed price.

Once the smoothed price has been adjusted in accordance with the above, it will increase at the current EGR.

The smoothing limits process is set out in section 1.3 of the PPFM.

PAC may decide to reset the unit price of a PruFund fund on a particular day, to protect the DCPSF. If PAC decide to reset, the unit price of the affected fund will be adjusted to be the same value as the unsmoothed price on that working day. The adjusted unit price will then continue to grow in line with the EGR from the next working day and this is referred to as a Unit Price Reset in other literature.

There may be occasions where PAC have to suspend the smoothing process for one or more of the PruFund funds for a period of consecutive days in order to protect the DCPSF. For example, this may be done if there were large inflows or outflows from the fund. When this happens the unit price for the affected fund is set to the unsmoothed price for each day until PAC reinstates the smoothing process.

7. Leaving the DCPSF

Should you decide to leave the DCPSF, there may be Market Value Reductions (MVRs) that apply. If you were to surrender your policy, there may also be surrender charges that apply. There are different ways to leave the DCPSF, which include full or partial encashment of a Bond, regular withdrawals or a switch to another one of our funds.

If a policyholder were to leave the DCPSF in any of the ways mentioned above, the value received will be fair to the policyholders leaving and remaining in the DCPSF.

UWP

An MVR may be applied if you take money from your investment in the DCPSF, other than at a date at which a guarantee applies. An MVR will only be applied if the unsmoothed value of your investment is less than the value of your investment and attaching bonuses. This is done to protect the interests of other policyholders in the DCPSF from the effects of people leaving where the value of your investment and attaching bonuses is higher than the unsmoothed value; this provides a fair return to every policyholder that is based on the earnings of the fund over the period their payments have been invested.

It is not PAC's practice (which PIA follows) to apply MVRs which reduce surrender values below an amount reflecting the unsmoothed value.

For IPB an early cash in charge will apply in the first few years of that money being invested.

PruFund

There is no MVR applied to monies invested in the PruFund Range of Funds. However, for IPB products an early cash in charge will apply in the first few years of that money being invested. Please refer to your Contract Conditions to determine if this will apply to your investment.

8. The Investment Strategy of the DCPSF

Separate asset pools exist within the DCPSF. This is due to a number of reasons, including the requirement to support investment in different currencies (i.e. offering of a Sterling, Euro or Dollar product), to offer funds with different risk and return objectives, to support certain specific product features, or due to legislative requirements.

The PAC Board is responsible for setting the investment strategy for the different asset pools in the DCPSF. These strategies are set to be compatible with the objective of the asset pool and also with maintenance of the on-going solvency of the DCPSF.

Although PAC set the investment strategy, they will provide PIA with details of the strategy and the rationale behind it.

PAC's overall investment strategy objective is to secure the highest total return (allowing for the effect of taxation and investment expense) whilst:

- Maintaining an acceptable overall risk level (having regard to the currency, nature and outstanding duration of liabilities) for the DCPSF;
- Maintaining an appropriate and broad mix of suitable investments, and;
- Protecting appropriately the relative interests of all groups of policyholders.

The main asset types in which PAC invest, both in the UK and abroad are:

- Government Bonds
- Other Fixed interest securities
- Equities e.g. company shares
- Property
- Deposits

This is not intended to be an exhaustive list, and the fund managers may use any investment instrument available, provided that asset type has been approved by the PAC Board.

Derivatives may also be used as part of the investment strategies. These can be used for efficient portfolio management and to reduce the level of investment risk.

Over time, the performance of different asset types can vary a lot; the fund managers might change the asset mix, with the aim of maximising the returns for a given risk profile.

As an asset owner, PAC does not engage directly with investee companies on stewardship and sustainability issues. However, M&G's Treasury and Investment Office takes strategic decisions about the kind of investments the With-Profits Fund makes for the long term, and how long term risks like climate change should be approached, and it expects and instructs its asset managers to engage on its behalf in accordance with its stewardship and sustainability-related policies.

As part of M&G plc, PAC is committed to achieving net zero carbon emissions by 2050 across the With-Profits Fund's investments, in line with the UK Government's targets to help limit global warming and the Paris Agreement on Climate Change. This includes an interim target of reducing carbon emissions by 50% by 2030 for public equities and bonds which M&G Investments manages on behalf of the With-Profits Fund.

Further information on the latest policies, disclosures and commitments that PAC has made on stewardship and sustainability can be found at **www.mandgplc.com/sustainability/responsible-investing/ prudential-assurance-company.**

PAC's parent company, M&G plc, is committed to embedding sustainability considerations throughout its business, including a commitment to achieve net zero carbon emissions for its own operations by 2030 at the latest. Further information on M&G plc's approach to sustainability, and progress towards its targets, can be found at **www.mandgplc.com/sustainability/sustainability-report.**

9. The Risks which may affect DCPSF Policyholders

The profits from the investment return in the DCPSF are fully attributable to the policyholders invested within it. This means that policyholders are exposed to investment risk, which can be considered as the risk of underperformance of the underlying investments. The investment performance will ultimately impact the pay-out you will receive. This investment risk is managed through the investment strategy, which is discussed in Section 8.

Policyholders in the DCPSF are also exposed to business risk, defined as all risks (and rewards) of the long-term business other than that with respect to investment return. However, as the DCPSF is a 100:0 with-profits fund, the profit within the fund arises solely through investment performance, limiting the exposure of policyholders in the DCPSF to certain specified risks.

Business risks may arise from a range of factors, including changes in the economic and/or regulatory environment, demographic changes, product design features (e.g. guarantees), selling and marketing practices, currency and geopolitical risks.

The PAC Board is responsible for the control of business risks within the management of the overall risk level of the company and for the ongoing solvency of the DCPSF.

The PAC Board aims for:

- all material or significant risks to be identified, and;
- an appropriate charge to be made for all significant risks.

As noted in Section 3, your investment in the DCSF is granted via the reinsurance arrangements that PIA has in place with PAC. Under the terms and conditions of your policy, PIA will provide you with the value received from PAC under that arrangement, but is not obliged to use any of its other assets to meet your benefits. In the unlikely event that Prudential International, the fund manager, PAC, or the custodian of fund assets should fail to meet their financial obligations, you may face financial loss.

10. Charges and Expenses

To cover the costs in administering your policy and for the provision of features and benefits of your policy, such as guarantees, charges are taken from your investment. The relevant charges accrue to PIA or the With-Profit Sub-Fund ("WPSF"). These funds then take responsibility for the actual cost of administering your policy and for providing the features and benefits that are available. This includes the payment of expenses and guarantee fulfilment, and as such, if the actual cost incurred for any of these items is larger than the level of charges taken, the difference will be borne by the relevant entity and you, the policyholder, will not be affected.

The charges are set at a level that aims to be fair to all policyholders and between the policyholder and PIA or the WPSF.

The charges are used to cover the expenses incurred in managing the business, and so, in some cases, these charges may be amended to cover increases in these expenses which occur naturally over time.

11. The Inherited Estate

The inherited estate of a with-profits fund is the amount of money in a with-profits fund in excess of the amounts that a company expects to pay out to meet its obligations to existing policyholders. The DCPSF does not have an inherited estate, rather it benefits from the use of the inherited estate that has built up in PAC's With-Profit Sub-Fund ("WPSF"). This is a different with-profits sub-fund which is owned by PAC.

The inherited estate in the WPSF is used to cover the DCPSF's regulatory capital requirements, to meet the costs of guarantees and to provide smoothing. Policyholders in the DCPSF avail of the above benefits of an inherited estate, though they are not entitled to any distributions of this estate.

PAC will manage the inherited estate so that it continues to provide adequate working capital for the future security and ongoing solvency of the DCPSF.

The PAC Board manages the overall business having regard to the size of the PAC inherited estate. This reflects the inherited estates role as the working capital of the with-profits sub-funds, which largely determines the risk capacity of the fund. The inherited estate absorbs, at least in the short term, the impact of any substantial changes affecting the with-profits sub-funds. There is no specific target size of the PAC inherited estate.

12. Equity Between Policyholders invested in the DCPSF and Shareholders

It is the intention that all customers are treated fairly at all times, balancing any conflict of interest between different generations and types of policyholder invested in the DCPSF, and between these policyholders and shareholders.

All of the investment returns are distributable wholly to policyholders. Therefore, issues of equity between policyholders and shareholders are largely confined to the equity of the charges taken as explained in Section 10. Smoothing is managed on exit from the DCPSF by the use of MVRs on Unitised With-Profit policies. This helps to maintain equity between policyholders which are exiting and those which remain in the DCPSF.

13. Volumes of New Business and Closing to New Business

PIA will continue to reinsure into the DCPSF provided the volumes of these investments are financially supportable by the DCPSF.

The PAC Board manages the types and volumes of investment into the DCPSF as part of its management of the overall risk of the company and for the maintenance of the ongoing solvency of the DCPSF.

In the event that any further investment into the DCPSF was halted, or the volume of the investments into the DCPSF became negligible, PAC would review the position and put in place a plan for the management of the inherited estate over the long term. Any proposal for the reattribution, or ultimate distribution of any part of the inherited estate between the policyholder and the shareholder would need to take into account all the relevant factors and claims on the estate.

14. Changes to this WPOP

Should we make any changes to this WPOP, we will notify PIA policyholders invested in the DCPSF in writing of these proposed changes at least four weeks in advance of the change becoming effective, unless the change is simply to correct an error or has no material effect on the WPOP.

15. Further Information

Further information can be found in your contract conditions and also in the PPFM. The PPFM can be found at the following website address: **www.mandg.com/pru/customer/en-gb/funds/ppfm** www.pru.co.uk/international

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