

ISSUED
31 DECEMBER 2022



AKG

UK LIFE OFFICE
WITH PROFITS REPORTS

Prudential

Extract Prepared for Prudential

AKG

Accessible - Comparative - Independent

Analysis by AKG Financial Analytics Ltd

© AKG Financial Analytics Ltd (AKG). Extract from UK Life Office With Profits Reports - Issued 31 December 2022

All rights reserved. This report is protected by copyright. Distributed under licence agreement with Prudential.

AKG has made every effort to ensure the accuracy of this report and to ensure that the information contained is as current as possible at the date of issue, but AKG cannot accept any liability in respect of, or resulting from, errors or omissions. AKG accepts no responsibility for investment decisions taken as a result of information supplied.

Accompanying notes and definitions can be found in the full source reports, for use by professional financial advisers.

Background to extract

This document contains an extract from AKG's comprehensive annual series of UK Life Office With Profits Reports. It has been prepared for distribution under licence agreement with Prudential.

The reports cover a broad spectrum of UK long term insurers, and they are designed to meet the information needs of advisers and other analysts in assessing the relative strengths of UK with profits funds.

Summary of extract

This extract includes full details of the AKG analysis and assessment of Prudential's range of with profits funds.

The details in the extract specifically relating to Prudential begin with an overview of the Group's background followed by confirmation of with profits funds within the Group and with profits products currently marketed by the Group.

AKG then looks at things from a Company perspective - Prudential Assurance Company Ltd - providing details of the Company background and the structure of funds within the Company, followed by confirmation of with profits funds within the Company and with profits products currently marketed by the Company.

At company level this extract provides details of Prudential Assurance Company Ltd's assets and liabilities (as at 31/12/2021). It also looks at the Company's life and health SLT technical provisions, solvency capital requirements, own funds, gross premiums written, life expenses, life business flows and with profits business flows.

AKG's analysis then gives consideration to two overarching fund structures within Prudential Assurance Company Ltd - With-Profits Sub-Fund (Open), and Defined Charge Participating Sub-Fund (Open) - and the individual funds within these structures. For advisers and analysts familiar with Prudential's PruFund fund range these funds are assessed under Prudential's With-Profits Sub-Fund, covered in pages 563 to 625 of this extract.

The fund analysis sections cover a wide range of material including fund type/classification, fund background, fund objectives, PPFMs applicable to the fund, governance arrangements and confirmation of with profits products currently marketed in the fund.

Information about rights to share in profits, profit-sharing philosophy, distribution of surplus, increase/decrease in distributions, approach to risk and smoothing are also included in the fund analysis sections. Furthermore details about MVRs, guarantees, inherited estate, headline asset allocation mix, past performance and investment returns can also be found in the fund analysis sections.

The fund analysis sections conclude with AKG's with profits ratings. AKG attributes three different types of with profits related ratings within its annual series of UK Life Office With Profits Reports:

- With Profits Financial Strength
- With Profits Future Performance
- With Profits Transparency.

Transparency, Future Performance and Financial Strength Ratings for the Prudential funds covered by AKG's assessment work are displayed on pages 620-625, and 636-637 of this extract.

AKG comment on Prudential Assurance Company Ltd

Company Financial Strength

"As one of the UK's largest and strongest life companies, PAC continues to show significant resilience in the wake of challenging economic, legislative and regulatory conditions. It has retained focus and increased its market share, whilst continuing to demonstrate its appetite for key segments of the UK market, specifically the Pre- and Post-Retirement space.

PAC's adjusted operating profit before tax was £641m in 2021 [2020: £664m], consisting of £268m [2020: £221m] relating to the shareholder transfer and associated hedges from the With-Profits Fund, £369m [2020: £438m] relating to the annuity business and £4m [2020: £5m] on unit-linked and other business. There was a non-operating loss of £566m [2020: £647m profit], mainly due to losses from short-term fluctuations in investment returns in 2021. Overall, therefore, PAC's UK GAAP profit before tax was £75m [2020: £1,311m]. Total dividends of £1,550m were paid [2020: £497m]. A final dividend in respect of 2021 of £333m was declared in March 2022, which is not recognised in the Solvency II position at 31 December 2021.

PAC's solvency position was impacted in 2018 mainly due to the transfer of the Hong Kong Subsidiaries, which reduced Own Funds by £6.9bn and the SCR by £2.7bn, although the SCR coverage ratio was relatively unchanged. This reduced in 2019, however, impacted by dividend payments which more than offset the surplus arising, before increasing in 2020 and 2021.

At 31 December 2021, PAC had Own Funds of £12.2bn [2020: £13.6bn, 2019: £12.8bn, 2018: £13.0bn]. With an SCR of £8.3bn [2020: £10.0bn, 2019: £9.7bn, 2018: £9.3bn], there was an increased SCR coverage ratio of 147% [2020: 136%, 2019: 131%, 2018: 140%]. PAC's Solvency II surplus increased to £3.9bn [2020: £3.6bn], predominantly due to the expected return in the year and a series of management actions taken, including the impacts of trading in the annuity portfolio, longevity assumption changes and the impact of changes in economic conditions, offset by the payment of dividends of £1,550m [2020: £497m].

PAC employs the transitional measure for technical provisions and the matching adjustment. If these are excluded, own funds reduce to £10.2bn, whilst the solvency capital requirement increases to £12.3bn, leading to a coverage ratio of 83% [2020: £10.8bn, £13.6bn, 80% respectively, 2019: £10.1bn, £13.3bn, 76%; 2018: £9.7bn; £12.7bn and 76%].

PAC is one of a handful of companies that remain highly committed to with profits and it is dominant in this market in the UK. It has the largest with profits portfolio in the UK, and it continues to write new UK with profits business in volumes that dwarf all others in the market. The inherent strength of its with profits fund remains apparent. PAC's estimated with profits funds' Solvency II surplus as at 31 December 2020 was £7.8bn [2020: £7.0bn, 2019: £7.6bn, 2018: £5.5bn], leading to a coverage ratio of 302% [2020, 243%, 2019: 267%, 2018: 231%].

Additionally, and of most significance, is the demerger which, whilst not significantly impacting upon solvency, positions the company as a more important component, albeit in a smaller but more focused group. Prudential plc's strategy has evolved and, whilst resisted for some time, the demerger was logical in view of the respective different levels of maturity of the businesses. Recent acquisitions by M&G, in particular Ascentric, Sandringham and Continuum are positive developments and bring with it opportunities for PAC to widen its offering and distribution, in particular of PruFund.

M&G plc's Solvency II surplus increased to £6.2bn as at 31 December 2021 [2020: £4.8bn], equivalent to a shareholder Solvency II coverage ratio of 218% [2020: 182%], driven by total capital generation of £1,822m [2020: £995m] and an increase of £32m [2020: £121m] from other capital movements, partially offset by dividends of £466m [2020: £562m]. The regulatory Solvency II coverage ratio for the Group, which combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund, was 168% [2020: 144%]."

Source: Page 559 of this extract.

About AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 30 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

Within this AKG has focused specifically on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain an ability to deliver sustained provision.

Regular Reports

AKG publishes the following reports to assist Providers and Intermediaries:

AKG Provider Financial Strength Assessment Reports

Covering onshore UK life companies, friendly societies and similar providers.

AKG Offshore Financial Strength Assessment Reports

Covering offshore life companies.

AKG Platform Financial Strength Assessment Reports

Covering platform operators.

AKG DFM Financial Strength Assessment Reports

Covering discretionary fund managers.

AKG UK Life Office With Profits Reports

Providing further depth in the assessment of with profits funds.

AKG International Platform Financial Strength Assessment Reports

Covering international platform operators.

For further details on any of the above please contact AKG:

AKG Financial Analytics Ltd
Anderton House
92 South Street
Dorking
Surrey RH4 2EW

Tel: +44 (0)1306 876439 or email akg@akg.co.uk.

Purpose And Scope Of The Reports

This is the 26th annual edition of AKG's UK Life Office With Profits Reports.

These reports are designed to assist advisers to assess the relative merits of specific with profits funds. The aim is to provide comprehensive, structured and consistent information, accompanied by AKG's key analytical assessments of with profits fund financial strength, future performance and transparency.

The reports provide an invaluable resource for intermediaries who are advising clients in the selection of with profits providers for new policies.

The amount of with profits business in-force remains considerable. With profits technical provisions totalled over £248bn at the end of 2021 [2020: £250bn, 2019: £255bn], although this figure includes a small element of double-counting due to reinsurance.

Advice for in-force clients should be just as robust as it is for new business. Indeed evaluating existing with profits funds is an important part of an adviser's job and AKG's reports provide a wealth of relevant information and assessments.

Each individual report provides information on the structure and operation of a provider's with profits fund(s). It also highlights the various risks borne by with profits policyholders and concludes with AKG's long established Ratings for:

- With Profits Financial Strength
- With Profits Future Performance
- With Profits Transparency

The reports are confined to those providers whose products conform to a statutory definition of with profits and includes individual reports and comments on those providers whose with profits technical provisions exceed £150m, supplemented by smaller companies and friendly societies operating in the intermediary market.

The reports contain analysis and assessments of 197 sub-funds within 66 funds from 23 firms that will be active in the UK market at the start of January 2023 (from 20 different groups). A number of comparative industry-wide tables are also included, covering a range of key metrics.

Reports Compilation

Compilation of the reports keeps AKG's research teams busy for many months, since it involves collection of a huge volume of data, and painstaking analysis of each fund's position before AKG's updated ratings can be determined. The process started as usual in the spring, gathering each firm's annual accounts and Solvency and Financial Condition Reports (SFCRs). In May it also involved an industry-wide AKG market survey. This survey aims to ensure that other pieces of key information that are used in the reports are as accurate and as up to date as possible.

The survey covers topics such as PPFM/CFPPFM changes, With Profits Committee membership and terms of reference, annual reports to with profits policyholders, asset mixes and investment returns. As last year, AKG sought to obtain additional data to try and compensate for the loss of certain information in the move from PRA returns to SFCRs:

- With Profits Assets and Liabilities
- With Profits Value of Bonus
- With Profits New Business
- Specimen With Profits Payouts, typically as at 1 March 2022

Reports Compilation (continued)

AKG is very grateful to those companies which go to such great lengths to assist by completing AKG's annual surveys, and by answering any further queries which may arise.

After all relevant financial data, past performance statistics and survey information has been loaded into AKG's databases, a technical analyst drafts the narrative text for each group, company, fund and sub-fund that is covered in the reports. Everything is then subject to technical review by a different analyst and to a market review. AKG's updated ratings are also determined.

With Profits Defined

The Position Since January 2016

Under the PRA rules that took effect from 1 January 2016 in conjunction with Solvency II, some subtly different definitions of with profits business were introduced, compared with the previous regulatory position:

A with profits policy: *"means a contract of long-term insurance which provides benefits through eligibility to participate in discretionary distributions based on profits arising from the firm's business or from a particular part of the firm's business"*.

A with profits fund: *"means the business of the firm, or a particular part of the business of the firm, in the profits of which certain with-profits policies are eligible to participate through discretionary distributions under such policies and the assets of which comprise the items set out in (1) to (6) less the outgoings in (7) and (8) (including the items and outgoings relating to both current and past business):*

- (1) premiums and other receivables in respect of with-profits policies;*
- (2) other receipts of the firm's with-profits insurance business, including tax receipts;*
- (3) amounts which have been provided by the firm to facilitate the carrying on of its with-profits insurance business (other than excluded assets);*
- (4) all income and capital receipts in respect of the items in (1) to (3);*
- (5) assets into which the items in (1) to (4) have been converted, including assets representing investment in non-profit insurance business; and*
- (6) premiums, receivables, other receipts, income and capital receipts from non-profit insurance business falling within (5) or otherwise written for the benefit, in whole or in part, of the firm's with-profits insurance business;*

outgoings:

- (7) outgoings in respect of the firm's with-profits insurance business permitted in accordance with any relevant provision of the FCA Handbook or any other applicable regulatory requirement and, to the extent that incoming items have been included in (6), non-profit insurance business; and*
- (8) transfers permitted in accordance with any relevant provision of the FCA Handbook or any other applicable regulatory requirement;*

and, where so required by the FCA Handbook, each distinct part of a firm's with profits fund identified in accordance with that rule shall constitute a separate with profits fund."

Key Regulatory And Legislative Developments

Operational Resilience

In March 2022, the FCA set out its final rules and guidance in PS21/3 on new requirements to strengthen operational resilience in the financial services sector, applicable to insurers (including those writing with profits business) amongst other types of financial services firms.

This followed the consultation set out in December 2019 in CP19/32 on proposed changes to how firms approach their operational resilience. These proposals having been developed together with the Bank of England in its capacity of supervising financial market infrastructures and the Prudential Regulation Authority (PRA), to improve the operational resilience of the UK financial sector.

The enhanced rules aim to prevent/minimise the sort of operational disruptions that can cause wide-reaching harm to consumers and pose a risk to market integrity, threaten the viability of firms and cause instability in the financial system. The disruption caused by COVID-19 had in the view of the regulator(s) additionally shown why it was critically important for firms to understand the services they provide and invest in their resilience.

As soon as possible after 31 March 2022, and by no later than 31 March 2025, firms have to have performed mapping and testing so that they are able to remain within impact tolerances for each important business service. Firms must also have made the necessary investments to enable them to operate consistently within their impact tolerances.

By 31 March 2022, firms must have identified their important business services, set impact tolerances for the maximum tolerable disruption and carried out mapping and testing to a level of sophistication necessary to do so. Firms must also have identified any vulnerabilities in their operational resilience.

A move to a greater Environmental, Social and Governance (ESG) focus

In common with the wider backdrop of corporate activity and beyond, regulators, including the FCA, have joined with Governments in pursuing an ESG agenda. With profits firms form part of this direction of change, along with all other financial services organisations.

The FCA set out its initial ESG priorities in October 2019 (in FS19/6: Climate change and green finance) designed to build on its prior work on corporate governance, senior manager responsibilities and culture and purpose. In April 2021, as the FCA entered a new phase and a strategic refresh of its ESG focus, it welcomed its first Director of ESG, Sacha Sadan.

ESG-related outcomes were included in the FCA Business Plan 2021/22, along with some core principles to identify the key themes of the regulator's work programme and near-term priorities.

The FCA's ESG work is based on 5 core themes:

- Transparency - promoting transparency on climate change and wider sustainability along the value chain
- Trust - building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem
- Tools - working with others to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts
- Transition - supporting the role of finance in delivering a market-led transition to a more sustainable economy
- Team - developing strategies, organisational structures, resources and tools to support the integration of ESG into FCA activities

Key Regulatory And Legislative Developments (continued)

Within the wider basket of ESG based change that the sector is undertaking, one area that has seen specific development within a with profits context, has been the development of ESG-orientated fund propositions, which pursue investment on environmentally and socially positive and progressive bases.

With profits fund propositions with this ESG perspective have already been launched by some providers, with the expectation that others will follow suit. In the longer term, such ESG considerations are likely to become commonplace within the with profits fund sector, for both new and existing business and many funds have already updated their PPFMs and indeed their investment strategies to reflect this.

Consumer Duty

On 7 December 2021, the FCA published a further consultation on a new Consumer Duty regulatory requirement, including feedback to CP21/13.

Consumer Duty being the regulator's articulation of a set of clearer and higher expectations for firms' standards of care towards consumers. The FCA view is that Consumer Duty would require firms to:

- Ask themselves what outcomes consumers should be able to expect from their products and services
- Act to enable rather than hinder these outcomes
- Assess the effectiveness of their actions,

the FCA stating:

"In essence, we want to see firms putting themselves in their customers' shoes, asking themselves questions such as 'would I be happy to be treated in the way my firm treats its customers?', or 'would I recommend my firm's products and services to my friends and family?'."

The Consumer Duty would add to the range of regulatory tools we use to meet our strategic objective of making markets work well. Bringing together our consumer protection and competition objectives, it would help create an environment where consumers are better equipped to achieve good outcomes from financial services. To enable this, firms need to ensure that their products and services are fit for purpose and offer fair value, and that their communications and customer service enable consumers to make and act on well-informed decisions."

As it is also for financial services companies beyond the with profits arena, the Consumer Duty regulatory framework is a potentially significant evolution of several prior regulatory thrusts. These include Treating Customers Fairly (TCF) and a number of product-based regulations. It is not just an update of these but is likely to represent a much more overarching regulatory perspective and one which with profits providers will undoubtedly be particularly cognisant of.

On 27 July 2022, the FCA issued its Policy Statement (PS22/9) and Finalised Guidance (FG22/5). The rules and guidance come into force on a phased basis:

- For new and existing products or services that are open to sale or renewal, the rules come into force on 31 July 2023
- For closed products or services, the rules come into force on 31 July 2024

31 October 2022 saw companies have to agree their implementation plans and to meet the new standards.

All of this timing underscoring the very current focus companies now need to have on Consumer Duty and ensuring the orientation of how they work to that end and in evidencing it.

Key Regulatory And Legislative Developments (continued)

Solvency II Evolution

Firms have been reporting under this regime since 2016 and have settled down into a consistent presentation of their results.

In CP8/18, issued in April 2018, the PRA proposed to remove the external audit requirement for the SFCRs of certain small Solvency II firms, and certain small Solvency II groups (collectively ‘small insurers’). This was implemented in November 2018 and a number of small insurers unsurprisingly chose not to have an external audit of their 2018 and subsequent SFCR. Clearly this is a welcome cost saving for such insurers, but it also removed a layer of external scrutiny, which may not be beneficial to policyholders.

Post the UK leaving the European Union, there has been much debate in the industry around potential changes to Solvency II that might arise or more broadly its development direction. There has even been some measure of tension reported between political and regulatory agendas. A number of announcements regarding consideration of Solvency II changes were made by regulatory bodies and politicians through 2021 and 2022.

17 November 2022 saw a further announcement within the Chancellor’s Autumn Statement on Solvency II reform. A topic which had perhaps been given more political airspace as a result of governmental volatility and a need, real or simply perceived, for tangible policy steps that might be aligned to economic growth and some form of positive follow-through on professed Brexit opportunities.

A Consultation Paper, CP14/22 - Review of Solvency II: Reporting phase 2 on changes to the Solvency II reporting requirements, forms part of the government’s review of Solvency II. Responses to this consultation phase are required to be submitted by 8 May 2023.

The final detail will become concrete with HMT legislation, but indications announced on various elements include those relating to the risk margin, which could release some capital for a number of insurers, including those writing with profits business, and changes to matching adjustment eligibility criteria, which has the potential to increase insurers’ ability to invest in different areas of the UK economy.

Many with profits insurers, who like others, will already have been working on the potential changes will now need to consider the final detail of the reform legislation and await the PRA’s next steps. Certainly, many aspects of Solvency II will not change, and this is for the better, given a probable horror most companies would have of further wholesale change, but where changes are made, they will affect some companies, generally positively in capital terms, significantly more than others, for whom the changes may have little or no affect.

And whilst, with capital released or greater flexibility delivered, the question might reasonably be asked over consumer benefit, it is likely that little tangible reduction in effective consumer security will be evident.

Brexit

Following the UK’s withdrawal from the European Union (EU) at 11pm on Friday 31 January 2020, the UK entered the transition (or implementation) period (TP) agreed as part of the withdrawal agreement between the UK and EU. This ended on 31 December 2020.

For the purposes of calculating their technical provisions as at a point in time before the end of the TP, UK insurers had to comply with the PRA’s prevailing rules and the Solvency II Regulations adopted under Article 86 of the Solvency II Directive, using the technical information (TI) published by the European Insurance and Occupational Pensions Authority (EIOPA) under Article 77e(2) of the Solvency II Directive. “TI” refers to the relevant risk-free rate term structures, the fundamental spreads for the calculation of the matching adjustment and for each relevant national insurance market, the volatility adjustments.

Key Regulatory And Legislative Developments (continued)

From the end of the TP, the PRA is required to publish TI for each relevant currency. The first time the PRA published TI was therefore at the reference date of Thursday 31 December 2020. Therefore, all regulatory reporting for UK firms as at a point in time from and including 11:00pm on Thursday 31 December 2020 use the PRA's published TI. This means that a firm with a reporting year-end of Thursday 31 December (which calculates technical provisions as at 11:59pm on Thursday 31 December and which includes all the firms covered in this report) used the PRA's published TI for the year-end 2020 exercise while any firm with a reporting year end before 31 December used the relevant EIOPA TI. The PRA continues to review its post-TP rules to ensure this is clear.

Another major implication of Brexit had been the inability of UK companies to administer European business post Brexit. The industry was quick to move, however, and many firms (including Aviva, Prudential, Royal London, Scottish Widows and Standard Life) prepared to mitigate this major impact by transferring their European business into the European Union prior to the original Brexit date of 29 March 2019, with most firms choosing Ireland (but some Luxembourg) as the destination, thus allowing them to continue to administer this European business. Alongside this the with profits element was reinsured back to the previous fund in order that policyholders remained exposed to the same investment and bonus prospects as before the transfer.

With Profits & Platforms

In July 2021, Novia announced the launch of the Wesleyan With Profits Fund on its platform. This proclaimed to be the first distribution tie-up of its kind, given that with profits offerings have not previously been made available via intermediary platforms. A fascinating change in dynamics then for the with profits market and it will be interesting to see what traction this link up generates for Novia and Wesleyan.

Whilst operating an 'in-house' financial planning team, Wesleyan has not previously targeted the wider intermediary market with its fund and so this represents a change in distribution approach for them. A new intermediary distribution team has been established to drive intermediary sector growth for the fund and with the Novia platform link in play there may be further strategic distribution partnerships (platform or otherwise) to come.

Since then, in 2022, M&G (Prudential) launched its PruFund Planet range on the M&G Wealth (formerly Ascentric) platform. So far it is the only solution in the PruFund range available via the M&G Wealth Platform, but further variants are to be anticipated.

The PruFund Planet range is available on the ISA and SIPP wrappers on the Platform. The first time also that the PruFund Planet range has been an investment option for an ISA.

AKG also anticipates other with profits fund providers following this path, by seeking to develop intermediary platform distribution relationships. Indeed, an LV= branded white-labelling arrangement with Embark, which will enable access to the new LV= Smoothed Managed Investment Fund range using Embark's platform technology is expected to be launched in the first half of 2023.

Key Regulatory And Legislative Developments (continued)

Pensions Dashboard Progress

On 31 January 2022, the Department for Work and Pensions (DWP) published its consultation, *Pensions Dashboards: consultation on the draft Pensions Dashboards Regulations 2022*. A consultation that ran for six weeks, until 13 March.

This is viewed as a significant step towards the realisation of pensions dashboards, as the DWP consultation sets out the draft regulations on the key duties for occupational pension schemes to participate in pensions dashboards. The FCA also consulted on parallel proposals for personal pension providers - see below.

The secondary legislation laid out in the DWP consultation introduces duties on occupational schemes to connect into the pensions dashboards ecosystem, receive find requests, undertake matching, register pension identifiers for any found pensions and to return pension information in response to view requests.

The draft regulations also set out what the duties would be on dashboard providers, with duties to present the pensions information that occupational schemes and DWP (for State Pension information) would provide to dashboards as it is, without changing it and in accordance with the Pensions Dashboards Programme (PDP) design standards.

In July 2021, PDP announced the recruitment of seven major pension organisations to its initial Alpha test phase of pensions dashboards. A number of software providers, insurers and third-party administrators were signed-up to work with the Programme and the successful central digital architecture supplier in the key Develop and Test phase of the programme.

The participating providers were listed as Aquila Heywood, Aviva, Capita, ITM, Legal and General, Mercer and Phoenix Group. PDP stated that the seven volunteers represent a potential combined provider coverage of over 30 million pensions, which will eventually be accessible to consumers via dashboards.

For those wishing to keep abreast of further developments, the PDP publishes six-monthly Progress Update Reports on its website.

The FCA also consulted on parallel proposals in its paper, *CP22/3 Pensions dashboards: proposed rules for pension providers*. With feedback requested by 8 April 2022, the FCA proposed new rules requiring FCA regulated pension providers to connect and supply information about personal and stakeholder pensions to pensions dashboards.

Following this feedback, on 1 November 2022, the FCA set out final rules and guidance requiring FCA regulated pension providers to provide and enable information about personal and stakeholder pensions for pensions dashboards.

The final rules require that FCA regulated pension providers must:

- Complete connection to the digital architecture operated by the Pensions Dashboard Programme - which is a function of the Money and Pensions Service (MaPS)
- Be ready to receive requests to find pensions, and search records for data matches
- Be ready to return pensions information to the consumer's chosen pensions dashboard

Firms must implement the final FCA rules by 31 August 2023, or if firms intend to use the later implementation date transitional provision (by 31 October 2024) they must notify the FCA by 30 April 2023.

Key Regulatory And Legislative Developments (continued)

Late 2022 also saw the FCA begin to consult on the proposed regulatory framework for commercial parties offering a pensions dashboard service. Subject to consultation outcome, the regulator aims to open the authorisations gateway for these services in Summer 2023.

Pension providers of all shapes and sizes - including those with with profits holdings - will need to comply with this framework and make the requisite information and valuations available to dashboards.

From previous experience of technological development projects in the industry AKG knows that those with older operating systems and technology might find this additionally challenging. In this age of transparency and Consumer Duty obligations, it feels as though there will be a moral obligation for pension providers to be more forthcoming. Associated consideration around pensions business retention will also be highlighted if pensions consolidation fires are further fuelled by the arrival of pensions dashboards.

Existing Book Thematic Review

As previously reported, this FCA review of closed book business practices in the life insurance sector was concluded, generally, in December 2016, with the publication of final FCA guidance on the subject, FG16/8 Fair treatment of long standing customers in the life insurance sector. This was followed in September 2018 with the FCA announcement that its four remaining investigations into specific firms had all been closed without action.

The ramifications for providers in the with profits sector continued, however, with several firms undertaking detailed reviews of past business.

The FCA provided four overarching expected guidance outcomes for providers in order to improve future behaviour in this sector and continues to monitor this behaviour:

- Outcome 1: The firm's strategy and governance framework results in the fair treatment of closed-book customers
- Outcome 2: The firm's closed-book customers receive clear and timely communications about policy features at regular intervals and at key points in the product life cycle to enable them to make informed decisions
- Outcome 3: The firm gives adequate consideration to, and takes proper account of, fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately
- Outcome 4: The firm's closed-book customers are able to move from products that are no longer meeting their needs in a fair and reasonable manner

Key Regulatory And Legislative Developments (continued)

With Profits Sector Review

In June 2017, the FCA announced that it had issued an information request to the majority of with profits firms to help them carry out a multi-firm review of the sector. The information request was designed to help the FCA identify the most appropriate areas to focus on in the review that would follow.

In April 2019 the FCA published its paper on the Thematic Review of the fair treatment of with-profits customers. Its final findings, as published, were:

“• Most firms we assessed are taking reasonable care to manage the risk of customer harm in their with-profits business. Our findings for investment strategy and management and overall governance underline this.

• We identified a widespread need for firms to do more to use their run-off plans (ROPs) fully as intended and described in our rules and guidance. In particular, many firms were not keeping their ROPs up to date and not using them as living documents in their day-to-day management of with-profits funds.

• We found specific areas of poor practice that might lead to customer harm.

Namely:

- weaknesses in assessments for, and distribution of, excess surplus in funds*
- insufficiently robust fund-level capital management approaches*

In a small number of these cases, there were signs that firms were not complying with FCA rules for their with-profits business.

• In most cases, there was no evidence of actual customer harm having arisen. However, customer harm may occur in the future if these practices continue. In some instances, our concern centred on firms being unable to show clearly that their actions were fair to different groups of with-profits customers.

• In the limited instances where we found practices presenting a higher risk of customer harm, a key cause was a failure of governance. In particular we identified ineffective oversight and challenge by senior individuals and the Board.”

The FCA flagged next steps and actions as:

“We expect with-profits operators to use this review to improve how they work, and in turn to improve outcomes for customers. The messages in this review will be useful to all such firms, regardless of size or structure. We expect all firms managing with profits business to consider the findings and examples of good and poor practice and assess whether they need to make any changes to their management of with-profits business.

We are taking the following actions:

- We have provided firm specific feedback to firms in our sample.*
- We have requested actions of firms in our sample where we have identified poor practice.*
- We will engage with certain senior managers across firms through round-table discussions later this year. We want to hear their views on our findings and understand what actions are being taken across the industry in response to these.*
- We will discuss the findings from this review with firms operating with-profits business as part of our normal supervisory processes.*
- If firms do not address the areas of poor practice highlighted in this review we will consider further action.*

We are also considering carrying out some focused work about the use of With-Profits Advisory Arrangements (WPAAAs).

The actions noted above form part of our work in relation to existing customers, which is a cross-sector priority for the FCA.

We are not proposing to consult on new rules and guidance on the basis of the findings of this review.”

Unfortunately AKG is not privy to the results of these actions but it is noticeable that many more annual reports to policyholders mention the maintenance of their Run Off Plans even though very little detail of those plans is given.

What Has Happened In The Past 12 Months?

2022 saw several new developments. Having acquired Police Mutual and transferred the with profits business directly into its Main Fund in October 2020, and having transferred the business of one of its existing funds and three of its existing subfunds into the Main Fund over the course of 2021, Royal London transferred the business of two more of its closed funds directly into the Main Fund over the course of 2022.

Late in 2021, the acquisition of Liverpool Victoria Financial Services Ltd by funds advised by Bain Capital Credit LP did not go ahead when the vote of policyholders did not reach the necessary level for the scheme to progress. Late in 2020, Liverpool Victoria Financial Services Ltd had announced that it had reached an agreement to be acquired by those funds, expecting the transaction to go ahead in 2021. Prior to the vote Royal London had made a rival offer which was rebutted. At the date of our previous report, LV was reconsidering its options. During 2022 LV concluded that it should carry on as a mutual and in order to maintain capital it converted to with profits some unit linked policies having introduced several new funds with formulaic smoothing rules (its smoothed managed funds). All smoothed managed business is now written on a with profits basis.

Acquisitions, mergers and de-mergers

After quiet years in 2020 and 2021, 2022 saw even less activity than in recent years with no acquisition/merger involving with profits companies. This may be because a number of businesses had already re-positioned themselves in terms of ongoing strategy and in anticipation of Brexit.

However, towards the end of the year it was announced that Phoenix was to acquire the UK business of Sun Life Financial Inc. for £248m.

Company Consolidations Within Groups

Similarly, there was no consolidation involving with profits companies in 2021 or 2022, as again most Groups had taken this step in advance of, or shortly after, the introduction of Solvency II in order to achieve capital efficiency through greater diversification under the Solvency II regime.

Following its August 2018 acquisition of Standard Life, Phoenix Group had announced its intention to merge all of its UK life subsidiaries into a single company by the end of 2021, but this was delayed following the purchase of ReAssure from Swiss Re although the intent remains.

Fund Wind-ups/Mergers

The step of actually merging with profits funds has been very rare in recent years and this is likely to continue to be the case other than where this is triggered as closed funds diminish in size to a previously determined level. Aviva did, however, merge its Old and New FLC With Profits Funds bringing the arrangement full circle given that they had originally been only one fund.

Separately, and as trailed in previous reports, Royal London also effectively merged two more of its legacy funds (the PLAL Fund and the Royal Liver Fund) directly into the Royal London Main (Open) Fund at the end of 2022 but in two different ways. These moves were subject to independent expert, regulator and Court approval, but the PLAL change did not require a policyholder vote but rather was a court approved change to the original Scheme of Transfer, increasing the sunset clause trigger and as a result bringing forward the closure of the fund by some nine years. The arrangements included uplifts to policy values to extinguish the closing funds inherited estates. A 5.6% uplift in the case of PLAL and a 23.1% uplift for Royal Liver. These uplifts effectively distributed the inherited estates of the closing funds with the transferred policies not having any rights to the estate of the Main Fund.

What Has Happened In The Past 12 Months? (continued)

As well as the Royal London Main Fund there is now only one closed fund being operated, the Royal London (CIS) Sub-Fund, although that is itself divided into three subfunds.

Interestingly, Wesleyan has opted not to merge the MSS Fund into the Open Fund, even though it has reached the required threshold, stating that it is currently comfortable that MSS Fund policies are not disadvantaged by continuing to manage the fund separately to the Open Fund, although the funds could be merged in the future if the Society believes it is in the best interests of the with profits policyholders in both funds.

AKG expects further conversions/mergers as funds reach such a small size that it is no longer worth the administrative effort and proportionate cost of maintaining such small funds with the attendant overheads of operating as with profits funds.

This also avoids the risk of very volatile payouts from year to year as surplus capital is shared out over progressively smaller policy numbers and will eventually become quite straightforward as many Court Schemes have included provision for such steps at particular fund sizes (value or policy numbers) and indeed may make it mandatory at a certain level.

De-Risking

In recent years, funds have been de-risking, in particular with several transferring blocks of annuities out of the funds. This avoids the problems of shrinking numbers of with profits policies of progressively shorter terms providing the capital and taking the risk of backing much longer-term annuity policies. It frees up capital, which, as well as benefitting any shareholders, can either be returned to policyholders through enhancements to benefits or used to allow increased equity or 'growth asset' investment in the search for higher returns. The former has the benefit of allowing the current generation of maturities to benefit from the capital release while the latter, in theory at least, should offer greater benefit to policies with longer to run.

A further development in this area was the agreement by Royal London to begin writing in its Main, Open Fund the annuities resulting from guaranteed annuity options within the RL CIS fund. Also, in order to continue to manage the RNPFN Fund fairly for its remaining with-profits policyholders, late 2021 saw LV= move all the annuities and unit-linked policies (and the assets they invest in) out of the RNPFN Fund into the main fund of LVFS with the LVFS Fund paying a fair value for the transferred policies to the RNPFN Fund.

COVID-19

Unfortunately, the impacts of the pandemic are still with us to a certain degree but most funds have seen solvency coverage ratios and equity backing ratios recover from the stresses of 2020.

As noted last year, a number of actions were taken to protect solvency, particularly amongst smaller organisations, with less access to additional capital and which found themselves under more pressure. These included reductions in annual bonuses, the application of MVRs and de-risking actions such as hedging, switching towards safer assets and increased reinsurance. While the application of MVRs has reduced over 2021, there were further reductions in regular bonus rates at the early 2021 declarations but far fewer reductions and several increases in the 2022 round of declarations.

Top (And Bottom) Tens Of The Year

Several industry-wide comparison tables are shown on pages 46 to 55 in the 'At a Glance Tables' section below, displaying data from with profits firms' 2021 Solo Solvency and Financial Condition Reports.

The population of with profits firms included in these tables is slightly wider than that featured in AKG's reports, because a number of smaller firms have also been included, for completeness.

In the next few pages, we have prepared some 'league tables', showing the top 10 ranked firms in the with profits market, by several different measures. In some cases, we have also shown the bottom 10!

Top 10 - With Profits Technical Provisions - Gross (£m)

Rank	Company	2021	Market Share
1	Prudential Assurance Company Ltd	106,743	43.1%
2	Aviva Life & Pensions UK Ltd	34,052	13.8%
3	The Royal London Mutual Insurance Society Ltd	30,704	12.4%
4	Standard Life Assurance Ltd	14,376	5.8%
5	ReAssure Ltd	10,487	4.2%
6	Phoenix Life Ltd	10,064	4.1%
7	Scottish Widows Ltd	9,985	4.0%
8	Phoenix Life Assurance Ltd	8,352	3.4%
9	Liverpool Victoria Financial Services Ltd	6,103	2.5%
10	National Farmers Union Mutual Insurance Society Ltd (TF)	4,482	1.8%
Market Total		247,587	

Source: Solvency and Financial Condition Reports: Life & Health SLT Technical Provisions

The top 10 companies are unchanged in 2021 and accounted for over 95% of the total with profits market in 2021. Prudential Assurance is largest by a clear margin - and almost 24 times the size of the tenth company. The Phoenix Group companies (now including ReAssure, itself now including the L&G with profits business, and Standard Life) totalled £43,279m between them meaning they have recovered and consolidated their position as the second largest group - but still less than half the size of Prudential.

The full tables of With Profits Technical Provisions - Gross for 2021 are shown on page 48.

Top 10 - With Profits Expenses (£m)

Rank	Company	2021	% of Market
1	Prudential Assurance Company Ltd	571	46.8%
2	Aviva Life & Pensions UK Ltd	137	11.2%
3	Standard Life Assurance Ltd	99	8.1%
4	The Royal London Mutual Insurance Society Ltd	88	7.2%
5	Phoenix Life Ltd	59	4.8%
6	Phoenix Life Assurance Ltd	51	4.2%
7	ReAssure Ltd	44	3.6%
8	Liverpool Victoria Financial Services Ltd	40	3.3%
9	Wesleyan Assurance Society	37	3.0%
10	Scottish Widows Ltd	32	2.6%
Market Total		1,222	

Source: Solvency and Financial Condition Reports: Premiums, Claims and Expenses by Line of Business

This top 10 list unsurprisingly mirrors the table of Technical Provisions reasonably closely in 2021 with the higher percentage for Prudential again reflecting their significant new business commitment.

The full tables of With Profits Expenses for 2021 are shown on page 54.

Top (And Bottom) Tens Of The Year (continued)**Top 10 - With Profits Companies: SCR Coverage Ratios**

Rank	Company	2021
1	The Independent Order of Oddfellows Manchester Unity Friendly Society Ltd	334%
2	Wesleyan Assurance Society	306%
3	Railway Enginemen's Assurance Society Limited	234%
4	Family Assurance Friendly Society Ltd	227%
5	Transport Friendly Society Ltd	216%
6	Equitable Life Assurance Society, (The)	206%
7	National Farmers Union Mutual Insurance Society Ltd (The)	204%
8	Metropolitan Police Friendly Society Limited	193%
9	Utmost Life and Pensions Limited	185%
10	The Royal London Mutual Insurance Society Ltd	181%
Market Average		178%

Source: Solvency and Financial Condition Reports: Own Funds

Once again mutual firms dominate the top 10 in 2021, with eight such firms retaining their place and one addition, three of which are too small to feature in the main body of AKG's reports. Part of the reason for this strong showing from the mutuals is that the with profits fund provides capital to the firm and so excess assets in it are included within the SCR coverage calculation whereas, for proprietary firms, the excess assets within any ring-fenced with profits funds (RFFs) are excluded from the calculation, naturally dampening the ratio. The market average shows a slight fall from 180% at the end of 2020 [2019: 198%, 2018: 187%, 2017: 194%].

The full tables of With Profits Companies: SCR Coverage Ratios for 2021 are shown on page 51.

Bottom 10 - With Profits Companies: SCR Coverage Ratios

Rank	Company	2021
20	ReAssure Ltd	156%
21	Rechabite Friendly Society Ltd (The)	155%
22	Sun Life Assurance Company of Canada (U.K.) Ltd	148%
23	Prudential Assurance Company Ltd	147%
24	Aviva Life & Pensions UK Ltd	146%
25	National Deposit Friendly Society Ltd	144%
26	Standard Life Assurance Ltd	139%
27	Countrywide Assured plc	130%
28	Zurich Assurance Ltd	127%
29	Ancient Order of Foresters Friendly Society Ltd, (The)	118%
Market Average		178%

Source: Solvency and Financial Condition Reports: Own Funds

As last year it is an interesting mix of firms in 2021. Several of the largest firms feature, along with a couple of small friendly societies. Ancient Order of Foresters remain at the bottom of the list and still detached from those immediately above, even though coverage rose over the year [2020: 112%, 2019: 111%].

As well as the dampening effect of the excess assets within RFFs noted under the top 10 table above, another reason why some of the larger firms have lower coverage ratios than might be expected is that they target a certain level of coverage within the individual operating companies and then hold any further capital at the parent company or group level.

The full tables of With Profits Companies: SCR Coverage Ratios for 2021 are shown on page 51.

Top (And Bottom) Tens Of The Year (continued)

Top 10 - With Profits Premiums Earned - Net (£m)

Rank	Company	2021	Market Share
1	Prudential Assurance Company Ltd	3,833	68.9%
2	Wesleyan Assurance Society	354	6.4%
3	Liverpool Victoria Financial Services Ltd	274	4.9%
4	The Royal London Mutual Insurance Society Ltd	220	4.0%
5	Aviva Life & Pensions UK Ltd	209	3.8%
6	National Farmers Union Mutual Insurance Society Ltd (The)	166	3.0%
7	Standard Life Assurance Ltd	131	2.4%
8	Metropolitan Police Friendly Society Limited	54	1.0%
9	ReAssure Ltd	51	0.9%
10	Phoenix Life Ltd	42	0.8%
Market Total		5,561	

Source: Solvency and Financial Condition Reports: Premiums, Claims and Expenses by Line of Business

Measured by net premiums earned, the top 10 companies accounted for around 96% of the market in 2021 with Prudential continuing to dominate the market, albeit with a reduced 69 [2020: 78%] of net premiums earned as it saw reduced volumes, whilst Wesleyan, Liverpool Victoria and interestingly Aviva, now closed to new with profits business, all reported gains. The total market size fell by 9% from £6,083m in 2020 [2019: £11,182m, 2018: £14,278m].

The full tables of With Profits Premiums Earned - Net for 2021 are shown on page 52.

Top 10 - With Profits Claims - Net (£m)

Rank	Company	2021	Market Share
1	Prudential Assurance Company Ltd	8,994	54.8%
2	Aviva Life & Pensions UK Ltd	2,948	18.0%
3	Scottish Widows Ltd	1,127	6.9%
4	Standard Life Assurance Ltd	980	6.0%
5	ReAssure Ltd	936	5.7%
6	Phoenix Life Ltd	888	5.4%
7	Phoenix Life Assurance Ltd	667	4.1%
8	Scottish Equitable PLC	487	3.0%
9	Liverpool Victoria Financial Services Ltd	437	2.7%
10	Wesleyan Assurance Society	323	2.0%
Market Total		16,414	

Source: Solvency and Financial Condition Reports: Premiums, Claims and Expenses by Line of Business

There is some reordering and Wesleyan has replaced Royal London, otherwise it is the same firms as in 2020 and 2019, when ReAssure Ltd replaced Legal and General in the table following the transfer of the latter's savings business. Once again, the list mirrors the table of Technical Provisions quite closely. The total net market claims are down 14% on 2020 [£19,056m, 2019: £21,579m, 2018: £23,077m].

The full tables of With Profits Claims - Net for 2021 are shown on page 53.

Top (And Bottom) Tens Of The Year (continued)

Top 10 - With Profits Business Flows - 2021

Company	Net Premiums (£m)	Net Claims (£m)	Net Flow (£m)
1 Metropolitan Police Friendly Society Limited	54	-16	39
2 Wesleyan Assurance Society	354	-323	31
3 Sheffield Mutual Friendly Society Limited	22	-10	11
4 Shepherds Friendly Society Ltd (The)	21	-10	11
5 Rechabite Friendly Society Ltd (The)	14	-9	5
6 Ancient Order of Foresters Friendly Society Ltd, (The)	15	-11	4
7 Transport Friendly Society Ltd	1	-1	0
8 Railway Enginemen's Assurance Society Limited	4	-5	-1
9 Equitable Life Assurance Society, (The)	0	-1	-1
10 The Independent Order of Oddfellows Manchester Unity Friendly Society Ltd	3	-6	-4
Market Totals	5,561	-16,414	-14,842

Source: Solvency & Financial Condition Reports: Premiums, Claims and Expenses by Line of Business.

Only six firms showed a positive net flow of business in respect of their with profits business in 2021 compared to seven in 2020, eight in 2019 and ten in 2018 with Transport Friendly and Railway Engineers moving from a small inflow to a small outflow and Wesleyan moving the other way. Once again, the total market outflow showed an increase from the previous year [2020: £12,972m, 2019: £10,397m, 2018: £8,799m, 2017: £8,683m].

The full tables of With Profits Flows of Business for 2021 are shown on page 55.

Bottom 10 - With Profits Business Flows - 2021

Company	Net Premiums (£m)	Net Claims (£m)	Net Flow (£m)
20 Liverpool Victoria Financial Services Ltd	274	-437	-163
21 Scottish Equitable PLC	33	-487	-454
22 Phoenix Life Assurance Ltd	31	-667	-635
23 Phoenix Life Ltd	42	-888	-845
24 Standard Life Assurance Ltd	131	-980	-849
25 ReAssure Ltd	51	-936	-885
26 Scottish Widows Ltd	41	-1,127	-1,086
27 The Royal London Mutual Insurance Society Ltd	220	1,994	-1,774
28 Aviva Life & Pensions UK Ltd	209	-2,948	-2,739
29 Prudential Assurance Company Ltd	3,833	-8,994	-5,161
Market Totals	5,561	-16,414	-14,842

Source: Solvency & Financial Condition Reports: Premiums, Claims and Expenses by Line of Business.

The same eight proprietary firms were in the bottom ten again joined by Royal London and LV. Unsurprisingly the list includes many of the consolidator companies with four companies seeing outflows of business of over £1bn in the year. Once again, Prudential had the largest net outflow, having had the largest net inflow in 2019.

The full tables of With Profits Flows of Business for 2021 are shown on page 55.

Top (And Bottom) Tens Of The Year (continued)**Top 10 Cumulative 5 Year Investment Returns in 2021**

Rank	Group/Company/Fund	Return	%Top
1	Phoenix Group - Phoenix Life Ltd - NPI With-Profits Fund: Socially Responsible With Profits Business	66.7%	100%
2	Aegon - Scottish Equitable PLC - New Generation With Profits Growth Fund	52.6%	79%
3	Royal London - The Royal London Mutual Insurance Society Ltd - RLCIS OB & IB Fund: Accumulating With-Profits Business	48.9%	73%
4	Royal London - The Royal London Mutual Insurance Society Ltd - RL Main Fund: Ex UF OB	48.2%	72%
5	Royal London - The Royal London Mutual Insurance Society Ltd - RLCIS OB & IB Fund: Table P Policies	47.8%	72%
6	Liverpool Victoria - Liverpool Victoria Financial Services Ltd - Teachers Assurance Fund: Conventional Teachers Assurance Fund	44.4%	67%
7	Royal London - The Royal London Mutual Insurance Society Ltd - RLCIS OB & IB Fund: Traditional With-Profits Business (excluding Table P/Option 32 policies)	43.9%	66%
8	Royal London - The Royal London Mutual Insurance Society Ltd - RL Main Fund: CWP and UWP business	43.0%	64%
9	Royal London - The Royal London Mutual Insurance Society Ltd - RL Main Fund: Royal Liver OB - UK business	42.3%	63%
10	M&G - Prudential Assurance Company Ltd - With-Profits Sub-Fund: PruFund Risk Managed 4 Fund	40.0%	60%

Source: As published or supplied by the companies concerned.

Eight of the funds in this Top 10 also feature in the ten year Top 10, showing impressive consistency, with six of the funds operated by Royal London.

The full tables of Investment Returns are shown on pages 57-60. The accumulation is at a fund level so ignores policy charges, smoothing and any possible enhancement such as estate distributions.

Bottom 10 Cumulative 5 Year Investment Returns in 2021

Rank	Group/Company/Fund	Return	%Top
131	Chesnara - Countrywide Assured plc - With Profits Fund (S&P Series)	13.5%	20%
132	Phoenix Group - Phoenix Life Assurance Ltd - London Life Ex-AMP CWP Compound Bonus Life business	12.6%	19%
133	Aegon - Scottish Equitable PLC - With-Profits Fund (WP1)	12.5%	19%
134	Foresters Financial - Forester Life Ltd - Tunbridge Wells Fund	12.4%	19%
135	Sun Life Financial of Canada - Sun Life Assurance Company of Canada (U.K.) Ltd - SLOC With-Profits Fund : Pensions business	11.1%	17%
136	Phoenix Group - Phoenix Life Ltd - Alba With-Profits Fund : Other Traditional WP Pensions business	9.2%	14%
137	Aegon - Scottish Equitable PLC - With Profits Endowment Fund (WPE)	9.0%	13%
138	Aegon - Scottish Equitable PLC - Reflex Deposit Administration Fund	9.0%	13%
139	Phoenix Group - Phoenix Life Assurance Ltd - London Life CWP Pension business	7.7%	12%
140	Phoenix Group - Phoenix Life Assurance Ltd - SERP Fund	4.0%	6%

Source: As published or supplied by the companies concerned.

Eight of the funds in this Bottom 10 also feature in the Bottom 10 over ten years. Of course this is not simply a feature of investment management skills but also a feature of the strength of the fund and the level of guarantees within it, with current EBRs ranging from zero (seven funds) to 31%.

The full tables of Investment Returns are shown on pages 57-60. The accumulation is at a fund level so ignores policy charges, smoothing and any possible enhancement such as estate distributions.

Top (And Bottom) Tens Of The Year (continued)

Top 10 Cumulative 10 Year Investment Returns in 2021

Rank	Group/Company/Fund	Return	%Top
1	Royal London - The Royal London Mutual Insurance Society Ltd - RLCIS OB & IB Fund: Table P Policies	206.8%	100%
2	Phoenix Group - Phoenix Life Ltd - NPI With-Profits Fund: Socially Responsible With Profits Business	182.5%	88%
3	Royal London - The Royal London Mutual Insurance Society Ltd - RLCIS OB & IB Fund: Accumulating With-Profits Business	145.6%	70%
4	Royal London - The Royal London Mutual Insurance Society Ltd - RLCIS OB & IB Fund: Traditional With-Profits Business (excluding Table P/Option 32 policies)	134.9%	65%
5	M&G - Prudential Assurance Company Ltd - With-Profits Sub-Fund: PruFund Risk Managed 4 Fund	129.7%	63%
6	Royal London - The Royal London Mutual Insurance Society Ltd - RL Main Fund: Ex UF OB	126.4%	61%
7	Royal London - The Royal London Mutual Insurance Society Ltd - RL Main Fund: CWP and UWP business	125.6%	61%
8	Wesleyan - Wesleyan Assurance Society - Medical Sickness Society Fund	125.5%	61%
9	Liverpool Victoria - Liverpool Victoria Financial Services Ltd - Teachers Assurance Fund: Conventional Teachers Assurance Fund	119.6%	58%
10	NFU Mutual - National Farmers Union Mutual Insurance Society Ltd (The) - Risk Level 3 With Profits business	118.3%	57%

Source: As published or supplied by the companies concerned.

As noted previously, eight of these funds also feature in the Top 10 over five years showing consistent performance, but this time five of the funds are run by Royal London.

The full tables of Investment Returns are shown on pages 57-60. The accumulation is at a fund level so ignores policy charges, smoothing and any possible enhancement such as estate distributions.

Bottom 10 Cumulative 10 Year Investment Returns in 2021

Rank	Group/Company/Fund	Return	%Top
128	Aegon - Scottish Equitable PLC - With Profits Endowment Fund (WPE)	49.7%	24%
129	Phoenix Group - Phoenix Life Assurance Ltd - National Provident Life With-Profits Fund: Deposit Admin & Capital Account Business	48.4%	23%
130	Zurich - Zurich Assurance Ltd - 100:0 With-Profits Fund	46.5%	22%
131	Aegon - Scottish Equitable PLC - Reflex Deposit Administration Fund	45.8%	22%
132	Phoenix Group - Phoenix Life Ltd - Alba With-Profits Fund : Other Traditional WP Pensions business	42.3%	20%
133	Foresters Financial - Forester Life Ltd - Tunbridge Wells Fund	41.6%	20%
134	Chesnara - Countrywide Assured plc - With Profits Fund (S&P Series)	40.1%	19%
135	Phoenix Group - Phoenix Life Assurance Ltd - London Life Ex-AMP CWP Compound Bonus Life business	30.9%	15%
136	Phoenix Group - Phoenix Life Assurance Ltd - London Life CWP Pension business	30.9%	15%
137	Phoenix Group - Phoenix Life Assurance Ltd - SERP Fund	29.5%	14%

Source: As published or supplied by the companies concerned.

As noted previously, eight of these funds also feature in the Bottom 10 over five years while six of the ten funds have zero EBR, with the highest current EBR again 31%. Cumulative inflation over this period was around 19% on a CPI basis, with all funds delivering above this.

The full tables of Investment Returns are shown on pages 57-60. The accumulation is at a fund level so ignores policy charges, smoothing and any possible enhancement such as estate distributions.

Solvency II

After many years of development, 1 January 2016 finally saw the introduction of Solvency II. The regime could be seen to have taken effect properly for with profits firms with the publication in May 2017 of their first Solvency and Financial Condition Reports, in respect of year-end 2016. Now fully embedded, UK insurers are being run on, and reporting is on, a Solvency II basis. The different regulatory regimes and the allowance of 'transitional arrangements' mean that it will still be some years before results are truly harmonised across Europe. Assuming, of course, that Brexit does not mean that the UK regulatory regime moves further away from this pan-European standard, having already gold-plated the rules in some respects.

The Solvency II regime sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.

Solvency II is about improving protection for policyholders and creating a safer and more resilient sector with capital requirements set to ensure that firms can withstand a forward-looking, one in two hundred-year stress. It could be argued that the UK Life Insurance Industry has survived three such events in the last 20 or so years, with the dot-com bubble, the banking crisis and COVID-19, although it is fair to say that the first of these was a major contributor to the demise, from a new business perspective, of with profits. It should also be noted that only one of these has arisen under the watch of Solvency II.

Having the same standards applied consistently across Europe is a fundamental principle of Solvency II, helping to ensure that regulation is not arbitrated.

Firms have the option to develop their own internal models to determine their capital requirements, rather than relying on the Standard Formulae within the regulations and the larger firms had been encouraged to follow this route, although some initially adopted the standard formulae for parts of their business. Currently, over 20 groups, including firms with with profits subsidiaries, have had full or partial internal models approved. A number of others (including those with more sensitive lines of business such as equity release) who initially had opted for the standard formulae have looked to move to a full or partial internal model, projects which themselves can take some considerable time and effort.

Perhaps the most noticeable change from the perspective of this report and for AKG, was the changed regulatory reporting requirements under Solvency II (its Pillar III). Firms must now produce two key reports, both of which include qualitative and quantitative information:

- An annual Solvency and Financial Condition Report (SFCR), which must be disclosed publicly. Normally each insurer completes a Solo SFCR, and each insurance group completes a Group SFCR, including consolidated results for all insurers in the group
- The Regulatory Supervisory Report (RSR): A private report to the PRA, not disclosed publicly, submitted in full at least every three years and in summary every year

There is also a comprehensive set of Europe-wide and UK-specific Quantitative Reporting Templates (QRTs) that must be completed on a quarterly or annual basis.

In the build-up to Solvency II, much was made of the objective of increasing 'transparency'. However, it is important to note that the vast majority of the new-style company reporting is done on a confidential basis between the firms and the PRA.

Solvency II (continued)

The only public domain information available to analysts such as AKG is the annual SFCR, published at a group and/or company level, which must be accompanied by only a very small subset of the firm's year-end QRTs. It is to be applauded that a number of companies have supplied AKG with additional information to aid assessment.

The introduction of the SFCR saw the demise of the previous regulatory returns, the PRA Returns. It should be noted that these were very different documents in terms of their approach and content. Simply put the new SFCR documents contain much more descriptive information and written detail in areas such as risk and governance. This is useful and a welcome development, and some companies have clearly made an effort to make their SFCRs more reader friendly. However, at the same time the SFCR contains much less in terms of granular data and this is an unfortunate side effect of the change.

Lost with the demise of PRA Returns

The most notable loss has been the requirement of companies to publish their Realistic Balance Sheets for their with profits funds. The new regime includes companies assessing funds on a Solvency II basis so it was hoped that equivalent information might continue to be published but sadly this has not universally been the case.

Another important loss is the absence from the SFCR of with profits payout data. This used to be included in PRA Returns, was distilled in this report in table form and proved an important element, though not the only one, in our assessment of future performance prospects - despite past performance not necessarily being a guide to the future! Some past performance data is still published in bonus declaration press releases, and even in some firms' Report and Accounts, but the lack of consistent, comparable figures is a big loss. AKG has tried to counter this gap by asking firms to voluntarily submit consistent payout figures to us, but, not surprisingly, a number of firms have chosen not to co-operate.

Other information lost from the public domain includes with profits new business data; fund-level asset and liability details and investment return data; the split of business by policy type, including the split between conventional and unitised with profits business; and the share of profits attributed to policyholders and shareholders.

Gained with the arrival of SFCRs

The major gain is the publication, on a consistent basis of firms' Own Funds (subdivided between three tiers), along with the Minimum Capital Requirement (MCR), Solvency Capital Requirement (SCR) and Excess Assets. These also allow a Solvency Capital Requirement coverage ratio to be calculated on this regulatory basis.

It would seem however that there are questions about the usefulness of this data - even from the companies themselves, and certainly from the view of with profits interested parties.

Solvency II (continued)

Gained with the arrival of SFCRs (continued)

The main regulatory solvency figures require companies to exclude from their Own Funds any surplus assets in 'ring-fenced' with profits funds. This is obviously sensible in some respects as surplus assets in those funds are for the benefit of those policyholders (subject to any shareholder share) and not generally available for the company as a whole, except in stressed conditions. However, the rules require the corresponding with profits funds' SCR to be included in the company SCR along with with profits assets up to this level. This has the natural effect of reducing the published SCR coverage ratio for the company as a whole. Thus many companies have chosen to also additionally publish the position on an 'Investor View' basis, excluding the with profits fund SCR and equivalent assets, and therefore showing an improved SCR coverage ratio, which may include other adjustments as well. This view also often allows for the up to date transitional provision position as well - the regulatory view can be out of date for two reasons, first the provisions may be amortised each 1 January, immediately after the as at date of the published information for December year-end companies, and they are also recalculated only on substantial changes in economic conditions (or every two years) rather than being based on the year end economic conditions.

However, this drawback from the companies' view is not as substantial, in AKG's view, as the distinct lack (apart from in respect of single fund mutuals and a few notable exceptions) of individual with profits fund solvency data. The problem is, of course, the lack of compulsory disclosure within SFCRs, and, unsurprisingly, many firms have elected to disclose the bare minimum of quantitative data about their individual with profits funds. Fortunately for AKG, there are other sources of this data available for some funds and some companies are happy to voluntarily make underlying data available to AKG.

On the plus side we do still have with profits business flow data - again, not for the individual funds themselves but rather for participating business within the company - and on the same basis we also have a breakdown of the make up of the risks behind the SCR (although only at a whole company level).

As noted above we do now have much more qualitative information on the risk and governance processes underlying the running of the business, but it is doubtful that policyholders will be as interested in this information as they would be in quantitative information about the performance of their fund. Indeed, it is an interesting question as to how useful the new documents are to end customers. This was one of the original purposes of the SFCR, but one which, in general with a very few exceptions has failed. These are not customer orientated or customer friendly sources of information. Although a mitigating comment: PRA returns certainly weren't either, albeit the latter never claimed that as an objective. This possible use of the SFCR is all the more intriguing given the regulator's decision towards the end of 2016 to drop the requirement that firms must produce a consumer-friendly version of their PPFM - citing that customers found them difficult to understand as one of the reasons - good luck to those customers in understanding an SFCR. At least some firms have continued to produce their CFPPFMs, or similar documents, as they must still bear in mind the information requirements of their customers.

Solvency II Terminology

In this section we give a brief introduction to some of the key terms associated with the Solvency II regime.

Solvency and Financial Condition Report (SFCR)

An annual report, containing both qualitative and quantitative information, which must be disclosed publicly. The report provides detailed information about a firm's business and performance, governance, risk profile and capital position. Normally each insurer completes a Solo SFCR, and each insurance group completes a Group SFCR, including consolidated results for all insurers in the group.

Regulatory Supervisory Report (RSR)

A more detailed private qualitative and quantitative report to the PRA, not disclosed publicly, submitted in full at least every three years and in summary every year.

Quantitative Reporting Templates (QRTs)

A comprehensive set of Europe-wide and UK-specific reporting templates that must be completed by insurers on a quarterly or annual basis. A small sub-set of the annual QRTs must be made publicly available with the SFCR.

Ring-Fenced Funds (RFFs)

Ring-fenced funds are arrangements where assets and liabilities are ring-fenced and form an identifiable unit in the same manner as if the fund were a separate firm. This arises where assets are earmarked to meet specific liabilities to the exclusion of other liabilities. The most common types of RFF are with profits funds. In calculating a company's statutory Own Funds, any excess assets inside an RFF must be excluded.

Best Estimate Liabilities (BELs)

The discounted present value of expected future cash flows in respect of a firm's insurance liabilities, using best estimate assumptions.

Risk Margin

The amount an insurance company would need, over and above Best Estimate Liabilities, in order to take over and meet all insurance and reinsurance obligations.

Technical Provisions

The value of technical provisions under Solvency II is equal to the sum of the Best Estimate Liabilities and the Risk Margin. Technical provisions include the Transitional Measure on Technical Provisions where firms have received PRA approval to apply the deduction.

Own Funds

The capital available to cover a company's (or fund's) SCR and MCR. This includes the excess of assets over liabilities, subordinated liabilities that qualify as capital, and off-balance sheet own funds approved by the PRA.

Solvency Capital Requirement

This is the amount of capital that needs to be held by an insurer to meet the Pillar I requirements under the Solvency II regime. It is calculated either by the use of an Internal (or Partial Internal) Model or using a Standard Formula. Companies would generally look to target holding a greater level of capital in order to avoid breaching this level of capital.

Solvency II Terminology (continued)

Minimum Capital Requirement

This is the minimum level below which the amount of financial resources (excess assets) of a firm should not fall. It is calculated using a linear formula that applies prescribed factors to capital at risk and the best estimate liability (net of reinsurance). It is subject to a floor of 25% of the SCR (and €3.7m at the end of 2021 for life insurance companies) and a cap of 45% of the SCR. This would be the capital level representing the final threshold that triggers ultimate supervisory measures in the event that it is breached.

Standard Formula

This is a prescribed set of calculations to generate a firm's Solvency Capital Requirement.

Internal Model

A risk management system used by an insurer to analyse its overall risk situation and determine its capital requirement, on the basis of the company specific risk profile. An internal model is intended to fully or partially replace the standard formula for the calculation of the Solvency Capital Requirement. Both quantitative and qualitative requirements will be set by the regulator and explicit approval has to be granted by the supervisor for its use.

Partial Internal Model

This is where a company has chosen to calculate the SCR using a combination of Internal Model and Standard Formula approaches for different parts of its business.

Transitional Measure on Technical Provisions (TMTP)

At its simplest, the transitional measure allows firms to spread over 16 years the difference between the Solvency II technical provisions and the value of liabilities under the previous Solvency I regime - but only in respect of business written before Solvency II came into force. This means that the full impact of the move to Solvency II will not come through for 16 years from the introduction of Solvency II for those firms that choose to apply the transitional measures. The reduction takes place on 1 January each year.

Not all firms have taken advantage of the transitional provisions, which allow the full effects of the adverse change in results from the old regime to the Solvency II regime to be brought in gradually over 16 years. And several of those who have taken advantage of this provision have already utilised the option to recalculate the level of provisions given the movement in interest rates during the year. Effectively the provisions must be recalculated every two years or more frequently if the risk profile of the firm has materially changed.

Matching Adjustment (MA)

The matching adjustment is an increase applied to the risk-free rate used to value insurance liabilities (and therefore acts to reduce the value of those liabilities) where the cash flows are relatively fixed and are well matched to assets that are intended to be held to maturity and have cash flows that are also relatively fixed. This is usually applied to annuity or possibly deferred annuity portfolios. Where the value of assets in the MA portfolio exceeds the value of the liabilities plus the SCR in respect of that business then the excess is deducted from Own Funds in the same way as for a ring-fenced fund.

Volatility Adjustment (VA)

A reduction to technical provisions to reflect temporary distortions in spreads caused by liquidity in the market or extreme widening of credit spreads. The VA reduces technical provisions by increasing the discount rate used to calculate the best estimate liability.

With Profits Governance

Principles and Practices of Financial Management (PPFM): These were first issued in May 2004 and were heralded as a major step forward for transparency of with profits. The documents themselves represent a significant investment in time and effort by the offices involved and range in length from less than 10 pages to over 350 pages. Initially intended as an aide to policyholders' understanding of with profits, they were subsequently realigned towards an 'informed' audience. Their existence has very much gone unnoticed by the majority of with profits policyholders: providers report very little demand. On a more positive note, PPFMs forced firms to document their principles and practices in one place, something many had not previously done completely. All PPFMs have been revised since they were first issued either to reflect changed regulatory requirements (most notably payout ranges as required under TCF), changes to principles or practices, or simply to correct errors. Notwithstanding the effort that has gone into producing them and maintaining them, it is recognised by many, including the regulators, that they have not fulfilled their primary objective and that intermediaries in particular are not using them. Most offices have made their PPFMs available online, although some have not. Each section of the PPFM provides details of the Principles and Practices underpinning the management of the office's with profits business.

Principles: reflect the general approach adopted in managing with profits business and are expected to be enduring.

Practices: explain the interpretation of the Principles in the light of current economic, regulatory and operational circumstances. The main sections include; Determining Payouts, Bonus Policy, Smoothing Policy, Investment Strategy, Business Risks, Charges and Expenses, Equity between policyholders and shareholders and Management of the Inherited Estate.

Consumer Friendly Principles and Practices of Financial Management (CFPPFM) :

With PPFMs failing to hit the mark, namely improving transparency for the end-customer, the regulator required that offices produce a Consumer Friendly PPFM, specifically designed with the policyholder audience in mind, replacing the With Profits Guides previously produced for policyholders. These were introduced in December 2005 but, as with PPFMs, differences in interpretation and content led to a wide variety of documents, even what they are called, with very little evidence of standardisation, despite the regulators providing examples of good practice. Whilst some were reasonably readable, others were littered with technical jargon.

Following the FCA's publication of Policy Statement PS16/23 '*Smarter Consumer Communications: Removing ineffective disclosure requirements in our Handbook*', the requirement for firms to produce a CFPPFM document for with profits policyholders was removed on 22 November 2016.

Firms still have to consider the information needs of consumers, but they now have greater freedom to decide how to engage with them.

Some firms still choose to publish some or all of the CFPPFM documents that they were previously obliged to publish, but an increasing number (particularly smaller firms) have elected not to. Some of those firms which have dispensed with CFPPFMs have however chosen to replace them with less rigidly structured information leaflets.

With Profits Governance (continued)

With Profits Committees (WPCs)/With Profits Advisory Arrangements (WPAAs):

All firms are now required to have either a With Profits Committee or a With Profits Advisory Arrangement, with published Terms of Reference that must meet at least a minimum set of standard requirements. In establishing the degree of independent input required, the PRA expects arrangements to be appropriate to the nature, size and complexity of the fund in question. In recent years, there have been signs in many firms of an increase in the level of independent judgement involved in the process, no doubt due to regulatory consultations and rule changes. However, the implementation of WPCs/WPAAs (including the extent to which their Terms of Reference go beyond the bare minimum requirements) still varies noticeably between firms, although now few firms if any flout the requirement for Terms of Reference to be published on the company website.

Annual Reports to Policyholders: Companies are required to report annually to policyholders confirming whether or not the with profits fund has been managed in accordance with its PPFM. Similarly the With Profits Actuary (WPA) is required to report on, amongst other things, the exercising of discretion in the management of the fund. The first reports, in respect of the year to December 2005, were published during the first half of 2006. These reports vary widely in style, quality and content. Breaches of PPFMs are few and far between, but not totally unheard of. Bizarrely, in the past some companies disclosed breaches of PPFMs in their PRA Returns which you would have been blissfully unaware of if you merely read the corresponding Annual Report to Policyholders.

Own Risk and Solvency Assessment (ORSA): Is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks an insurer faces or may face and to determine the own funds necessary to ensure that the insurer's overall solvency needs are met at all times. It is fundamental to the ORSA that it is forward looking and the PRA expects firms to find ways to estimate their future solvency position while assessing their current risk profile and how it is likely to change with the proposed business strategy.

With Profits Glossary

Asset Share: The premiums paid by the policyholder, less deductions for expenses, tax and other charges, plus allocations of business profits, accumulated at the rate of investment return achieved. [Note: In practice there is some variability as to which of the above elements are included, depending upon profit sharing philosophy.]

Conventional With Profits: Products characterised by a guaranteed sum assured to which regular (annual) bonuses, and possibly a terminal (final) bonus, are added. Few offices now offer conventional with profits, these having been superseded during the 1980s by unitised with profits products.

Unitised With Profits: The relevant part of the with profits fund is divided into units (similar to a unit linked fund) and the unit value is used to define individual policy values. Surplus is distributed by allocation of additional units or by incrementing the unit value. Most firms also employ the use of a potential terminal (final) bonus on exit.

With Profits Actuary: The actuary holding the regulatory appointment to advise a with profits firm on the exercise of discretion and report each year to the firm and policyholders on key aspects of that discretion and the application of its PPFM.

With Profits Glossary (continued)

Common abbreviations A-Z:

BEL	Best Estimate Liabilities
CFPPFM	Consumer Friendly Principles and Practices of Financial Management
CMA	Contractual Minimum Addition
CRR	Capital Resources Requirement
CWP	Conventional With Profits
DA	Deposit Administration
EBR	Equity Backing Ratio (including Property)
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, Social and Governance
FAR	Free Asset Ratio
FCA	Financial Conduct Authority
FSA	Financial Services Authority (replaced by FCA and PRA on 1/4/2013)
GAO	Guaranteed Annuity Option
GAR	Guaranteed Annuity Rate
GMP	Guaranteed Minimum Pension
IB	Industrial Branch
ICA	Individual Capital Assessment
ICG	Individual Capital Guidance
IM	Internal Model
LTA	Long Term Assets
LTBF	Long Term Business Fund
MA	Matching Adjustment
MCR	Minimum Capital Requirement
MVA/MVR	Market Value Adjustment/Market Value Reduction
NPSF	Non Profit Sub Fund
OB	Ordinary Branch
ORSA	Own Risk and Solvency Assessment
PIM	Partial Internal Model
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
PRE	Policyholder Reasonable Expectations
QRT	Quantitative Reporting Template
RBS	Realistic Balance Sheet
RCM	Risk Capital Margin
RMM	Required Minimum Margin
RSR	Regulatory Supervisory Report
S II	Solvency II
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
TCF	Treating Customers Fairly
TMTP	Transitional Measures on Technical Provisions
UWP	Unitised With Profits
VA	Volatility Adjustment
WCR	Working Capital Ratio
WP	With Profits
WPAA	With Profits Advisory Arrangement
WPB	With Profits Bond
WPC	With Profits Committee
WPFAR	With Profits Free Asset Ratio
WPICC	With Profits Insurance Capital Component

Company/Fund Analysis

The analysis provided for each company and each fund uses information collated from a number of sources, including meetings with a number of the offices, a questionnaire completed by many of the companies, their latest SFCRs (normally as at 31 December 2021), their PPFMs, CFPPFMs, reports to policyholders, websites and any other available material. Figures are shown for each of the last three years. AKG is grateful for the co-operation provided by many of the companies in the compilation of these reports.

What's New in 2022?

The population of groups, companies and funds covered by AKG has changed as follows:

- The FLC Old and New Funds within Aviva have been merged into the FLC With-Profits Sub-Fund.
- Two more funds within Royal London have been merged into the RL Main Fund
- LV= has launched a range of smoothed managed funds

Additionally, the availability of past performance data continues to reduce, following its omission from SFCRs. Whilst some companies still provide some information, which is to be commended, there is also the issue of the closed nature of many funds, which has also reduced the production of such data, particularly at shorter durations. This has meant that again this year AKG only considered that there was sufficient information to include maturity payments for 25-year regular premium endowment.

What do we mean by a Fund?

The complexity of the structures underlying many companies' with profits business has increased notably in recent years with funds, both actual and notional, being closed or transferred with increased frequency, and some marketing groups running several multiple with profits funds in different companies in their group.

It has got to the stage where it is actually rather difficult to define what a 'fund' is. This may seem a surprising situation at first mention.

For the purposes of this report, AKG's definition of a With Profits Fund is primarily based on marketing considerations. If a company markets a particular 'fund' with characteristics that distinguish it from other funds within the company, such as the name, or the objectives, or the asset backing, then it is deemed, by AKG, to be a With Profits Fund in its own right.

Using this approach, a company may have several different With Profits Funds within a single pool of assets. To make matters more complex, some With Profits Funds sit inside bigger, 'parent' With Profits Funds.

Even on AKG's definition, a With Profits Fund may contain a number of disparate blocks of business, with different rights, bonus structures etc. For example, a fund may contain blocks of CWP policies (perhaps some open and some closed), plus a number of different series of UWP life and pensions policies (again perhaps some open and some closed).

Company/Fund Analysis (continued)

Report format**Group Details**

This section is only present where there are two or more companies in a group having a with profits fund. It is generally omitted where there is only one such company.

Group Name

The name of the group that the companies belong to.

Group Background

This is a summary of the group's history and development.

With Profits Funds within the Group

This summarises the with profits funds in companies within the group, and shows where further details can be found in AKG's reports.

With Profits Products Currently Marketed within the Group

This section is only present if the group contains a fund that is open to new business. It summarises the with profits products currently marketed by companies within the group, using generic product names.

Company Details**Company Name**

The company name.

Ownership

Ultimate parent's name for proprietary companies, otherwise shows 'mutual'.

Company Background

This is a summary of the company's history and development.

Structure of Funds within the Company

This explains how many separate funds the company operates, both with profits and non profit, and the background to how the structure has developed over the years.

With Profits Funds within the Company

This lists the with profits funds in the company and shows where further details can be found in AKG's reports.

With Profits Products Currently Marketed within the Company

This section is only present if the company contains a fund that is open to new business. It summarises the with profits products currently marketed by the company, using generic product names.

Company Financial Strength

AKG's comments regarding the financial strength of the company.

Assets

A table showing the company's assets, split by main asset class.

Liabilities

A table showing the company's liabilities, split into four categories of technical provisions, plus 'other'; and the excess of assets over liabilities.

Life & Health SLT Technical Provisions

A table showing the company's gross life and health technical provisions, split into eight lines of business.

Company/Fund analysis (continued)

Solvency Capital Requirement

This table shows the makeup of the company's Solvency Capital Requirement, detailing the impact of each type of risk, and the effect of diversification of risks.

Eligible Own Funds

This table shows the breakdown of the company's Eligible Own Funds, split by tier. It also shows the excess of Eligible Own Funds over the SCR, and the SCR Coverage Ratio.

Gross Life Premiums Written by Line of Business

A table showing the company's life and health gross premiums written, split into eight lines of business.

Life Expenses

A table showing the company's life and health expenses, split into eight lines of business, plus an 'other expenses' item.

Business Flows

A table showing the company's net life and health business flows, calculated as net premiums earned less net claims incurred.

With Profits Business Flows

A table showing the company's net with profits business flows, calculated as net premiums earned less net claims incurred. Also shows with profits expenses.

Fund Details**Fund Name**

The name by which the fund is generally known. Surprisingly, not always easy to pin down in some companies. AKG experiences numerous instances of different names being used for a single fund in different contexts, and sometimes no name being used at all.

Fund Basics

Details of whether assets are earmarked, whether the fund is open to new with profits business, and the year opened and/or closed, if available. (NB A fund is classified as open if plans are currently marketed directly into it or are reinsured to it. Funds only accepting increments are treated as closed funds.)

AKG classifies a fund's assets as earmarked (or ring-fenced) if (a) they are kept legally separate; or (b) they are explicitly and continuously identified, and have revenues accounted for separately from assets supporting all other blocks of business.

By definition, funds with assets which are not ring-fenced are more exposed to risks relating to other lines of business, and they may also be exposed to an element of discretion on the part of the insurer as to how items such as investment income are credited. If an insurer were to become insolvent, however, it is possible that the benefits of ring-fencing may be overridden.

Company/Fund analysis (continued)**Company Details (continued)****Significant Classes of With Profits Business within the Fund**

A list of the significant classes of with profits business (sometimes described as 'Sub-Funds') within the fund. Typically, this indicates classes which have differing characteristics and/or differing asset mixes.

In each case, the table shows whether the class is open to new with profits business, the year opened and/or closed, and an indication of the size of the class at the last year end, if available. AKG defines a class of business as open if it is currently marketed to new customers (i.e. being available for incremental new business is not sufficient).

Each class is considered separately, where relevant, in the subsequent sections of the report. In particular, AKG's With Profits Future Performance Ratings and With Profits Transparency Ratings are provided for each class separately.

Fund Type/Classification

The fund type indicates whether the fund comprises conventional with profits business, unitised with profits business or both, and whether it contains non profit business.

The fund classification indicates the general nature of the fund, according to its stated aims and investment objectives/constraints.

Fund Type/Classification (continued)

Such classification has been standardised for many years for unit linked funds and unit trusts, but no such standards have been established in the with profits arena as yet. In the absence of generally accepted categories, AKG has tried to break funds down into the following classifications:

<u>Classification</u>	<u>Characteristics</u>
Mixed Investment (0-35)	Maximum of 35% shares
Mixed Investment (20-60)	20% to 60% shares
Mixed Investment (40-85)	40% to 85% shares
Flexible Investment	Up to 100% shares
Sterling Fixed Interest	At least 80% in Sterling fixed interest securities
Money Market	At least 95% in Sterling money market instruments (i.e. cash or near-cash)
Unclassified	Fund not capable of classification into any of the above categories

Fund Background

Contains general details of a fund including any relevant background information.

Fund Objectives

The overall aims of the fund/sub-fund.

Company/Fund analysis (continued)

Fund Details (*continued*)**PPFMs Applicable to the Fund**

Details of which PPFM documents are relevant to the fund, and the date of the latest edition thereof.

Governance Arrangements

This section gives details of governance arrangements the company has put in place for the fund. It also names the With Profits Actuary, indicates whether there is a With Profits Committee or a With Profits Advisory Arrangement in place for the fund, and if so, who its members are (and what their position is relative to the company, to give an indication of their independence).

With Profits Products Currently Marketed in this Fund

This section is only present if the fund is open to new business. It summarises the with profits products currently marketed by the fund, using generic product names. (NB Products not actively marketed to new policyholders (e.g. those only available to existing policyholders or on an incremental basis) are treated as closed.)

Rights to Share in Profits

This describes entitlement to profits. Note that for some new style with profits funds no explicit reference is made to either profits or surplus, participation being expressed in terms of a smoothed investment return.

Profit-Sharing Philosophy

This gives details of profit sharing philosophy.

Risk

This section details the extent to which a fund/sub-fund is exposed to specific risks, including investment, mortality, guarantees, expenses, impact of closed lines of business, other business risks etc.

Smoothing

This gives details of a company's approach to smoothing, including target payout levels, target payout ranges and any available information about what percentage of actual payouts fall within the target ranges.

MVRs

This gives details of a company's methodology; when MVRs are applied, how these are calculated and to which products they apply. And, where known, details of recent application.

Guarantees

Details of guarantees which new with profits policyholders may be exposed to, including MVR free dates, Guaranteed Annuity Options (GAOs) and guaranteed roll up/bonus rates.

Inherited Estate

Details of what the inherited estate comprises and the uses to which it may be put as well as details of its distribution if relevant.

Investment

Relevant information on investment management of the fund/sub-fund as available, including details of the fund managers, their philosophy and aims, details regarding the operational management of the with profits investments, and details of asset splits (both actual and target).

Company/Fund analysis (continued)

Fund Details (*continued*)**Past Performance**

Commentary and, where consistent data has been released to AKG by the firm, tables showing the fund's past performance (maturity/normal retirement and surrender) payouts for a selection of standard products. Payouts are shown for each 'original insurer' separately.

Investment Returns

Published returns on the fund/sub-fund for the last five years, together with their accumulation over five and ten years, if available.

Transparency

This gives details of the company's attitude to transparency in respect of the fund/sub-fund, with a rating on a scale of 1 - 5, where 5 is the best.

Future Performance

AKG's comments and assessment of the fund/sub-fund's likely future performance prospects, relative to other with profits funds, with a rating on a scale of 1 - 5, where 5 is the best.

Financial Strength of the Fund

Any fund specific comments where these may differ from those at the company level above, with a rating on a scale of 1 - 5, where 5 is the best.

See following section for a full explanation of AKG's ratings.

Guide to AKG's rating system

With Profits Financial Strength Ratings

This is an assessment of the position and ability of a with profits fund to maintain the operational characteristics specifically required for customers. It is conducted specifically for use by their advisers in the due diligence, selection and review of such funds, from the sole perspective of these with profits fund customers.

The result is delivered in the form of a simple rating, taking into account the following primary factors (where relevant and obtainable):

- The amount (and proportion) of with profits business in force
- Operational structure of the company and wider business
- Fund level solvency coverage position (if known); level of guarantees etc
- Company level business performance including:
 - o Profitability; increase/decrease in market shares; expense containment; governance performance; publicity: good or bad; and press or market commentary
 - o Commitment to markets and open/closed proposition(s) status and mix
 - o Capital, asset and solvency position, management and approach
- Parental strength and likely attitude to supporting the company/fund
- Image & strategy including: clarity and logic of purpose; effectiveness and direction of strategy, market share position and trends, brand visibility and reputation, feedback from intermediaries and industry commentators and from customers
- With profits characteristics: fund performance; policy payouts; market value reductions; estate distributions; any unique selling points
- Operating environment, regulatory context and ability to withstand external forces

With Profits Future Performance Ratings

The potential for future performance is made up of a variety of different factors. The major factors are:

- Current investment philosophy - With profits funds with high equity and property investments are likely to perform better over the longer term than, for instance, funds with a high proportion of fixed interest securities. It should be noted that this may not always be the case, but provided the policyholder accepts the basic premise that equities will, over the long term, out-perform fixed interest securities, this will be an important factor (i.e. in the long run funds with high equity ratios will perform better than funds with lower equity ratios).
- Company and, if available, fund-level solvency coverage position. Good coverage will enable overall investment flexibility and give an investment return on those free assets that may be available to with profits policyholders.
- Overall size of the company, its with profits fund and its capital base - The brand name (and ownership) and reputation of the company will indicate the company's ability to stay in the with profits market and sell new business at a profitable rate for the benefit of policyholders and shareholders.
- Bonus philosophy - with respect to reversionary and terminal bonuses, is relevant, allied with the impact of future stock market growth. Terminal bonuses are not only dependent on the company's attitude to withholding (or otherwise) capital gains, but also the market potential (for equities and property) for on-going growth. Companies with a high terminal bonus ratio (as a percentage of payout) may find this 'high' payment difficult to maintain and, consequently, future performance may be affected.
- Past performance as a guide to potential future performance - It should be noted however that not all current leaders in past performance have always been top performers.

Guide to AKG's rating system (continued)

- Distribution efficiency - A sales distribution network, which will enable products to be sold profitably and in adequate volumes, is clearly important.
- Miscellaneous profits or losses - Some companies have with profits funds benefiting only from investment returns. However, in other funds there is a contribution from other lines of business (e.g. non profit and unit linked surplus).
- Estate distribution - A key element for closed funds that are running-off is the size of the fund's inherited estate, and the company's policy as to how it will be distributed over time.
- Mutual or Proprietary status - There has been much debate on the 'strength' of mutual companies because of their potential inability to raise capital, should this be required. Most mutuals would contend that this is, in practical terms, not relevant. However, it has to be conceded that the public perception (of this constraint) does cause mutual companies some problems. A number of mutuals have now demutualised, often to the benefit of their then current policyholders. The big advantage that mutuals have, as far as policyholders are concerned, is that they pay 100% of all surplus back to policyholders so that bonuses are enhanced compared to their proprietary rivals. This is certainly true in some cases, though in general, actual results for mutual and proprietary companies are similar.

It must also be remembered that assessment of on-going performance is subjective, as the company's actual performance in 20 years, say, will be dependent on factors which cannot be accurately forecast, such as:

- Whether or not the company has stayed in business, and in what form
- Its ability to adapt to new market forces
- Its investment results
- Its overall profitability during that period

Nevertheless, those companies with good performance potential (as determined by the with profits factors above) have to start as favourites. Indeed, all intermediaries must consider these factors (or their equivalent rating) when recommending a specific with profits contract to a potential policyholder.

AKG has therefore, using its judgement and experience, produced a single rating that combines, to a greater or lesser extent, the various factors outlined above.

With Profits Transparency Ratings

Transparency has become a significant issue, as a result of the breakdown of trust following general concerns about the opaqueness of the with profits market as it had traditionally grown up. Increasingly, policyholders and their advisers seek reassurance that they will be able to rely on a provider acting fairly in all circumstances, and that the provider's scope to apply discretion is clearly delineated and reasonable.

For many years now, companies have been required to produce PPFMs for each of their with profits funds. Much of the information contained within these PPFMs had always been made available by the more transparent companies, in their desire to develop a more consumer focused approach. For other companies, less at the forefront of any drive to greater transparency, the PPFM ensures at least a degree of compulsory disclosure.

Guide to AKG's rating system (continued)

The purpose of the AKG Transparency Rating is to give a simple quantitative rating for transparency, consistent with AKG's other industry measures.

Considerations of transparency feature prominently in the context of 'new-style' with profits products, where it is explicitly addressed in the product design and marketing material. Even with 'old-style' products, however, the degree of openness about the conduct of a provider's with profits funds is seen as a vital factor in provider selection.

In evaluating transparency and openness, and recognising that there is no current industry wide definition, AKG takes the following main criteria into account:

- How open the mechanics of the fund are, and the extent of any discretion retained by the provider regarding key decisions about investment mix/bonus allocations/unit prices etc. from day to day throughout the life of a policy.
- The degree of discretion retained by the provider to change charges or other important contract terms.
- The degree of discretion retained by the provider to make final adjustments to policy proceeds at the point of payout.
- The amount, quality and timeliness of relevant information, about the operation of the fund and the company, made available to policyholders, advisers, and commentators. This particularly includes consideration of the depth, quality and clarity of information presented in PPFMs and on the company's website; as well as the extent of the provider's commitment to maintaining good standards of communication.
- The extent to which a provider's with profits fund operations will be subject to independent review and challenge; in particular the makeup and Terms of Reference of its WPC or WPAA.
- For closed funds, the company's approach to run-off; in particular governance issues and whether its communication strategy enables policyholders to make informed decisions.
- Under the Solvency II regime, to what degree the company voluntarily chooses to disclose in the public domain useful data about its with profits funds, such as fund sizes, fund composition, asset mixes, investment returns, distribution amounts, Own Funds and SCRs.

As levels of transparency develop within the industry, these criteria evolve and benchmarks are adjusted.

It is clear that there is still quite a wide spectrum of transparency performance within the market at present, although standards have been generally raised as a result of the PRA's current governance rules.

Explanation of AKG's Fund Ratings

The main purpose of AKG's Fund Ratings is to show AKG's opinion of the relative merits of each Fund against its competitors. For each of the 3 categories of Fund Rating, AKG's aim is to sub-divide the whole market into 5 separate groups, each containing the funds that are deemed to be broadly comparable with each other. In each case, a rating of 5 represents the highest-ranking group, whilst a rating of 1 represents the lowest ranking group.

It must be stressed that in arriving at each of the Fund Ratings published in this report, AKG has considered the full range of criteria detailed above. Considerable judgment is often required to assess the appropriate rating for a fund, particularly in situations where a fund exhibits a mixture of characteristics, some strong and some weak.

Group Name

M&G

Group Background

Prudential plc was an international financial services group with significant operations in Asia, the US and the UK, operating through three main business units: Prudential Corporation Asia, Jackson National Life Insurance Co and M&G. M&G was formed in August 2017, initially as M&G Prudential, following the combination of Prudential UK (life and pensions in the UK and across Europe) and M&G Investments (the group's UK and European fund manager, acquired in 1999).

Prudential announced its intention to demerge M&G from Prudential plc, resulting in two separately-listed companies, both headquartered and listed in London. In order to formalise the restructuring M&G plc was formed in July 2018, with M&G Corporate Holdings Ltd established as a subsidiary in September 2018. In November 2018, M&G acquired M&G Group Ltd, Prudential Assurance Company Ltd (PAC), Prudential Financial Services Ltd and Prudential Property Services Ltd. In December 2018, PAC sold its Hong Kong subsidiaries to a direct subsidiary of Prudential plc. December 2018 also saw M&G Corporate Holdings Ltd acquire Prudential Portfolio Management Group Ltd. The demerger completed in October 2019. M&G plc is now an independent UK & Europe savings and investment provider and has two main subsidiaries, which own the majority of its regulated entities: PAC and M&G Group Ltd. M&G acquired Wrap IFA Services Ltd, an intermediate holding company, and all its subsidiaries including Investment Funds Direct Limited, the provider of the Ascentric platform (rebranded as M&G Wealth), from Royal London in September 2020. In September 2020, the Group brought together established existing businesses to form a new wealth management division, M&G Wealth now comprised of M&G Wealth Platform and M&G Wealth Advice. M&G now operates under five brands:

- Pru - a provider of long-term savings in the UK and Europe
- M&G Investments - an international asset manager
- M&G Wealth - a wealth management business
- M&G Real Estate - a global real estate business
- Infracapital - a European infrastructure investment business

In January 2018, Prudential announced that the administration of over 4 million life and pensions contracts (since extended to 5.8 million) would move from Capita (its business partner since 2008) to Diligenta, a subsidiary of Tata Consultancy Services Ltd (TCS). The transfer of a further 394,000 corporate and individual pensions was completed in 2020 in addition to 433,000 customers migrated in 2019 on to the strategic administration platform BaNCS managed by Diligenta, TCS has also assumed responsibility for the operation of some of PAC's internal IT infrastructure. In March 2018, Prudential announced the sale of £12bn of its UK annuity portfolio to Rothesay Life, initially by reinsurance, a transaction which was estimated to give rise to a pre-tax loss of £513m in 2018 and was expected to complete in 2019. However, in August 2019 this transfer was rejected by the High Court, However, the Court of Appeal overturned the original decision in December 2020 and a second hearing in November 2021 approved the transfer which took place in December 2021 with £9.6bn of liabilities transferred. Offshore business is marketed through the Dublin subsidiary Prudential International Assurance plc (PIA) delivering niche proposition variants to specific markets, including the UK, based on the fundamental strength of the wider organisation and its PruFund capability and USP. In order to allow more efficient operation and to simplify the management of its long-term business across Europe, on 1 January 2019, Prudential consolidated all of its long-term business written in Europe (excluding the UK) into PIA. Although not a primary motivation, the transfer has been structured to ensure that PAC's policies written through establishments in Europe (excluding the UK) can continue lawfully to be administered and serviced post-Brexit. This saw a number of relatively small transfers of business from European countries (net assets of £15m), including the Polish business as well as establishment work to ensure continued provision of offshore bond business for UK customers. The with profits business is reinsured back to PAC.

With Profits Funds within the Group**Prudential Assurance Company Ltd**

With-Profits Sub-Fund	OPEN	See page 563
-----------------------	------	--------------

Defined Charge Participating Sub-Fund	OPEN	See page 626
---------------------------------------	------	--------------

Prudential International Assurance plc

Ordinary Long Term Business Fund	OPEN	Not included
----------------------------------	------	--------------

With Profits Products Currently Marketed within the Group**Prudential Assurance Company Ltd**

Fund/SubFund	Product
With-Profits Sub-Fund: With-Profits Fund (Sterling OB business)	Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Growth Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Protected Growth Fund	Life UWP single premium Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Cautious Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Protected Cautious Fund	Life UWP single premium Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 1 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 2 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 3 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 4 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 5 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 1 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 2 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 3 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 4 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 5 Fund	Individual pensions UWP

With Profits Products Currently Marketed within the Group (continued)**Prudential International Assurance plc**

Fund/SubFund	Product
PIA PruFund Growth £	Life UWP single premium
PIA PruFund Growth €	Life UWP single premium
PIA PruFund Growth \$	Life UWP single premium
PIA PruFund Protected Growth £	Life UWP single premium
PIA PruFund Protected Growth €	Life UWP single premium
PIA PruFund Protected Growth \$	Life UWP single premium
PIA PruFund Cautious £	Life UWP single premium
PIA PruFund Cautious €	Life UWP single premium
PIA PruFund Cautious \$	Life UWP single premium
PIA PruFund Protected Cautious £	Life UWP single premium
PIA PruFund Protected Cautious €	Life UWP single premium
PIA PruFund Protected Cautious \$	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Risk Managed 1 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Risk Managed 2 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Risk Managed 3 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Risk Managed 4 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Risk Managed 5 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Planet 1 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Planet 2 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Planet 3 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Planet 4 Fund	Life UWP single premium
Ordinary Long Term Business Fund: PIA PruFund Planet 5 Fund	Life UWP single premium

Company Name

Prudential Assurance Company Ltd

Ownership

M&G Plc

Company Background

Prudential began life in 1848 as the Prudential Mutual Assurance Investment and Loan Association. It became the Prudential Assurance Company Ltd ('PAC') in 1867, and for many years it was the UK's largest life company. Originally a composite office with a large home service operation, the company stopped writing IB business in 1995, and in 2001 closed its direct sales force and exited from general business in the UK by selling its book to Churchill (a fully reinsured small run-off liability still exists). At the same time, it dropped the Scottish Amicable brand (it had acquired Scottish Amicable in 1997) and all remaining Scottish Amicable business was transferred into Prudential at the end of 2002.

In December 2007 PAC accepted a transfer of £1.8bn of with profits annuities liabilities (60,000 policies) from Equitable Life Assurance Society (ELAS). In October 2010 PAC received the businesses of Prudential Holborn Life Ltd and Prudential (AN) Ltd (which contained a £43m closed block of with profits bonds written in 2003 and 2004 via the sales force of Abbey National plc). In August 2011, the majority of the annuities previously reinsured to the subsidiary Prudential Annuities Ltd (PAL) were recaptured by the With-Profits Sub-Fund. In October 2014 the remaining policies in PAL were transferred to PAC. PAC's Hong Kong branch was transferred to two new locally incorporated Hong Kong subsidiary companies on 1 January 2014, one life and one general. Ownership was transferred to Prudential Corporation Asia Ltd with effect from 14 December 2018. The £30bn business of Prudential Retirement Income Ltd (PRIL) was transferred to PAC in October 2016.

Following the introduction of Solvency II PAC withdrew from the bulk annuity market, and it has also taken steps to curtail retail annuity sales by establishing in 2017 an annuity panel arrangement with a number of other firms to provide annuities to its customers. In March 2018 PAC sold part of its UK annuity portfolio for £12.0bn to Rothesay Life, initially via reinsurance and expected to be formally transferred by the end of 2019 but the transfer did not receive Court approval. The company appealed the decision and the original decision was overturned in December 2020 and a second hearing in November 2021 approved the transfer which took place on 15 December 2021.

In view of Brexit, Prudential has consolidated all of its long-term European business (excluding the UK) into PAC's Irish subsidiary, Prudential International Assurance plc (PIA). All business written by PAC in Poland, France and Malta, and by ELAS in Germany and Ireland (£74m liabilities at end 2017, including £3m of with profits business) was transferred to PIA on 1 January 2019 with the with profits element reinsured back to PAC.

PAC and M&G plc have entered into a legally enforceable Parental Support Arrangement (PSA) under which M&G plc has committed to provide PAC with capital support in the event of the solvency ratio of either of PAC's with-profits or shareholder fund falling to 105% of its Solvency II capital requirement, with each fund being assessed on an internal stand-alone basis.

Sales of with profits products in the intermediary market are now mainly pensions (including income drawdown) and with profits bonds. The company remains by far the biggest writer of new with profits business in the UK market, being almost alone in achieving significant growth in new business volumes compared to 2006 levels and states that it currently has no intention to close either the With Profits Sub Fund or the Defined Charge Participating Sub Fund.

Structure of Funds within the Company

The company currently has two ring-fenced with profits funds as defined under Solvency II:

- The With-Profits Sub-Fund (WPSF) (a 90:10 fund)
- The Defined Charge Participating Sub-Fund (DCPSF) (a 100:0 fund)

The WPSF, the largest with profits fund in the UK, consists mainly of with profits business, written by:

- PAC, both OB (including Hong Kong, until January 2014) and IB as well as European business transferred by PAC to PIA in January 2019 and reinsured back to PAC
- Scottish Amicable Life (SAL) (the accumulated with profits premiums in respect of the business transferred into the NPSF in 2002)
- Prudential (AN) Ltd. This block of unitised with profits bonds written in 2003 and 2004 via the sales force of Abbey National plc was wholly reinsured into the WPSF until the end of October 2010, when it was transferred into the fund
- Scottish Amicable Life Assurance Society (SALAS) and transferred into PAC.

The WPSF also contains a smaller amount of non profit business (the majority of which is reinsured to Prudential subsidiaries). This comprises:

- the non profit (including unit linked) business written by PAC that is not in the NPSF
- the following types of business written by SALAS, contained since 1997 in the memorandum Scottish Amicable Account (SAA): unitised with profits life business (other than its investment content which was transferred to the SAIF), and the non profit (including unit linked) life business.

The DCPSF contains the accumulated investment content of premiums paid on Defined Charge Participating business, which is either reinsured from Prudential International Assurance plc (based in Dublin) or other companies. The fund also includes the with profits annuity business transferred from Equitable Life in December 2007. The fund is classified as open because it continues to receive new business via reinsurance.

Prior to 1 April 2021 the company also operated a third ring-fenced with profits fund, the Scottish Amicable Insurance Fund (SAIF), but this was merged with the WPSF on that date.

SAIF contained the pensions, annuities and traditional with profits life business transferred from SALAS in 1997 and the investment content of with profits business in SAA. The business was predominantly with profits in nature.

The balance of long-term assets and liabilities is in the Non-Profit Sub-Fund (NPSF), a 0:100 fund. It contains most of the company's unit linked and non profit business, including all the business (£30bn at 2015 values) transferred in from Prudential Retirement Income Ltd on 1 October 2016. It also includes all Defined Charge Participating business (apart from the with profits annuity business transferred from Equitable Life). However, the investment content of the Defined Charge Participating business held in the NPSF is allocated to the DCPSF.

At the end of 2021, the company's £154.3bn technical provisions comprised £106.7bn with profits, £12.8bn linked, £7.8bn reinsurance, and £26.9bn other business [2020: £165.3bn, £103.9bn, £13.2bn, £7.7bn, £40.6bn; 2019: £166.0bn, £103.7bn, £13.6bn, £7.5bn, £41.1bn; 2018: £155.9bn, £94.5bn, £12.9bn, £6.3bn, £42.2bn; 2017: £159.6bn, £93.9bn, £14.4bn, £6.1bn, £45.2bn; 2016: £150.4bn, £84.6bn, £14.3bn, £5.2bn, £46.3bn]. The 2021 fall in other business relates to the transfer of annuity business to Rothesay Life.

Within the WPSF the current new business is largely written through the PruFund range of funds. At the end of 2021 assets under management or administration in PruFund reached £58.4bn [2020: £56bn, 2019: £54bn, 2018: £43bn].

With Profits Funds within the Company

With-Profits Sub-Fund	OPEN	See page 563
Defined Charge Participating Sub-Fund	OPEN	See page 626

With Profits Products Currently Marketed within the Company

Fund/SubFund	Product
With-Profits Sub-Fund: With-Profits Fund (Sterling OB business)	Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Growth Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Protected Growth Fund	Life UWP single premium Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Cautious Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Protected Cautious Fund	Life UWP single premium Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 1 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 2 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 3 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 4 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
With-Profits Sub-Fund: PruFund Risk Managed 5 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 1 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 2 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 3 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 4 Fund	Individual pensions UWP
With-Profits Sub-Fund: PruFund Planet 5 Fund	Individual pensions UWP

Company Financial Strength

As one of the UK's largest and strongest life companies, PAC continues to show significant resilience in the wake of challenging economic, legislative and regulatory conditions. It has retained focus and increased its market share, whilst continuing to demonstrate its appetite for key segments of the UK market, specifically the Pre- and Post-Retirement space.

PAC's adjusted operating profit before tax was £641m in 2021 [2020: £664m], consisting of £268m [2020: £221m] relating to the shareholder transfer and associated hedges from the With-Profits Fund, £369m [2020: £438m] relating to the annuity business and £4m [2020: £5m] on unit-linked and other business. There was a non-operating loss of £566m [2020: £647m profit], mainly due to losses from short-term fluctuations in investment returns in 2021. Overall, therefore, PAC's UK GAAP profit before tax was £75m [2020: £1,311m]. Total dividends of £1,550m were paid [2020: £497m]. A final dividend in respect of 2021 of £333m was declared in March 2022, which is not recognised in the Solvency II position at 31 December 2021.

PAC's solvency position was impacted in 2018 mainly due to the transfer of the Hong Kong Subsidiaries, which reduced Own Funds by £6.9bn and the SCR by £2.7bn, although the SCR coverage ratio was relatively unchanged. This reduced in 2019, however, impacted by dividend payments which more than offset the surplus arising, before increasing in 2020 and 2021.

At 31 December 2021, PAC had Own Funds of £12.2bn [2020: £13.6bn, 2019: £12.8bn, 2018: £13.0bn]. With an SCR of £8.3bn [2020: £10.0bn, 2019: £9.7bn, 2018: £9.3bn], there was an increased SCR coverage ratio of 147% [2020: 136%, 2019: 131%, 2018: 140%]. PAC's Solvency II surplus increased to £3.9bn [2020: £3.6bn], predominantly due to the expected return in the year and a series of management actions taken, including the impacts of trading in the annuity portfolio, longevity assumption changes and the impact of changes in economic conditions, offset by the payment of dividends of £1,550m [2020: £497m].

PAC employs the transitional measure for technical provisions and the matching adjustment. If these are excluded, own funds reduce to £10.2bn, whilst the solvency capital requirement increases to £12.3bn, leading to a coverage ratio of 83% [2020: £10.8bn, £13.6bn, 80% respectively, 2019: £10.1bn, £13.3bn, 76%; 2018: £9.7bn; £12.7bn and 76%].

PAC is one of a handful of companies that remain highly committed to with profits and it is dominant in this market in the UK. It has the largest with profits portfolio in the UK, and it continues to write new UK with profits business in volumes that dwarf all others in the market. The inherent strength of its with profits fund remains apparent. PAC's estimated with profits funds' Solvency II surplus as at 31 December 2020 was £7.8bn [2020: £7.0bn, 2019: £7.6bn, 2018: £5.5bn], leading to a coverage ratio of 302% [2020, 243%, 2019: 267%, 2018: 231%].

Additionally, and of most significance, is the demerger which, whilst not significantly impacting upon solvency, positions the company as a more important component, albeit in a smaller but more focused group. Prudential plc's strategy has evolved and, whilst resisted for some time, the demerger was logical in view of the respective different levels of maturity of the businesses. Recent acquisitions by M&G, in particular Ascentric, Sandringham and Continuum are positive developments and bring with it opportunities for PAC to widen its offering and distribution, in particular of PruFund.

M&G plc's Solvency II surplus increased to £6.2bn as at 31 December 2021 [2020: £4.8bn], equivalent to a shareholder Solvency II coverage ratio of 218% [2020: 182%], driven by total capital generation of £1,822m [2020: £995m] and an increase of £32m [2020: £121m] from other capital movements, partially offset by dividends of £466m [2020: £562m]. The regulatory Solvency II coverage ratio for the Group, which combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund, was 168% [2020: 144%].

Assets

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Fixed interest	70,537,975	64,141,568	61,040,057
Equities	35,919,309	34,004,690	21,301,678
Collectives	9,766,959	10,436,866	10,670,185
Property	8,732,965	8,080,753	8,098,988
Linked	7,911,391	7,299,949	7,209,750
Derivatives	3,845,049	5,556,528	3,179,229
Loans and mortgages	15,535,669	18,774,069	18,595,783
Reinsurance recoverables	18,059,593	17,835,609	6,795,167
Cash	1,494,914	2,359,783	1,382,395
Other	26,211,995	29,138,214	47,477,848
Total Assets	198,015,820	197,628,030	185,751,079

Source: Solvency & Financial Condition Reports - Balance Sheet

Liabilities

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Technical provisions - non-life	145,361	132,362	127,785
Technical provisions - health (similar to life)	-2,798	-4,070	232
Technical provisions - life	152,391,703	152,161,214	141,405,519
Technical provisions - linked	13,635,367	13,171,768	12,848,130
Other	11,415,565	11,552,752	11,431,087
Total Liabilities	177,585,198	177,014,026	165,812,753
Excess of assets over liabilities	20,430,622	20,614,004	19,938,326

Source: Solvency & Financial Condition Reports - Balance Sheet

Life & Health SLT Technical Provisions

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Insurance with profit participation	103,748,594	103,893,861	106,743,495
Linked insurance	13,635,367	13,171,768	12,848,129
Other life insurance	41,139,830	40,573,446	26,864,784
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	-2,798	-4,070	231
Health reinsurance	0	0	0
Life reinsurance	7,503,278	7,693,906	7,797,238
Total life & health SLT technical provisions	166,024,271	165,328,911	154,253,877

Source: Solvency & Financial Condition Reports - Life & Health SLT Technical Provisions

Solvency Capital Requirement (SCR)

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Market risk	8,302,142	8,583,118	7,250,529
Counterparty default risk	297,131	394,190	125,672
Life underwriting risk	3,231,205	3,562,205	2,915,653
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	-2,323,940	-2,869,046	-2,070,133
Intangible asset risk	0	0	0
Operational risk	1,323,937	1,412,644	1,380,772
Capital add-ons already set	0	0	0
Other items	-1,085,023	-1,081,380	-1,306,763
Solvency capital requirement	9,745,453	10,001,731	8,295,730

Source: Solvency & Financial Condition Reports - Solvency Capital Requirement

Eligible Own Funds

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Tier 1 unrestricted	12,802,906	13,612,782	12,161,304
Tier 1 restricted	0	0	0
Tier 2	0	0	0
Tier 3	0	0	0
Eligible own funds to meet SCR	12,802,907	13,612,782	12,161,304
Excess of own funds over SCR	3,057,454	3,611,050	3,865,574
SCR coverage ratio (%)	131.0	136.0	146.6

Source: Solvency & Financial Condition Reports - Own Funds

Gross Life Premiums Written By Line of Business

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Health insurance	16,003	14,876	13,857
Insurance with profit participation	9,391,310	4,756,239	3,833,494
Linked insurance	474,314	443,697	410,145
Other life insurance	417,862	246,543	177,768
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	1,071,153	569,942	536,714
Total gross life premiums written	11,370,642	6,031,297	4,971,978

Source: Solvency & Financial Condition Reports - Premiums, Claims and Expenses - By Line of Business

Life Expenses

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Health insurance	1,952	2,003	1,916
Insurance with profit participation	704,108	634,872	571,473
Linked insurance	114,190	123,532	118,300
Other life insurance	244,446	146,334	166,729
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	29,310	30,003	27,525
Other expenses	-20,172	77,832	63,490
Total life expenses	1,073,834	1,014,576	949,433

Source: Solvency & Financial Condition Reports - Premiums, Claims and Expenses - By Line of Business

Life Business Flows

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Net life premiums earned	11,145,099	4,816,650	3,716,589
Net life claims incurred	-11,006,534	-10,693,896	-11,745,804
Net flow of business	138,565	-5,877,246	-8,029,215

Source: Solvency & Financial Condition Reports - Premiums, Claims and Expenses - By Line of Business

With Profits Business Flows

	2019 (£000's)	2020 (£000's)	2021 (£000's)
Net with profits premiums earned	9,410,427	4,755,933	3,833,260
Net with profits claims incurred	-7,930,278	-8,183,925	-8,994,185
Net with profits flow of business	1,480,149	-3,427,992	-5,160,925
With profits expenses incurred	-704,108	-634,872	-571,473

Source: Solvency & Financial Condition Reports - Premiums, Claims and Expenses - By Line of Business

Fund Name

With-Profits Sub-Fund

Fund Basics

Assets Earmarked?	Open?	Year Opened	Year Closed
No	Yes		

Significant Classes of With Profits Business within the Fund

	Open?	Opened	Closed	Assets (31/12/21) (£000's)
With-Profits Fund (Sterling OB business)	Yes			
Optimum Bonus Fund	No	2001		
Optimum Return Fund	No	2001		
SAIF business	No	1997	1997	
PruFund Growth Fund	Yes	2004		
PruFund Protected Growth Fund	Yes	2008		
PruFund Growth & Income Fund	No	2004	2009	
PruFund Protected Growth & Income Fund	No	2008	2009	
PruFund Cautious Fund	Yes	2009		
PruFund Protected Cautious Fund	Yes	2009		
PruFund Risk Managed 1 Fund	Yes	2011		
PruFund Risk Managed 2 Fund	Yes	2011		
PruFund Risk Managed 3 Fund	Yes	2011		
PruFund Risk Managed 4 Fund	Yes	2011		
PruFund Risk Managed 5 Fund	Yes	2019		
PruFund Planet 1 Fund	Yes	2021		
PruFund Planet 2 Fund	Yes	2021		
PruFund Planet 3 Fund	Yes	2021		
PruFund Planet 4 Fund	Yes	2021		
PruFund Planet 5 Fund	Yes	2021		
With-Profits Fund (Non-Sterling OB business)	Yes			
With-Profits Fund (IB business)	No		1995	

Fund Type/Classification

With-Profits Fund (Sterling OB business)	Conventional and Unitised With Profits business, plus Non Profit business	Mixed Investment Fund (40%-85% Shares)
Optimum Bonus Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
Optimum Return Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
SAIF business	Conventional and Unitised With Profits business, plus Non Profit business	Mixed Investment Fund (20%-60% Shares)
PruFund Growth Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PruFund Protected Growth Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PruFund Growth & Income Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PruFund Protected Growth & Income Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PruFund Cautious Fund	Unitised With Profits business only	Mixed Investment Fund (0%-35% Shares)
PruFund Protected Cautious Fund	Unitised With Profits business only	Mixed Investment Fund (0%-35% Shares)
PruFund Risk Managed 1 Fund	Unitised With Profits business only	Mixed Investment Fund (0%-35% Shares)
PruFund Risk Managed 2 Fund	Unitised With Profits business only	Mixed Investment Fund (0%-35% Shares)
PruFund Risk Managed 3 Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PruFund Risk Managed 4 Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PruFund Risk Managed 5 Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PruFund Planet 1 Fund	Unitised With Profits business only	Mixed Investment Fund (0%-35% Shares)
PruFund Planet 2 Fund	Unitised With Profits business only	Mixed Investment Fund (0%-35% Shares)
PruFund Planet 3 Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PruFund Planet 4 Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PruFund Planet 5 Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
With-Profits Fund (Non-Sterling OB business)	Conventional and Unitised With Profits business, plus Non Profit business	Mixed Investment Fund (40%-85% Shares)
With-Profits Fund (IB business)	Conventional With Profits business only	Mixed Investment Fund (40%-85% Shares)

Fund Background

The WPSF, the largest with profits fund in the UK (fund size of £88.5bn at 30 September 2022), is a 90:10 fund, consisting mainly of with profits business, written by:

- PAC, both OB (including Hong Kong, until January 2014) and IB as well as European business transferred by PAC to PIA in January 2019 and reinsured back to PAC.
- SAL (the accumulated with profits premiums in respect of the business transferred into the NPSF in 2002).
- Prudential (AN) Ltd. This block of UWP bonds written in 2003 and 2004 via the sales force of Abbey National plc was transferred into the fund in October 2010.
- SALAS. Pensions, annuities and traditional with profits life business originally transferred to SAIF in 1997 but subsequently transferred to the WPSF when SAIF was merged with the fund on 1 April 2021.

The WPSF also contains a smaller amount of non profit business (the majority of which is reinsured to Prudential subsidiaries). This comprises:

- the non profit (including unit linked) business written by PAC that is not in the NPSF.
- the following types of business written by SALAS, contained since 1997 in the memorandum Scottish Amicable Account (SAA): unitised with profits life business (including its investment content which was initially transferred to the SAIF and subsequently to the WPSF); the non profit (including unit linked) life business.

Since 2001 the company has offered the Optimum Bonus Fund and the Optimum Return Fund on some bond products. The Optimum Bonus Fund has a more cautious investment strategy than the Optimum Return Fund, which follows the investment strategy of the main part of the WPSF.

In September 2004 the company introduced the PruFund Growth Fund and the PruFund Growth & Income Fund. These are 'new-style' with profits funds which offer smoothed investment returns and an increased level of transparency. The investment mix of the PruFund Growth Fund is the same as the main part of the WPSF, whilst the mix for the PruFund Growth & Income Fund is the same as for the Optimum Bonus Fund.

In October 2008, the PruFund Protected Growth Fund was opened. It was closed to new life business in August 2009 (when the PruFund Cautious Fund and the PruFund Protected Cautious Fund were launched) and in December 2009 for pensions business, but re-opened in June 2011. The PruFund Growth & Income Fund was also closed to new business in August 2009, when the PruFund Investment Plan was closed.

In November 2011, four Risk Managed PruFunds were introduced (originally differentiated as 0-30, 10-40, 20-55, and 40-80, based on the equity proportion but now named PruFund Risk Managed Funds 1 to 4). A fifth Risk Managed Fund was launched in January 2019). Five ESG focused 'Planet' funds were added in July 2021.

Equivalent offshore £, € and \$ variants of several of the PruFund range of funds have been introduced for the reinsurance accepted from Prudential International Assurance plc, but these funds reside in the Defined Charge Participating Sub-Fund.

In March 2009, the Income Choice Annuity product was launched, a smoothed with profits pension annuity, but Prudential withdrew from the open annuity market in June 2016.

PAC has developed its with profits proposition by leveraging its existing position, developing additional propositions, including five PruFund Planet Funds, which aim to provide policyholders with a smoothed investment return whilst delivering positive environmental and societal impacts.

The fund continues to attract a majority of the UK's with profits new business. Since September 2017 PruFund has been the focus for with profits new business, since access to traditional with profits funds on some products was closed for new customers.

Unless indicated otherwise, the IB and non-Sterling business is not considered further.

Fund Objectives

With-Profits Fund (Sterling OB business)

The aim is to seek to secure the highest total return (allowing for the effect of taxation and investment expenses) whilst maintaining an acceptable overall risk level for the fund and protecting the relative interests of all groups of policyholders. The policy for with profits business is to invest in a highly diversified portfolio of UK and overseas assets.

Optimum Bonus Fund

The fund, by having a greater proportion invested in fixed interest securities (such as corporate and government bonds) as compared with equities, aims to provide a higher annual bonus than the Optimum Return Fund, which aims to provide a higher overall return.

Optimum Return Fund

The fund aims to provide a higher overall return than the Optimum Bonus Fund, which aims to provide a higher annual bonus.

SAIF business

The aim is to seek to secure the highest total return (allowing for the effect of taxation and investment expenses) whilst maintaining an acceptable overall risk level for the fund and protecting the relative interests of all groups of policyholders. The policy for with profits business is to invest in a highly diversified portfolio of UK and overseas assets.

PruFund Growth Fund

The fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments.

PruFund Protected Growth Fund

The fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments. The fund includes an investment guarantee, for which a charge is made.

PruFund Growth & Income Fund

The fund aims to produce medium to long term growth and generate income. The fund currently invests in UK and international equities, property, fixed interest securities, index-linked securities and other specialist investments.

PruFund Protected Growth & Income Fund

The fund aims to produce medium to long term growth and generate income. The fund currently invests in UK and international equities, property, fixed interest securities, index-linked securities and other specialist investments. The fund includes an investment guarantee, for which a charge is made.

PruFund Cautious Fund

The fund aims for steady and consistent growth over the medium to long term through a cautious approach to investing. The fund will aim to invest around 50% to 75% in fixed interest securities, index-lined securities and cash although it may occasionally move outside this range to meet fund objectives. The balance is invested in UK and international equities, property and alternative assets.

PruFund Protected Cautious Fund

The fund aims for steady and consistent growth over the medium to long term through a cautious approach to investing. The fund will aim to invest around 50% to 75% in fixed interest securities, index-lined securities and cash although it may occasionally move outside this range to meet fund objectives. The balance is invested in UK and international equities, property and alternative assets. The fund includes an investment guarantee, for which a charge is made.

PruFund Risk Managed 1 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 9% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

PruFund Risk Managed 2 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 10% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

PruFund Risk Managed 3 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 12% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

PruFund Risk Managed 4 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 14.5% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

PruFund Risk Managed 5 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 17% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

PruFund Planet 1 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 9% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

The fund aims to achieve a total return from income and capital over the medium to long term (at least 5-10 years), while aiming to deliver positive environmental and societal outcomes in addition to financial returns.

The PruFund Planet funds have three categories of outcome:

1. Mitigating Environmental, Social and Governance (ESG) risks and minimising negative outcomes
2. Pursuing ESG opportunities
3. Investing in positive outcomes for disadvantaged groups or stakeholders.

PruFund Planet 2 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 10% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

The fund aims to achieve a total return from income and capital over the medium to long term (at least 5-10 years), while aiming to deliver positive environmental and societal outcomes in addition to financial returns.

The PruFund Planet funds have three categories of outcome:

1. Mitigating Environmental, Social and Governance (ESG) risks and minimising negative outcomes
2. Pursuing ESG opportunities
3. Investing in positive outcomes for disadvantaged groups or stakeholders.

PruFund Planet 3 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 12% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

The fund aims to achieve a total return from income and capital over the medium to long term (at least 5-10 years), while aiming to deliver positive environmental and societal outcomes in addition to financial returns.

The PruFund Planet funds have three categories of outcome:

1. Mitigating Environmental, Social and Governance (ESG) risks and minimising negative outcomes
2. Pursuing ESG opportunities
3. Investing in positive outcomes for disadvantaged groups or stakeholders.

PruFund Planet 4 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 14.5% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

The fund aims to achieve a total return from income and capital over the medium to long term (at least 5-10 years), while aiming to deliver positive environmental and societal outcomes in addition to financial returns.

The PruFund Planet funds have three categories of outcome;

1. Mitigating Environmental, Social and Governance (ESG) risks and minimising negative outcomes
2. Pursuing ESG opportunities
3. Investing in positive outcomes for disadvantaged groups or stakeholders.

PruFund Planet 5 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 17% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

The fund aims to achieve a total return from income and capital over the medium to long term (at least 5-10 years), while aiming to deliver positive environmental and societal outcomes in addition to financial returns.

The PruFund Planet funds have three categories of outcome:

1. Mitigating Environmental, Social and Governance (ESG) risks and minimising negative outcomes
2. Pursuing ESG opportunities
3. Investing in positive outcomes for disadvantaged groups or stakeholders.

PPFMs Applicable to the Fund

Business Covered	Latest Edition
With-Profits business issued by the Prudential Assurance Company to UK policyholders	April 2021
PruFund With-Profits business	November 2021

Governance Arrangements

The With Profits Committee acts in an advisory capacity to inform the decision-making of the PAC Board and each of its relevant subsidiaries, 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 as a whole or as separately identifiable groups of policyholders. The Committee is appointed by the PAC Board and will have at least three members, all independent and external to PAC.

Membership is currently five, all independent.

With Profits Committee meetings are usually attended by PAC's CEO and CRO, the Chief Actuary, the With Profits Actuary and the General Counsel, though the Chairman may choose to hold meetings, or parts of meetings, restricted to committee members only.

The PPFM requires that the WPC considers the costs incurred in operating the with profits fund (including an annual review of the cost apportionment methodology and results) and any other costs associated with current or future operational, transformational or investment project supported by the assets of the fund.

Interestingly, Ronnie Bowie stepped down from the WPC on 5 February 2021 and became Chair of the Board on that date. He had previously been appointed a Non Executive Director on 28 September 2020 so for the period between September and February the Committee, although still independent, could not be described as external.

With Profits Actuary: Philip Roberts

Willis Towers Watson plc

With Profits Committee Name:

With Profits Committee

Members of With Profits Committee:

Name	Position
Robert Talbut	Chair and Former CIO, Royal London Asset Management
Katie Blacklock	Non Executive Director, Edmond de Rothschild
Eithne McManus	Former CEO, Westminster Assurance
Stephen Wilson	Former WPA, Royal London
Louise Fowler	Former CMO, First Direct & Coop

With Profits Products Currently Marketed in the Fund

SubFund	Product
With-Profits Fund (Sterling OB business)	Trustee investment plan UWP
PruFund Growth Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
PruFund Protected Growth Fund	Life UWP single premium Trustee investment plan UWP
PruFund Cautious Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
PruFund Protected Cautious Fund	Life UWP single premium Trustee investment plan UWP
PruFund Risk Managed 1 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
PruFund Risk Managed 2 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
PruFund Risk Managed 3 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
PruFund Risk Managed 4 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP Trustee investment plan UWP
PruFund Risk Managed 5 Fund	Life UWP single premium Life UWP whole life regular premium (ISA) Individual pensions UWP
PruFund Planet 1 Fund	Individual pensions UWP
PruFund Planet 2 Fund	Individual pensions UWP
PruFund Planet 3 Fund	Individual pensions UWP
PruFund Planet 4 Fund	Individual pensions UWP
PruFund Planet 5 Fund	Individual pensions UWP

Rights to Share in Profits

Divisible profits in the WPSF are shared between shareholders and with profits policyholders. Up to 5% of divisible profits may be transferred to a contingency fund with not less than 90% of the remainder being allocated to policyholders. For virtually all business, the policyholders' proportion is currently 90%, thus the WPSF is a '90:10' fund. With profits policyholders are not entitled to profits from shareholder-funded business, primarily unit linked, creditor, sickness and accident and DCPSF business. Shareholder transfers are charged to asset shares. The shareholder transfer on PruFund policies only crystallises at the point when a payout is made to the customer and is up to one ninth of the difference between the customer payout and the premiums paid. Tax on the transfer of shareholder profits is charged to the inherited estate. The total tax apportioned to the fund is limited to the amount that would be charged if the sub fund individually comprised the entire with profits fund of a UK proprietary life assurance company.

Miscellaneous profits and losses (from non profit business in the fund and annuity business written by Prudential Annuities Ltd between January 2000 and June 2004, excluding annuities from vesting Prudential Personal Retirement Plans, and from business risks, apart from those losses which the company has decided should be borne by the inherited estate) are reflected in asset shares for all product lines except the PruFund range of funds. For business issued by SAL, credit for miscellaneous profit is given only if the asset shares calculated using explicit charges with no allowance for miscellaneous profit are less than the asset shares calculated using actual expenses with allowance for miscellaneous profit and the distribution of profit to PAC shareholders.

Profits or losses from surrenders of with profits policies are credited to surviving policies in the calculation of asset shares for the relevant product group.

At the time the OB and IB assets were merged in 1988 a commitment was made that IB bonuses would not be less than 90% (100% for policies after July 1988) of corresponding OB policies. This reflected the substantial IB estate that was available to support bonuses.

An annual test is carried out to confirm that, in aggregate this approach produces IB payouts which are higher than the corresponding IB asset shares and this continued to be satisfied at the February 2022 bonus declaration.

In 2021 the total value of bonuses added to all with profits business was £3.0bn [2020: 2.5bn, 2019: £2.7bn, 2018: £2.7bn] with over 90% in respect of the WPSF. At an aggregate level, 88% of 2021 bonuses were payable at the point of claim rather than as regular bonuses.

In 2021 the with profits shareholder transfer was £366m [2020: £308m, 2019: £324m].

Profit-Sharing Philosophy

With-Profits Fund (Sterling OB business)

The main aims of the bonus policy are to give returns which take account of the earnings of the underlying investments, whilst smoothing peaks and troughs of investment performance and to ensure that all with profits policyholders receive a fair share of distributed profits by way of bonus additions to their policies.

Asset shares are calculated for typical policies at the mid point of the bonus declaration period and these provide a target level for claim values. Since 1991, the investment return credited to asset shares has been the rate of return actually earned on the assets in the WPSF. For years prior to 1991, different categories of business were credited with slightly different rates (and use of these has continued as part of PRE). Asset shares do not directly share in investment returns in respect of free assets in excess of aggregate asset shares.

Short term pension business is deemed invested in a 'deposit fund' and is credited with the 'pool' deposit rate less expenses.

To retain investment flexibility, the company aims, for most types of policy, to keep a substantial proportion of payout values in non-guaranteed form i.e. payable as terminal bonus.

Annual bonuses are designed to provide steady growth and are targeted on a proportion of the expected future investment return. Accordingly annual bonus rates were reduced for many policies at the March 2017 declaration but all rates were maintained unchanged at the February 2018, 2019 and 2020 declarations. Consideration of these factors at the February 2021 declaration showed that, for some product types, the current rates were unsustainable, based on expectations of future returns and consequently annual bonus rates for some policies were reduced while others, which remain sustainable, and including those for SAIF business, were maintained. Rates were unchanged at the February 2022 declaration.

As a result of the continuing low level of interest rates, that increases the cost of guarantees, a new AVC bonus series was introduced from April 2019.

Final bonuses are used to return a fair share of the assets of the WPSF whilst reducing the impact of market changes especially around the maturity date. A final bonus may also be added to deferred annuity contracts at retirement, in lieu of further participation in profits, in effect reflecting the difference in annuity rates available at retirement and those assumed in the original premium basis. Final bonus rates increased in April 2022 for the vast majority of policies.

As a result of the continuing low level of interest rates, that increase the cost of guarantees, the option to write Guaranteed PruFund business was suspended from November 2019.

Optimum Bonus Fund

See comments on Sterling OB business.

Optimum Return Fund

See comments on Sterling OB business.

SAIF business

The main aims of the bonus policy are to give returns which take account of the earnings of the underlying investments, whilst smoothing peaks and troughs of investment performance and to ensure that all with profits policyholders receive a fair share of distributed profits by way of bonus additions to their policies.

Asset shares are calculated for typical policies. The investment return credited to asset share after 1 April 2021 is the rate of return actually earned on the assets in the fund while the return credited before that date reflects the return on the SAIF fund prior to merger with the With Profits Sub Fund.

Claim values are targeted on enhanced asset shares. The enhancement is a uniform percentage increase determined at the time the SAIF fund was merged with the With Profits Sub Fund and which was determined so as to distribute the SAIF inherited estate (but not the assets of the SACF) over the remaining lifetime of the relevant with profits policies. The enhancement applied at the bonus declaration on 1 April 2021 was 13.3% but following the merger the final value has been calculated as 12.4% and this will apply at all future bonus declarations. The inclusion of the enhancement at 1 April 2021 (compared to the previous 7.5% estate distribution) resulted in a year on year increase in most plan values of between 6% and 9%. The policy of targeting claim values is constrained by smoothing and by the level of guaranteed benefits.

Annual bonuses are designed to provide steady growth and are targeted on a proportion of the expected future investment return. Accordingly annual bonus rates were reduced for many policies at the March 2017 declaration but were then unchanged at the 2018, 2019, 2020, 2021 and 2022 declarations.

Terminal bonuses are used to return a fair share of the assets of the WPSF whilst reducing the impact of market changes especially around the maturity date.

Terminal bonus rates may be varied at any time.

PruFund Growth Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR) (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 6.2% gross and 5.1% net from 25th August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 5.9% gross and 4.9% net and then further reduced to 5.7% gross and 4.7% net from 26 May 2020 before increasing to 5.9% gross and 4.9% net from 26 February 2022 and further to 6.5% gross and 5.4% net from 25 August 2022 and 7.3% gross and 6.0% net from 25 November 2022

PruFund Protected Growth Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 6.2% gross and 5.1% net from 25th August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 5.9% gross and 4.9% net and then further reduced to 5.7% gross and 4.7% net from 26 May 2020 before increasing to 5.9% gross and 4.9% net from 26 February 2022 and further to 6.5% gross and 5.4% net from 25 August 2022 and 7.3% gross and 6.0% net from 25 November 2022.

PruFund Growth & Income Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 4.8% net from 25th August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 4.6% and then further reduced to 4.3% from 26 May 2020 before increasing to 4.6% from 25 February 2022 and further to 5.1% from 25 August 2022 and 5.7% from 25 November 2022.

PruFund Protected Growth & Income Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR) (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 4.8% net from 25 August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 4.6% and then further reduced to 4.3% from 26 May 2020 before increasing to 4.6% from 25 February 2022 and further to 5.1% from 25 August 2022 and 5.7% from 25 November 2022.

PruFund Cautious Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 5.5% gross and 4.5% net from 25 August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 5.1% gross and 4.2% net and then further reduced to 4.8% gross and 3.9% net from 26 May 2020 before increasing to 5.2% gross and 4.3% net from 26 February 2022 and further to 5.8% gross and 4.8% net from 25 August 2022 and 6.6% gross and 5.4% net from 25 November 2022.

PruFund Protected Cautious Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 5.5% gross and 4.5% net from 25 August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 5.1% gross and 4.2% net and then further reduced to 4.8% gross and 3.9% net from 26 May 2020 before increasing to 5.2% gross and 4.3% net from 26 February 2022 and further to 5.8% gross and 4.8% net from 25 August 2022 and 6.6% gross and 5.4% net from 25 November 2022.

PruFund Risk Managed 1 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and again in May 2017 and was 5.1% gross and 4.1% net from 25 May 2017 and remained at this level until 26 August 2019 after which the EGR was 4.7% gross and 3.8% net and then further reduced to 4.3% gross and 3.5% net from 26 May 2020 before increasing to 4.7% gross and 3.9% net from 26 February 2022 and further to 5.3% gross and 4.4% net from 25 August 2022 and 6.1% gross and 5.0% net from 25 November 2022.

PruFund Risk Managed 2 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and again in May 2017 and was 5.5% gross and 4.5% net from May 2017 and remained at this level until 26 August 2019 after which the EGR was reduced to 5.2% gross and 4.3% net and then further reduced to 4.8% gross and 4.0% net from 26 May 2020 before increasing to 5.1% gross and 4.3% net from 26 February 2022 and further to 5.7% gross and 4.8% net from 25 August 2022 and 6.5% gross and 5.4% net from 25 November 2022.

PruFund Risk Managed 3 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 6.1% gross and 5.0% net from 25 August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 5.7% gross and 4.6% net and then further reduced to 5.3% gross and 4.3% net from 26 May 2020 before increasing to 5.6% gross and 4.6% net from 26 February 2022 and further to 6.2% gross and 5.1% net from 25 August 2022 and 7.0% gross and 5.7% net from 25 November 2022.

PruFund Risk Managed 4 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was reduced on each of the first three quarter dates in 2016 and was 6.3% gross and 5.3% net from 25 August 2016 and remained at this level until 26 August 2019 after which the EGR was reduced to 6.0% gross and 5.0% net and then further reduced to 5.7% gross and 4.8% net from 26 May 2020 before increasing to 5.8% gross and 4.9% net from 26 February 2022 and further to 6.4% gross and 5.4% net from 25 August 2022 and 7.2% gross and 6.0% net from 25 November 2022.

PruFund Risk Managed 5 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term.

The EGR was 6.5% gross and 5.6% net from launch until 26 August 2019 after which it was reduced to 6.3% gross and 5.4% net and then further reduced to 6.0% gross and 5.2% net from 26 May 2020 before increasing to 6.1% gross and 5.3% net from 26 February 2022 and further to 6.7% gross and 5.8% net from 25 August 2022 and 7.5% gross and 6.4% net from 25 November 2022.

PruFund Planet 1 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR, published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term. The EGR was 4.3% from the fund's inception in July 2021 until 25 February 2022 when it increased to 4.7% and further to 5.3% from August 2022 and 6.1% from 25 November 2022.

PruFund Planet 2 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR, published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term. The EGR was 4.8% from the fund's inception in July 2021 until 25 February 2022 when it increased to 5.1% and further to 5.7% from August 2022 and 6.5% from 25 November 2022.

PruFund Planet 3 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR, published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term. The EGR was 5.3% from the fund's inception in July 2021 until 25 February 2022 when it increased to 5.6% and further to 6.2% from August 2022 and 7.0% from 25 November 2022.

PruFund Planet 4 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR, published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term. The EGR was 5.3% from the fund's inception in July 2021 until 25 February 2022 when it increased to 5.8% and further to 6.4% from August 2022 and 7.2% from 25 November 2022.

PruFund Planet 5 Fund

These policies participate in profits by means of an increase in the unit price of the fund. The unit price increases at the Expected Growth Rate (EGR, published on each quarter date) unless the unit price moves outside specified limits. An annual management charge is applied by explicit unit deduction. Part of this charge is allocated to cover the expected costs of smoothing and guarantees incurred by the fund over the long term. The EGR was 6.0% from the fund's inception in July 2021 until 25 February 2022 when it increased to 6.1% and further to 6.7% from August 2022 and 7.5% from 25 November 2022.

Risk

During 2016 the company developed a new with profits financial management framework and with profits risk appetite, which together provide the context within which decisions in relation to the management of the company's with profits business are taken.

The WPSF is in general exposed to all the risks within the business including expenses, investment, mortality (particularly within the annuity portfolio), and the various guarantees attaching to existing policies. However, the risk from writing new business is treated a little differently to avoid the fund bearing any expected new business strain. In 2014 and 2018 there was a small new business cost overrun, which was met by shareholders but in 2015, 2016, 2017, 2019, 2020 and 2021 no shareholder contribution was required.

New rates of investment fees were agreed to apply from 2015 to 2017 and overall these did not change materially from those applying previously. They were due to be reviewed again in 2017 but the review continued into 2018, considering market data to ensure competitive fee rates were set. The fees agreed applied from 1 January 2018 and until 31 December 2020 and the company expected them to achieve savings of around 20% compared to the previous fee rates. The same approach was adopted for the next review completed in 2020 with updated fees applying from 2021 to 2023. Fees for investment management services are subject to a profit margin.

The renewal costs allocated to certain products increased materially in 2015 and an in-depth review of expense allocations was carried out in 2016 to ensure that the overall allocation of expenses to with profits business and to asset shares remain fair and reasonable. No fundamental changes to the underlying methodology were required at that time but in 2020 a new cost allocation methodology was developed and confirmed that the cost allocation in 2020 and subsequently that in 2021 were fair to the with profits policyholders as a whole. The methodology will continue to be reviewed regularly.

Significant investment is being made by the Company 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 was agreed with the With Profits Actuary and WPC to ensure fairness for both customers and shareholders. Costs allocated to the fund will be borne by the inherited estate.

The transfer of business to Rothesay Life in 2021 led to a material reduction in shareholders policy values, leading to a re-allocation of overhead costs from the shareholder to the WPSF. The company has undertaken to compensate the WPSF to ensure there is no adverse impact on the fund.

At the end of 2021, the fund held reserves of £297m [2020: £304m, 2019: £420m, 2018: £777m, 2017: £505m, 2016: £505m, 2014: £429m] in respect of pension mis-selling and a further reserve of £468m [2019: £50m, 2018: £49m, 2017: £53m, 2016: £62m, 2015: £47m] for GAOs. At the end of 2015 the fund also held £80m in respect of systems/administration errors and £43m for staff pension scheme funding but no further details of these have been published. The fund is also exposed to the risk that the charges relating to the DCPSF's ex-Equitable Life annuity portfolio are insufficient to cover the risks therein.

The fund's inherited estate maintains two bonus smoothing accounts for the DCPSF in respect of Equitable and Other business. On average it is intended that any smoothing transfers should generate neither profit nor loss to either fund. The inherited estate can be used to absorb the costs of significant events such as fundamental strategic change without affecting the level of distributions to policyholders and shareholders.

Derivatives are used for the purposes of Efficient Portfolio Management or reduction in investment risk. The main uses are: exchange traded futures to implement changes in asset mix, including tactical deviations from the strategic asset mix; options and futures to help match the liabilities arising from guarantee costs; and currency forwards to reduce the exchange rate exposure arising from holding overseas assets.

Smoothing

The company targets that at least 90% of payouts will fall between 80% and 120% of asset share for both maturities and surrenders and confirmed that this was achieved in 2016 and subsequent years. The cumulative cost of smoothing is monitored and the intention is that smoothing profits and losses should balance out over time. The long-term expected cost of smoothing and guarantees for each type of product is deducted in calculating asset shares and credited to the WPSF inherited estate, which bears the costs of smoothing and guarantees as they emerge. The company keeps the level of charges under review and may alter them if necessary to protect the fund. For some policies bonuses in each of the first five years are based on the expected average return over that period in order to reduce volatility in the early years.

Policies with claim values falling outside target range are also investigated to ensure there is no underlying problem with the bonus setting processes and that payouts remain fair to customers.

In 2015 claims averaged 99% [2014: 97%] of asset share. The average payout is no longer published following the move to Solvency II and PRA Returns ceasing to be published.

With-Profits Fund (Sterling OB business)

Payout values are smoothed primarily looking at the change in payouts or maturities from one year to the next on sample policies.

The normal smoothing aim is that payouts on similar policies should not change by more than 10% from one year to the next, although larger changes may occur to balance payout values between different policies, and following a significant rise or fall in market values (either sudden or over a number of years).

For the Income Choice Annuity, the aim is that changes to the annuity payable should be in the range 1-12%, before the reduction due to the effect of the 'Required Smooth Return'. For other with profits annuities, the aim is that changes to the annuity payable should be in the range 0-11%, before allowing for any bonus 'anticipated' at outset.

Optimum Bonus Fund

Payout values are smoothed primarily looking at the change in payouts or maturities from one year to the next on sample policies.

The normal smoothing aim is that payouts on similar policies should not change by more than 10% from one year to the next, although larger changes may occur to balance payout values between different policies, and following a significant rise or fall in market values (either sudden or over a number of years).

Optimum Return Fund

Payout values are smoothed primarily looking at the change in payouts or maturities from one year to the next on sample policies.

The normal smoothing aim is that payouts on similar policies should not change by more than 10% from one year to the next, although larger changes may occur to balance payout values between different policies, and following a significant rise or fall in market values (either sudden or over a number of years).

SAIF business

The company targets that at least 90% of payouts will fall between 80% and 120% of asset share for both maturities and surrenders and confirmed that this was achieved in 2016 and subsequent years. The cumulative cost of smoothing is monitored and the intention is that smoothing profits and losses should balance out over time. The long-term expected cost of smoothing and guarantees for each type of product is deducted in calculating asset shares and credited to the WPSF inherited estate, which bears the costs of smoothing and guarantees as they emerge. The company keeps the level of charges under review and may alter them if necessary to protect the fund.

PruFund Growth Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price. In 2017 a positive adjustment was made at the February quarter date and, in respect of Series E, a reduction at the December 2018 monthly investment date.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at two quarter dates or two monthly investment dates over the course of 2020 and fully recovered through two further increases at quarter dates in 2021. The unit price was then reduced on two occasions in 2022 although the gross price was not reduced.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Protected Growth Fund

On a quarterly investment date, if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price. In 2017 a positive adjustment was made at the February quarter date.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at two quarter dates over the course of 2020 and fully recovered through two further increases at quarter dates in 2021.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Growth & Income Fund

On a quarterly investment date, if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price. In 2017 a positive adjustment was made at the August quarter date.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at two quarter dates over the course of 2020 and fully recovered through two further increases at quarter dates in 2021. The unit price was reduced once in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Protected Growth & Income Fund

On a quarterly investment date, if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at two quarter dates over the course of 2020 and fully recovered through two further increases at quarter dates in 2021.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Cautious Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 4% (5% prior to November 2018) above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 4% (5%) above/below unit price. In 2017 a positive adjustment was made at the August quarter date while a negative adjustment was made to the gross unit price at the November quarter date in 2018.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 8% (10% prior to November 2018) (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2% (2.5%) below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at the next three quarter dates or at three monthly investment dates over the course of 2020 and fully recovered through further increases in 2021. The unit price was then reduced on two occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit (effectively no smoothing) until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Protected Cautious Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 4% (5% prior to November 2018) above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 4% (5%) above/below unit price. In 2017 a positive adjustment was made at the August quarter date while a negative adjustment was made to the gross unit price at the November quarter date in 2018.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 8% (10% prior to November 2018) (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2% (2.5%) below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at the next three quarter dates or at three monthly investment dates over the course of 2020 and fully recovered through further increases in 2021. The unit price was then reduced on two occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Risk Managed 1 Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 4% (5% prior to November 2018) above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 4% (5%) above/below unit price. The gross unit price was adjusted down on 26 November 2018.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 8% (10% prior to November 2018) (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2% (2.5%) below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was almost totally recovered through increases at the next three quarter dates and fully recovered by a further increase in 2021; or fully recovered at three monthly investment dates over the course of 2020. The unit price was then reduced on two occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Risk Managed 2 Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 4% (5% prior to November 2018) above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 4% (5%) above/below unit price.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 8% (10% prior to November 2018) (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2% (2.5%) below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at the next three quarter dates or at three monthly investment dates over the course of 2020 and fully recovered through further increases in 2021. The unit price was reduced on one (net) and two (gross) occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Risk Managed 3 Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at two quarter dates or two monthly investment dates over the course of 2020 and fully recovered through further increases in 2021. The gross unit price was reduced once in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Risk Managed 4 Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price. In 2017 positive adjustments were made at two quarter dates.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was slightly recovered through increases at two quarter dates or one monthly investment date over the course of 2020 and fully recovered through further increases in 2021.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2016, 2017, 2018, 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Risk Managed 5 Fund

On a quarterly investment date (or monthly investment date in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price.

There was also an increase of 0.9% at the February 2020 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process. A similar adjustment of 1.25% was applied on 28 February 2022.

On or between quarterly investment dates (or monthly investment dates in the case of Prudential Retirement Account (Series E)), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. In response to market movements as a result of the pandemic the unit price was reduced on 20 March 2020 but this was partially recovered through increases at one quarter date or at two monthly investment dates over the course of 2020 and fully recovered through further increases in 2021. The gross unit price was reduced once in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund. The unit price was reset upwards on 25 August 2021.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others. There was no reset or suspension of smoothing in 2019 or 2020. In 2021 there was no suspension of smoothing but on 25 August 2021 there was an upward price reset on all PruFund Funds.

PruFund Planet 1 Fund

On a monthly investment date (in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 4% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 4% above/below unit price.

There was also an increase of 1.25% at the February 2022 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process.

On or between monthly investment dates in the case of Prudential Retirement Account (Series E), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 8% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2% below/above the net asset value per unit. Then automatic adjustments applied on six occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others.

PruFund Planet 2 Fund

On a monthly investment date (in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 4% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 4% above/below unit price.

There was also an increase of 1.25% at the February 2022 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process.

On or between monthly investment dates in the case of Prudential Retirement Account (Series E), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 8% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2% below/above the net asset value per unit. Then automatic adjustments applied on six occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others.

PruFund Planet 3 Fund

On a monthly investment date (in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price.

There was also an increase of 1.25% at the February 2022 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process.

On or between monthly investment dates in the case of Prudential Retirement Account (Series E), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. Then automatic adjustments applied on five occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others.

PruFund Planet 4 Fund

On a monthly investment date (in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price.

There was also an increase of 1.25% at the February 2022 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process.

On or between monthly investment dates in the case of Prudential Retirement Account (Series E), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. Then automatic adjustments applied on five occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others.

PruFund Planet 5 Fund

On a monthly investment date (in the case of Prudential Retirement Account (Series E)), if the net asset value per unit is more than 5% above/below the unit price, the unit price is repeatedly adjusted by half the difference between the unit price and the net asset value per unit until the net asset value per unit is within 5% above/below unit price.

There was also an increase of 1.25% at the February 2022 quarter date but this was a Special Unit Adjustment which allowed for the surplus already shared. This had no impact on the smoothing process.

On or between monthly investment dates in the case of Prudential Retirement Account (Series E), the net asset value per unit is averaged over the previous 5 working days to give the average net asset value per unit. If the net asset value per unit and the average net asset value per unit are both 10% (or more) above/below the unit price, the unit price will be increased/decreased immediately so that it is 2.5% below/above the net asset value per unit. Then automatic adjustments applied on five occasions in 2022.

This automatic smoothing mechanism ensures that all claims fall within target range.

A smoothing account maintained within the WPSF is credited or debited with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all the fund's with profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

The PruFund Range of Funds are split such that a unit price reset or a suspension of smoothing can be performed on each class of business independently of the others.

MVRs

During 2016 redress payments and credit of additional units were completed for exited and in force policies respectively that suffered an MVR incorrectly due to an administrative error.

At the time of the February 2022 bonus declaration, up to £25,000 could currently be withdrawn in any twelve month period without an MVR applying.

With-Profits Fund (Sterling OB business)

MVRs may be imposed on UWP policies where the value of the underlying assets is less than the value of the policy including bonuses.

All the company's UWP policies contain specific MVR-free conditions, for example, on death, terminal illness or at pre-selected retirement date. Some regular automatic withdrawals have been set up with a guarantee that no MVR will apply but from 11 November 2013 new policies no longer benefit from MVR free regular withdrawals, including those in respect of adviser charges.

MVRs were applied throughout 2010 to 2021 for certain combinations of product/year of entry.

Optimum Bonus Fund

MVRs may be imposed on UWP policies where the value of the underlying assets is less than the value of the policy including bonuses.

All the company's UWP policies contain specific MVR-free conditions, for example, on death, terminal illness or at pre-selected retirement date. Some regular automatic withdrawals have been set up with a guarantee that no MVR will apply but from 11 November 2013 new policies no longer benefit from MVR free regular withdrawals, including those in respect of adviser charges.

MVRs were applied throughout 2010 to 2021 for certain combinations of product/year of entry.

Optimum Return Fund

MVRs may be imposed on UWP policies where the value of the underlying assets is less than the value of the policy including bonuses.

All the company's UWP policies contain specific MVR-free conditions, for example, on death, terminal illness or at pre-selected retirement date. Some regular automatic withdrawals have been set up with a guarantee that no MVR will apply but from 11 November 2013 new policies no longer benefit from MVR free regular withdrawals, including those in respect of adviser charges.

MVRs were applied throughout 2010 to 2021 for certain combinations of product/year of entry.

SAIF business

MVRs may be imposed on UWP policies where the value of the underlying assets is less than the value of the policy including bonuses.

All the company's UWP policies contain specific MVR-free conditions, for example, on death, terminal illness or at pre-selected retirement date. Some regular automatic withdrawals have been set up with a guarantee that no MVR will apply.

MVRs were applied throughout 2010 to 2021 for certain combinations of product/year of entry.

PruFund Protected Growth Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Growth & Income Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Protected Growth & Income Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Cautious Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Protected Cautious Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Risk Managed 1 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Risk Managed 2 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Risk Managed 3 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Risk Managed 4 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Risk Managed 5 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Planet 1 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Planet 2 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Planet 3 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Planet 4 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

PruFund Planet 5 Fund

The mechanism for determining policy payouts when markets are volatile, or depressed, is pre-defined, as explained in the Smoothing section. The only discretion the company has is whether to suspend smoothing or not. The fund's performance is not a deciding factor in whether the smoothing process is applied, or not. Large values of investments coming into or out of the fund could mean that investments would not be smoothed by the pre-defined process.

Guarantees

At December 2019 there was a relatively small provision of £50m [2018: £49m, 2017: £53m, 2016: £62m, 2015: £54m, 2014: £43m] for GAOs in the fund but this had increased to £468m at the end of 2021 following the transfer in of the SAIF business. In addition, at the end of 2021, there was a Pensions Review provision of £297m [2020: £304m, 2019: £420m, 2018: £777m, 2017: £505m, 2016: £505m, 2015: £429m] in respect of guarantees given to policyholders. The company has made a commitment that pension mis-selling costs will not be charged to asset shares, nor will they affect the investment or bonus policy. At the end of 2015 there was also a provision of £363m [2014: £335m] for GMPs under Section 32 contracts, and a provision of £26m [2014: £29m] for the surrender value guarantees on the various PruFund funds but the level of these reserves has not been disclosed subsequently.

A reserve of £18m was also held at the end of 2015 in respect of a guarantee within one defined benefit pension scheme that pension benefits may be taken before normal retirement age without reduction. A further £12m was held to cover the cost of the option under certain whole life policies to convert to an endowment on guaranteed rates. The level of these reserves has not been disclosed subsequently.

There is an exposure to guaranteed minimum bonus rates on some group cash accumulation business:

- 4.75% p.a. for premiums paid in scheme years ending before 15 March 1997;
- 2.5% p.a. on premiums paid in scheme years ending between 15 March 1997 and 30 December 2003; and
- 0.01% p.a. on premiums paid in scheme years commencing on or after 31 December 2003.

Charges for guarantees are levied each year at the rates described in the various sections below. The total charges in 2015 in the WPSF was £130m [2014: £143m] but the total charges have not been disclosed subsequently.

With-Profits Fund (Sterling OB business)

The long-term expected cost of smoothing and guarantees for each type of product is deducted in calculating asset shares and credited to the WPSF inherited estate, which bears the costs of smoothing and guarantees as they emerge. The company keeps the level of these charges under review and may alter them if necessary to protect the fund.

On policies other than with profits annuities, the Income Choice Annuity, those invested in the PruFund range of funds or AVCs with applications received on or after 15 March 2019, the total deduction over the lifetime of each policy is currently not more than 2% of asset shares, with the deduction building up to this level over the first few years of the policy. For with profits annuities, a deduction is made from the investment return credited to asset shares each year. This deduction is derived so that in aggregate its value is expected to cover the costs of guarantees and smoothing over the lifetime of the portfolio of this business. The current deduction is 0.4% p.a. for business sold since April 2009 and 0.16% p.a. for business sold prior to that date.

For the Income Choice Annuity a deduction is made from the investment return credited to asset shares and an adjustment (positive or negative) may also be made to the level of starting income. The deduction/adjustments are set so that their aggregate value is expected to cover the cost of guarantees over the lifetime of the policy. Each policy has a Secure Level of income which can never decrease. For policies issued before 7 November 2011, the Secure Level increases each year by 50% of any positive difference between the new non-guaranteed income and the actual income payable previously. For policies issued subsequently the Secure Level does not change. The charge on new business was increased from 0.25% to 0.75% p.a. in April 2010. Since April 2010, the guarantee charge applying for new business has been actively reviewed each quarter in response to changing market conditions. The charge was also reduced for new business from 6 April 2013 when the guaranteed level of income was reduced from 1% to 0% p.a. At the end of 2015 the charge was 0.95% p.a.

Optimum Bonus Fund

The long-term expected cost of smoothing and guarantees for each type of product is deducted in calculating asset shares and credited to the WPSF inherited estate, which bears the costs of smoothing and guarantees as they emerge.

The total deduction over the lifetime of each policy is not currently more than 2% of asset shares, with the deduction building up to this level over the first few years of the policy. The company keeps the level of these charges under review and may alter them if necessary to protect the fund.

Optimum Return Fund

The long-term expected cost of smoothing and guarantees for each type of product is deducted in calculating asset shares and credited to the WPSF inherited estate, which bears the costs of smoothing and guarantees as they emerge.

The total deduction over the lifetime of each policy is not currently more than 2% of asset shares, with the deduction building up to this level over the first few years of the policy. The company keeps the level of these charges under review and may alter them if necessary to protect the fund.

SAIF business

Virtually all of the UWP pension business has a minimum guarantee attached. There are also a number of investment performance guarantees for contracts:

- The rate of interest credited to a group accumulation policy will not fall below 5% p.a. in the first 5 years
- Certain group pension contracts include minimum rates of guarantee ranging from 2.5% to 4.75%
- The value of accumulation units in the Net Cash Fund, Exempt Cash Fund and Exempt Building Society Fund will not fall
- For maturities or deaths of pre 15/1/96 pension policies, the value of Exempt With Profits (Series 1) initial units is guaranteed not to fall, and the increase in value of Exempt With Profits (Series 1-4) accumulation units is guaranteed to average not less than 4% p.a.

There are also a large number of GAOs, with a provision of £385m at 31 December 2019 but the level of provision subsequently is not known [2018: £361m, 2017: £503m, 2016: £571m, 2015: £412m]. An annual charge for the cost of GAOs of 0.25% of asset shares has historically been made on policies with these guarantees. This was the maximum amount which the Scottish Amicable Board had previously determined should be charged directly to asset shares for this cost but from 1 January 2016 this was increased to 1% and the charge similarly increased and from 1 January 2018 this charge had further increased to 1.25%. Following the merger future charges for guarantees have been reduced to zero with the cost of guarantees allowed for in determining the level of enhancement (12.4% going forward) to be applied on exit.

The total of such charges in 2015 in the SAIF was £20m [2014: £22m] but this amount has not been disclosed in respect of subsequent years. In order to protect the fund against the increased cost of GAO's, the Scottish Amicable Board agreed to put in place additional interest rate hedging and this was implemented in January 2016. An additional expense reserve of £63m was also held at the end of 2015 to meet the cost of administering future annuities in payment under GAOs but the level of this reserve has not been disclosed subsequently.

Following PAC's withdrawal from the annuity market, policyholders opting to exercise a GAO entitlement will be provided with annuities fulfilled by Legal & General.

PruFund Growth Fund

The company added an option free of charge in respect of all investments made before August 2005, guaranteeing to restore the value of the fund to the amount of the original investment at the fifth anniversary, if necessary.

PruFund Protected Growth Fund

Policies in this fund contain a Rolling Guarantee Option. Initially only 5 year guarantees were available. The fund was closed to new life business in August 2009 and to new pension business in December 2009, but it was re-opened to new business in June 2011, with a range of guarantee terms from 6 to 10 years available although towards the end of 2012 the range was reduced to just 10 years before increasing temporarily to 8 to 10 years during 2014 and the first part of 2015.

As a result of the continuing low level of interest rates, that increases the cost of guarantees, the option to write guaranteed PruFund business was suspended from November 2019.

At the end of each guarantee period, the company guarantees to restore the value of the fund to the amount of the original investment (reduced for any withdrawals), if necessary. Policyholders have the option to opt-out of this guarantee at the end of each guarantee period.

The charge for the 5 year version of this option was initially 0.6% pa but it is regularly recalculated using stochastic modelling in accordance with prevailing conditions. The charge on new business was increased from 0.75% to 0.90% in August 2010.

In June 2011, the charges for the 6-10 year guarantee options were set at 0.3% p.a. of the fund value (10 year term) in steps up to 1.05% p.a. for the 6 year term, but the charges for new policies were increased to a range of 0.45% p.a. to 2.5% p.a. in November 2011. From October 2012 the 10 year charge was increased to 0.5% p.a. and this remained the charge at the end of 2015. The 8 year and 9 year options were withdrawn after 21 May 2015, charges having been 1% p.a. and 0.85% p.a. respectively at the end of 2014 and for 2015 until withdrawn.

PruFund Growth & Income Fund

The company added an option free of charge in respect of all investments made before August 2005, guaranteeing to restore the value of the fund to the amount of the original investment at the fifth anniversary, if necessary.

PruFund Protected Growth & Income Fund

Policies in this fund contain a Rolling Guarantee Option. On the fifth anniversary (and every subsequent fifth anniversary), the company guarantees to restore the value of the fund to the amount of the original investment (reduced for any withdrawals), if necessary. The charge for this option was initially 0.6% pa but it is regularly recalculated using stochastic modelling in accordance with prevailing conditions. The charge on new business was increased from 0.75% to 0.90% in August 2010.

Policyholders have the option to opt-out of this guarantee at the end of each five year period.

As a result of the continuing low level of interest rates, that increases the cost of guarantees, the option to write guaranteed PruFund business was suspended from November 2019.

PruFund Cautious Fund

There are no investment guarantees in this fund.

PruFund Protected Cautious Fund

On the selected guarantee date, the company guarantees to restore the value of the fund to the amount of the original investment reduced for any withdrawals, if necessary. Initially only 5 year guarantees were available, but from June 2011, a range of terms from 5 to 10 years was introduced.

The charge for the 5 year option was initially fixed at 0.75% p.a. of the fund value (but reduced to 0.5% p.a. as a special launch offer to policyholders who took out plans before the end of 2009), but the charge for new policies was increased to 0.9% p.a. in August 2010, to 1.05% p.a. in January 2011, and to 1.75% p.a. in November 2011 before this option was withdrawn in February 2012.

In June 2011, the charges for the 6-10 year guarantee options were set at 0.15% p.a. of the fund value (10 year term) in steps up to 0.7% p.a. for the 6 year term, but the charges for new policies were increased to a range of 0.3% p.a. to 1.05% p.a. in November 2011 and further to a range of 0.3% to 1.5% from June 2012. In October 2012 the 6 and 7 year versions were withdrawn and the range of charges increased to 0.45% p.a. (10 years) to 0.95% p.a. (8 years). These charges are regularly reviewed and from 22 November 2013 and throughout 2014 and to 21 May 2015 ranged from 0.35% p.a. (10 years) to 0.60% p.a. (8 years). The 6 and 7 year versions were reintroduced from August 2014 with charges of 1% and 0.75% p.a. respectively but withdrawn again after 21 May 2015. From 22 May 2015 the charges ranged from 0.4% p.a. (10 years) to 0.8% p.a. (8 years).

As a result of the continuing low level of interest rates, that increases the cost of guarantees, the option to write guaranteed PruFund business was suspended from November 2019.

PruFund Risk Managed 1 Fund

There are no investment guarantees in this fund.

PruFund Risk Managed 2 Fund

There are no investment guarantees in this fund.

PruFund Risk Managed 3 Fund

There are no investment guarantees in this fund.

PruFund Risk Managed 4 Fund

There are no investment guarantees in this fund.

PruFund Risk Managed 5 Fund

There are no investment guarantees in this fund.

PruFund Planet 1 Fund

There are no investment guarantees in this fund.

PruFund Planet 2 Fund

There are no investment guarantees in this fund.

PruFund Planet 3 Fund

There are no investment guarantees in this fund.

PruFund Planet 4 Fund

There are no investment guarantees in this fund.

PruFund Planet 5 Fund

There are no investment guarantees in this fund.

Inherited Estate

PAC now only has one inherited estate in the WPSF, which represents the major part of the working capital of PAC's With-Profits Fund. It is available to support both current and future new business in PAC's with-profits funds, both in the UK and overseas, and is used to provide solvency support, to allow investment freedom for policyholders' asset shares, and to provide the smoothing and guarantees associated with with-profits business. There is no specific target for its size and it has arisen over many years from a number of sources. PAC believes that no group of in-force policyholders has made any contribution to it.

The inherited estate, like the whole of PAC's with-profits funds, belongs to PAC, which decides how it is used to support the with-profits business. 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. Accordingly, PAC is not constrained in its use of the inherited estate to support new business by a requirement to take into account the prospect that existing policyholders might otherwise have of receiving a distribution from the inherited estate. In setting risk appetite and in its approach to the cost of guarantees, PAC is similarly not required to take into account the prospect of existing policyholders receiving a distribution out of the inherited estate. This was confirmed in guidance from the FSA in 2012 clarifying two questions raised by PAC in relation to FSA policy statement PS 12/4. If, in the opinion of PAC, the inherited estate was no longer fully utilised in supporting current and expected future new business, then an "excess surplus" would exist in the WPSF and PAC would comply with the insurance company regulations regarding the treatment of excess surplus that were in force at the time the excess surplus arose. The WPSF inherited estate also supports business in the DCPSF (including the ex-Equitable Life with profits annuity portfolio), for which it receives a charge. As a result of the level of accumulated smoothing losses incurred on recently written PruFund business the methodology for determining smoothing charges was revised in 2018.

The inherited estate has been increasing in size recently and PAC concluded in early 2020 that this exceeded the amount of working capital required to support current and future business and that it would be fair to share some of it with planholders. PruFund unit prices were therefore increased by 0.9% on 26 February 2020 while for other plans the excess will be paid through final bonuses from 1 April 2020 with the unsmoothed value of plans increased by 1.25% (where customers invested before the end of 2019 and were still invested in the WPSF at 1 April 2020). This increase could be removed in the future to protect the fund's financial strength and this is the reason for the differential in amounts, as the PruFund increase cannot be recovered. At the end of 2020 the Board concluded that there should not be an additional distribution at the February 2021 declaration but this position is reviewed annually and at the end of 2021 an additional distribution was made of 1.25% and 1.75% respectively. While former SALAS policyholders are now invested in the fund they are not eligible for any distributions from the inherited estate. The inherited estate may also be used for other purposes as determined by the Directors. Currently, this includes additional tax payable by the long term fund as a result of shareholders' distribution from the WPSF (this use is expected to continue), expenses written off between 1997 and the end of 2011 and any cost of shareholder transfers in respect of business issued by SAL in excess of the difference between charges deducted and expenses incurred. This may also include inter-fund transactions with the DCPSF which are appropriately priced. The inherited estate also meets any difference between the actual tax payable by the fund and the assumed tax charged to asset shares (where applicable) or to the PruFund net asset value through the net investment return. Note that, since 2012, new business in the WPSF has been priced such that it is expected to be financially self supporting over the lifetime of the business at the point the pricing assumptions are set. Where the business is not expected to be financially self supporting at the point the pricing assumptions are set, shareholders will make an appropriate contribution to the WPSF, as happened for 2014 and 2018. In this respect a risk mitigation agreement has been implemented between the shareholder fund and the inherited estate in respect of new business written from 2018. In return for a premium and some reduced WPSF loss exposure the shareholder is protected from some losses when investment returns are very low.

Investment

The M&G Treasury and Investment Office, which includes the team formerly known as the Prudential Portfolio Management Group, is the in-house investment strategist and ‘manager of managers’, responsible for monitoring and reviewing performance and for day-to-day allocation of monies from the fund to the fund’s various fund management specialists which include M&G Investment Managers. Over the course of 2020 and 2021 a number of managers were assessed which resulted in some re-allocation of mandates across both internal and external managers. The company’s investment strategy is to seek to secure the highest net return whilst maintaining an acceptable overall risk level, maintaining an appropriate and broad asset mix, and protecting policyholders’ interests. It seeks to include all with profits policies in a common asset pool wherever appropriate. There are no assets of the fund which would not normally be traded.

Within the fund separate asset pools are held as appropriate to the different nature of the liabilities (e.g. with profits, non profit, unit linked) and, usually, for liabilities in each different currency. For most WPSF policies, assets are held within the main WPSF asset pool. However, separate asset pools are operated for with profits products which have a more cautious investment policy (e.g. The PruFund Cautious Funds). A separate asset pool is also operated for certain with profits retirement annuity contracts expected to reach their vesting date in the near to medium term where the guaranteed benefits significantly exceed asset shares and the likelihood of any final bonus becoming payable is therefore remote. Note however that asset shares continue to be credited with the return earned on the main WPSF asset share pool. A separate asset pool is also maintained for the inherited estate allowing it to follow an investment strategy to help meet guarantees and maintain regulatory solvency in adverse conditions. Currently it is mainly invested in fixed interest securities and cash. Within the main WPSF pool there are also hypothecated pools for the PruFund Funds, the Prudence Bond Optimum Bonus Fund and the Prudential Personal Pension Deposit Fund.

The Board reviews benchmark asset mixes (and permitted variations for tactical asset allocation decisions - typically 5% of the asset pool) for each asset pool at least once a year. Limits are set in accordance with the fund’s risk appetite, which is determined on the assumption that the with profits funds are managed on a standalone basis and do not rely on shareholder resources (apart from the company’s 1998 commitment regarding the impact of the pensions mis-selling review). Reductions in the EBR to 0% may be necessary in extreme investment conditions, or to protect the fund. In 2006 equity allocation was reduced and allocation to bonds and alternative assets was increased. June 2007 saw further de-risking with a review of property exposure and a hedge against its corporate bond book. Following the stockmarket recovery in 2009 and the uncertainty regarding the future direction of global investment markets, the company reduced the EBR. In May 2011, the company stated that it expected the reduced EBR to continue for the foreseeable future and it repeated this view in March 2012 and 2013. However, as a result of changes in market conditions and de-risking activity that was carried out during 2013, the solvency of the WPSF had improved significantly at the end of 2013. As a result, the board agreed to increase the EBR by 10% during 2014 and this was achieved over the six months to September 2014. Additional protection was also purchased against extreme falls in equity values and this was repeated in 2016 and 2017. A further EBR increase of 5% was implemented in August and September 2015. In 2017 it was decided to retain the overall proportion of assets invested in growth assets but the property and alternative asset proportions were increased at the expense of equities while in 2018 there was a slight increase in fixed interest holdings as well as slightly greater diversification across equities, property, alternatives and geographical regions. In 2020 (2019), there was a slight increase (reduction) in the equity proportion to align with PAC’s long-term target allocation although market movements in 2019 meant that the EBR increased slightly over that year. Broadly similar asset allocations applied in 2021. Over 2020 M&G plc continued to develop its approach to sustainable investing by further embedding ESG into its investment processes. The PAC Board and WPC support these developments and in February 2021 M&G announced that it would allocate £5bn from the WPSF into privately owned enterprises working to create a more sustainable world.

With-Profits Fund (Sterling OB business)

In 2009 the EBR fell from 65.5% to 49.1% as a result of the decision to reduce the fund's equity content. At the end of December 2013 the EBR (including Other assets) was 55.5% but this had increased to 68.4% at the end of 2015 and further still to 71.6% at the end of 2017 and remained around this level at the end of 2019 but had increased to 76.5% at the end of September 2021 and to 78.5% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	18.6%	20.3%	21.2%	16.7%
Overseas Equities	29.4%	31.0%	28.8%	26.7%
Property	13.9%	13.6%	14.2%	16.8%
Fixed Interest	26.7%	22.3%	20.3%	18.5%
Cash	2.0%	5.4%	2.3%	3.0%
Other	9.4%	7.4%	13.2%	18.3%

Optimum Bonus Fund

The fund is promoted to offer a higher regular bonus rate, so a more cautious investment strategy is adopted than that for the main part of the WPSF, with a lower EBR. The EBR had remained fairly stable for several years, being 50% (including Other assets) at the end of December 2009, but it had reduced to 37.8% by December 2011 and remained around this level until the end of 2013 before increasing to 47.8% at the end of 2014. It has increased since then and had remained around 52% in recent years, but increased to 56% in September 2020 and to 59.5% at September 2021 and 62.9% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	13.7%	15.1%	15.7%	12.2%
Overseas Equities	21.7%	23.6%	23.3%	21.5%
Property	10.4%	10.3%	11.0%	13.7%
Fixed Interest	44.1%	40.0%	36.5%	34.0%
Cash	3.2%	5.0%	2.2%	3.1%
Other	6.9%	6.0%	11.3%	15.5%

Optimum Return Fund

In 2009 the EBR fell from 65.5% to 49.1% as a result of the decision to reduce the fund's equity content. At the end of December 2013 the EBR (including Other assets) was 55.5% but this had increased to 68.4% at the end of 2015 and further still to 71.6% at the end of 2017 and remained around this level at the end of 2019 but had increased to 76.5% at the end of September 2021 and to 78.5% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	18.6%	20.3%	21.2%	16.7%
Overseas Equities	29.4%	31.0%	28.8%	26.7%
Property	13.9%	13.6%	14.2%	16.8%
Fixed Interest	26.7%	22.3%	20.3%	18.5%
Cash	2.0%	5.4%	2.3%	3.0%
Other	9.4%	7.4%	13.2%	18.3%

SAIF business

Following the merger with the With Profits Sub Fund in April 2021, these policies are now invested in line with the Main With Profits Fund.

The asset mix shown in the table below for dates prior to April 2021 reflect those in SAIF which underpinned the performance attributed to policies.

Prior to the fund merger in April 2021 the EBR had been reduced from 58.5% to 42% in 2009. It increased steadily from then to stand at 66.5% (including Other assets) at the end of June 2018, but had fallen back slightly to 62.1% at the end of 2018. A slight reduction in the proportion of equity assets held by the fund to align with its long-term target allocation was implemented in 2019. However, given the rise in investment markets during 2019 the EBR had risen to close to 65% at the end of 2019 and remained at this level at the end of 2021 before increasing to over 75% following the fund merger and to 78.5% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	15.6%	18.8%	21.2%	16.7%
Overseas Equities	28.1%	27.0%	28.8%	26.7%
Property	13.7%	14.7%	14.2%	16.8%
Fixed Interest	33.7%	29.5%	20.3%	18.5%
Cash	1.6%	5.9%	2.3%	3.0%
Other	7.3%	4.1%	13.2%	18.3%

PruFund Growth Fund

In 2009 the EBR fell from 65.5% to 49.1% as a result of the decision to reduce the fund's equity content. At the end of December 2013 the EBR (including Other assets) was 55.5% but this had increased to 68.4% at the end of 2015 and further still to 71.6% at the end of 2017 and remained around this level at the end of 2019 but had increased to 76.5% at the end of September 2021 and to 78.5% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	18.6%	20.3%	21.2%	16.7%
Overseas Equities	29.4%	31.0%	28.8%	26.7%
Property	13.9%	13.6%	14.2%	16.8%
Fixed Interest	26.7%	22.3%	20.3%	18.5%
Cash	2.0%	5.4%	2.3%	3.0%
Other	9.4%	7.4%	13.2%	18.3%

PruFund Protected Growth Fund

The investment mix currently closely follows that of the main part of the WPSF fund and the Growth Fund. In 2009 the EBR fell from 65.5% to 49.1%. At the end of December 2013 the EBR (including Other assets) was 55.5% but this had increased to 68.4% at the end of 2015 and further still to 71.6% at the end of 2017 and remained around this level at the end of 2019 but had increased to 76.5% at the end of September 2021 and to 78.5% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	18.6%	20.3%	21.2%	16.7%
Overseas Equities	29.4%	31.0%	28.8%	26.7%
Property	13.9%	13.6%	14.2%	16.8%
Fixed Interest	26.7%	22.3%	20.3%	18.5%
Cash	2.0%	5.4%	2.3%	3.0%
Other	9.4%	7.4%	13.2%	18.3%

PruFund Growth & Income Fund

A more cautious investment strategy is adopted than that for the main part of the WPSF and since the end of 2012 the fund has followed that of the Optimum Bonus Fund. The EBR had remained fairly stable for several years, being 50% (including Other assets) at the end of December 2009, but it had reduced to 37.8% by December 2011 and remained around this level until the end of 2013 before increasing to 47.8% at the end of 2014 and further to 51.6% at the end of 2016 and 59.5% at September 2021 and 62.9% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	13.7%	15.1%	15.7%	12.2%
Overseas Equities	21.7%	23.6%	23.3%	21.5%
Property	10.4%	10.3%	11.0%	13.7%
Fixed Interest	44.1%	40.0%	36.5%	34.0%
Cash	3.2%	5.0%	2.2%	3.1%
Other	6.9%	6.0%	11.3%	15.5%

PruFund Protected Growth & Income Fund

A more cautious investment strategy is adopted than that for the main part of the WPSF and since the end of 2012 the fund has followed that of the Optimum Bonus Fund. The EBR had remained fairly stable for several years, being 50% (including Other assets) at the end of December 2009, but it had reduced to 37.8% by December 2011 and remained around this level until the end of 2013 before increasing to 47.8% at the end of 2014 and further to 51.6% at the end of 2016 and 59.5% at September 2021 and 62.9% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	13.7%	15.1%	15.7%	12.2%
Overseas Equities	21.7%	23.6%	23.3%	21.5%
Property	10.4%	10.3%	11.0%	13.7%
Fixed Interest	44.1%	40.0%	36.5%	34.0%
Cash	3.2%	5.0%	2.2%	3.1%
Other	6.9%	6.0%	11.3%	15.5%

PruFund Cautious Fund

The fund has been marketed with a much more cautious approach than for the main part of the WPSF, with a current target of a 30% EBR. At the end of September 2016 the EBR (including Other assets) was 31.4% and it had increased further to 40.4% at the end of December 2017 before falling back to 36% at the end of 2018 but recovered to 45.6% at September 2021 and to 56.9% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	9.4%	10.6%	11.1%	8.5%
Overseas Equities	14.7%	16.9%	18.6%	19.6%
Property	7.0%	7.4%	8.0%	11.0%
Fixed Interest	61.3%	55.5%	50.8%	39.7%
Cash	2.3%	4.8%	2.1%	3.4%
Other	5.3%	4.8%	9.4%	17.8%

PruFund Protected Cautious Fund

The fund has been marketed with a much more cautious approach than for the main part of the WPSF, with a current target of a 30% EBR. At the end of September 2016 the EBR (including Other assets) was 31.4% and it had increased further to 40.4% at the end of December 2017 before falling back to 36% at the end of 2018 but recovered to 45.6% at September 2021 and to 56.9% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	9.4%	10.6%	11.1%	8.5%
Overseas Equities	14.7%	16.9%	18.6%	19.6%
Property	7.0%	7.4%	8.0%	11.0%
Fixed Interest	61.3%	55.5%	50.8%	39.7%
Cash	2.3%	4.8%	2.1%	3.4%
Other	5.3%	4.8%	9.4%	17.8%

PruFund Risk Managed 1 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 9% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

Prior to 21 January 2019 the fund did not have a specific volatility target but anticipated a high exposure to lower risk assets such as fixed interest securities and holdings of cash and money market instruments with no more than 30% of the fund being invested in equities. The EBR as at 30 September 2021 was 32.9% but had increased to 44.5% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	5.3%	7.0%	6.3%	5.0%
Overseas Equities	9.3%	11.0%	10.1%	9.5%
Property	8.0%	7.7%	8.8%	10.3%
Fixed Interest	69.1%	65.9%	57.5%	52.5%
Cash	4.3%	5.4%	2.5%	3.0%
Other	4.0%	3.0%	14.8%	19.7%

PruFund Risk Managed 2 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 10% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

Prior to 21 January 2019 the fund did not have a specific volatility target but anticipated a bias towards lower risk assets such as fixed interest securities and holdings of cash and money market instruments but will always have some exposure to equities, with between 10% and 40% of the fund being invested in equities. The EBR as at 30 September 2021 however was 46.3% and had further increased to 55.9% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	9.3%	11.6%	10.7%	8.8%
Overseas Equities	16.5%	18.4%	17.0%	16.8%
Property	10.6%	9.9%	11.1%	12.4%
Fixed Interest	55.3%	51.7%	45.6%	41.5%
Cash	3.3%	4.6%	2.0%	2.6%
Other	5.0%	3.8%	13.6%	17.9%

PruFund Risk Managed 3 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 12% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

Prior to 21 January 2019 the fund did not have a specific volatility target but anticipated a well diversified exposure to UK and international equities (between 20% and 55% of the fund), property, fixed interest securities, index-linked securities and other specialist investments although from time to time, however, the fund may have a high exposure to equities and/or fixed income assets. The EBR as at 30 September 2021 was 60.3% and had increased to 67.4% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	13.4%	16.3%	15.0%	12.6%
Overseas Equities	23.8%	25.9%	23.9%	23.9%
Property	12.7%	11.9%	12.9%	14.3%
Fixed Interest	41.5%	37.4%	33.3%	30.2%
Cash	2.5%	4.0%	1.9%	2.4%
Other	6.1%	4.5%	13.0%	16.6%

PruFund Risk Managed 4 Fund

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 14.5% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

Prior to 21 January 2019 the fund did not have a specific volatility target but anticipated a well diversified exposure to UK and international equities (between 40% and 80%), property, fixed interest securities, index-linked securities and other specialist investments with typically a bias towards assets providing potential for growth. The EBR as at 30 September 2021 was 74.4% and had increased to 78.8% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	18.0%	21.3%	19.8%	16.6%
Overseas Equities	31.9%	33.9%	31.2%	31.7%
Property	13.9%	12.9%	14.2%	15.3%
Fixed Interest	27.6%	23.5%	21.1%	18.9%
Cash	1.8%	3.5%	1.7%	2.3%
Other	6.8%	4.9%	12.0%	15.2%

PruFund Risk Managed 5 Fund

The fund aims to achieve long-term total return. It is actively managed and aims to limit volatility, after allowing for smoothing, to 17% per annum over the medium to long term. There is however no guarantee that the fund will achieve its objective of managing the volatility to the target level.

The EBR as at 30 September 2021 was 90.3% and had increased slightly to 91.4% at 30 September 2022.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	23.0%	26.8%	25.1%	21.2%
Overseas Equities	40.9%	42.6%	39.7%	40.2%
Property	15.4%	14.0%	15.4%	16.3%
Fixed Interest	12.1%	8.3%	7.3%	6.7%
Cash	1.0%	2.9%	1.5%	2.0%
Other	7.6%	5.4%	11.0%	13.7%

PruFund Planet 1 Fund

Launched in 2021, the PruFund Planet 1 fund is an Environmental, Social and Governance (ESG) focused version of Prudential's PruFund Risk Managed 1 fund. It seeks to manage risks, pursue opportunities and invest in high-impact solutions to the world's ESG challenges and is expected to deliver similar long-term growth to the existing PruFund Risk Managed 1 fund.

Investing across all major asset classes and geographic regions, the fund combines M&G's asset allocation capabilities with proprietary and third-party investment managers in diverse ESG areas such as impact bonds, healthcare and wellbeing, clean technology and systematic equity.

Investment strategies within PruFund Planet are assessed and set in relation to three types of outcome:

- Risk Focused – managing ESG risks and seeking to minimise negative outcomes via exclusions
- Opportunity Focused – pursuing ESG opportunities and contributing to positive outcomes for broad stakeholders
- Solutions Focused – targeting specific societal/environmental issues for underserved groups or stakeholders.

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 9% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 26 Jul 2021	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	6.4%	8.1%	4.1%
Overseas Equities	10.2%	13.1%	10.1%
Property	7.0%	8.6%	9.3%
Fixed Interest	66.7%	61.6%	47.4%
Cash	4.3%	5.1%	5.1%
Other	5.5%	3.5%	24.0%

PruFund Planet 2 Fund

Launched in 2021, the PruFund Planet 2 fund is an Environmental, Social and Governance (ESG) focused version of Prudential's PruFund Risk Managed 2 fund. It seeks to manage risks, pursue opportunities and invest in high-impact solutions to the world's ESG challenges and is expected to deliver similar long-term growth to the existing PruFund Risk Managed 2 fund.

Investing across all major asset classes and geographic regions, the fund combines M&G's asset allocation capabilities with proprietary and third-party investment managers in diverse ESG areas such as impact bonds, healthcare and wellbeing, clean technology and systematic equity.

Investment strategies within PruFund Planet are assessed and set in relation to three types of outcome:

- Risk Focused – managing ESG risks and seeking to minimise negative outcomes via exclusions
- Opportunity Focused – pursuing ESG opportunities and contributing to positive outcomes for broad stakeholders
- Solutions Focused – targeting specific societal/environmental issues for underserved groups or stakeholders.

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 10% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 26 Jul 2021	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	10.8%	12.6%	7.9%
Overseas Equities	17.3%	20.8%	17.2%
Property	9.2%	11.0%	11.6%
Fixed Interest	52.7%	48.3%	36.8%
Cash	3.3%	3.5%	3.8%
Other	6.8%	3.8%	22.7%

PruFund Planet 3 Fund

Launched in 2021, the PruFund Planet 3 fund is an Environmental, Social and Governance (ESG) focused version of Prudential's PruFund Risk Managed 3 fund. It seeks to manage risks, pursue opportunities and invest in high-impact solutions to the world's ESG challenges and is expected to deliver similar long-term growth to the existing PruFund Risk Managed 3 fund.

Investing across all major asset classes and geographic regions, the fund combines M&G's asset allocation capabilities with proprietary and third-party investment managers in diverse ESG areas such as impact bonds, healthcare and wellbeing, clean technology and systematic equity.

Investment strategies within PruFund Planet are assessed and set in relation to three types of outcome:

- Risk Focused – managing ESG risks and seeking to minimise negative outcomes via exclusions
- Opportunity Focused – pursuing ESG opportunities and contributing to positive outcomes for broad stakeholders
- Solutions Focused – targeting specific societal/environmental issues for underserved groups or stakeholders.

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 12% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 26 Jul 2021	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	15.3%	16.8%	11.7%
Overseas Equities	24.5%	27.6%	24.2%
Property	11.2%	13.2%	13.9%
Fixed Interest	38.5%	34.5%	26.4%
Cash	2.5%	3.2%	2.5%
Other	8.1%	4.7%	21.3%

PruFund Planet 4 Fund

Launched in 2021, the PruFund Planet 4 fund is an Environmental, Social and Governance (ESG) focused version of Prudential's PruFund Risk Managed 4 fund. It seeks to manage risks, pursue opportunities and invest in high-impact solutions to the world's ESG challenges and is expected to deliver similar long-term growth to the existing PruFund Risk Managed 4 fund.

Investing across all major asset classes and geographic regions, the fund combines M&G's asset allocation capabilities with proprietary and third-party investment managers in diverse ESG areas such as impact bonds, healthcare and wellbeing, clean technology and systematic equity.

Investment strategies within PruFund Planet are assessed and set in relation to three types of outcome:

- Risk Focused – managing ESG risks and seeking to minimise negative outcomes via exclusions
- Opportunity Focused – pursuing ESG opportunities and contributing to positive outcomes for broad stakeholders
- Solutions Focused – targeting specific societal/environmental issues for underserved groups or stakeholders.

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 14.5% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 26 Jul 2021	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	20.2%	21.5%	14.0%
Overseas Equities	32.5%	35.8%	32.0%
Property	12.0%	14.5%	16.2%
Fixed Interest	24.3%	21.6%	16.3%
Cash	1.8%	1.6%	1.5%
Other	9.3%	5.0%	20.0%

PruFund Planet 5 Fund

Launched in 2021, the PruFund Planet 5 fund is an Environmental, Social and Governance (ESG) focused version of Prudential's PruFund Risk Managed 5 fund. It seeks to manage risks, pursue opportunities and invest in high-impact solutions to the world's ESG challenges and is expected to deliver similar long-term growth to the existing PruFund Risk Managed 5 fund.

Investing across all major asset classes and geographic regions, the fund combines M&G's asset allocation capabilities with proprietary and third-party investment managers in diverse ESG areas such as impact bonds, healthcare and wellbeing, clean technology and systematic equity.

Investment strategies within PruFund Planet are assessed and set in relation to three types of outcome:

- Risk Focused – managing ESG risks and seeking to minimise negative outcomes via exclusions
- Opportunity Focused – pursuing ESG opportunities and contributing to positive outcomes for broad stakeholders
- Solutions Focused – targeting specific societal/environmental issues for underserved groups or stakeholders.

The fund is actively managed and aims to limit volatility, after allowing for smoothing, to 17% p.a. over the medium to long term although there is no guarantee that the fund will achieve this volatility objective.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 26 Jul 2021	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	25.7%	26.5%	18.0%
Overseas Equities	41.3%	43.9%	40.6%
Property	12.9%	15.6%	17.8%
Fixed Interest	8.5%	7.5%	5.6%
Cash	1.0%	0.4%	0.8%
Other	10.6%	6.1%	17.2%

Past Performance**With-Profits Fund (Sterling OB business)**

Since the implementation of the Solvency II reporting regime, comparative standard payouts are no longer published in firms' regulatory returns. However the company kindly supplied AKG with comparable figures as at March 2018, 2020 and 2021 and published figures at May 2019 in its bonus announcement.

Prior to that payout levels for both maturities and surrenders had been very respectable. There had been some deterioration relative to some of the smaller players in the market, but the fund compared well against the major UK with profits funds. In March 2010, payouts for both maturities and surrenders typically fell well within the top quartile, although a minority of the surrender values fell in the second or third quartiles. In March 2011 and March 2012, payouts for maturities all fell well within the top two quartiles, apart from one (in March 2011) which was placed in the third quartile. Payouts for surrenders ranked slightly lower, though, spanning the top three quartiles. In March 2013 the majority of payouts again fell in the top two quartiles although several were close to third quartile but in March 2014 all payouts were second or third quartile apart from two five year values falling at the bottom of the comparison tables. In March 2015, despite increases in absolute value for two thirds of the specimens, payouts spanned all four quartiles and this was also the case at March 2016 although most values were second and third quartiles.

The 2021 endowment values show an increase from 2020 but are still below those from 2016 and AKG estimates these would be mid market were whole market comparative values still available. The pension values all increased in 2021, with many values now above 2016 levels. and AKG estimates these might now be mid market and above were whole market comparative values still available having estimated 2020 payouts would have spanned all four quartiles.

Payouts on Maturity Values: With-Profits Fund (Sterling OB business)**Original Insurer: Prudential Assurance Company Ltd**

Product	Term (yrs)	Freq	Premium	01/03/21	01/03/22
Endowment	20	Monthly	£ 50	£19,130	
Personal Pension/s226	5	Monthly	£ 200	£13,343	
Personal Pension/s226	10	Monthly	£ 200	£31,772	
Personal Pension/s226	15	Monthly	£ 200	£57,415	
Personal Pension/s226	20	Monthly	£ 200	£92,983	
Personal Pension/s226	5	Single	£ 10,000	£12,586	
Personal Pension/s226	10	Single	£ 10,000	£17,780	
Personal Pension/s226	15	Single	£ 10,000	£22,583	
Personal Pension/s226	20	Single	£ 10,000	£32,738	

Source: The company.

Original Insurer: Scottish Amicable Life plc

Product	Term (yrs)	Freq	Premium	01/03/21	01/03/22
Endowment	25	Monthly	£ 50	£30,006	

Source: The company.

Payouts on Surrender/Transfer Values: With-Profits Fund (Sterling OB business)**Original Insurer: Prudential Assurance Company Ltd**

Product	Term (yrs)	Freq	Premium	01/03/21	01/03/22
Endowment	20	Monthly	£ 50	£18,281	
Personal Pension/s226	2	Single	£ 10,000	£10,738	
Personal Pension/s226	3	Single	£ 10,000	£10,875	
Personal Pension/s226	5	Single	£ 10,000	£12,586	
Personal Pension/s226	10	Single	£ 10,000	£17,780	

Source: The company.

PruFund Growth Fund

Since the implementation of the Solvency II reporting regime, comparative standard payouts are no longer published in firms' regulatory returns. However the company has kindly supplied AKG with comparable figures as at March 2018, 2020 and 2021.

Prior to that the specimen 2009 and 2010 shorter term payouts on the company's with profits bonds all fell in the second or third quartiles while shorter term payouts in 2011 were both third quartile.

Longer term specimen payouts at March 2012 were both top quartile and indeed were best or second best payouts in the market but specimen payouts at March 2013 were in or close to second quartile and specimen payouts at March 2014, 2015 and 2016 covered the bottom three quartiles. Based on the limited number of specimen values that AKG has seen we estimate that the ten year 2020 payout would be mid market were whole market comparative values available while the shorter term values would be towards the top of the market. All values fell in 2021 as was the case across much of the market but AKG estimates the comparative position could have slipped at shorter terms were whole market comparative values still available.

These results should be indicative of the returns on each of the With-Profits Fund, Optimum Return Fund, PruFund Growth Fund and PruFund Protected Growth Fund, which all share the same asset mix.

Payouts on Surrender/Transfer Values: PruFund Growth Fund

Original Insurer: Prudential Assurance Company Ltd

Product	Term (yrs)	Freq	Premium	01/03/21	01/03/22
With Profits Bond	2	Single	£ 10,000	£10,377	
With Profits Bond	3	Single	£ 10,000	£10,790	
With Profits Bond	5	Single	£ 10,000	£12,067	
With Profits Bond	10	Single	£ 10,000	£15,492	

Source: The company.

Investment Returns

Amongst the major with profits funds in the UK, the WPSF has been one of the top performing funds over the last 15 years.

Year	2017	2018	2019	2020	2021	5 Yr	10 Yr
With-Profits Fund (Sterling OB business)	10.3%	-2.8%	11.5%	1.7%	12.0%	36.2%	113.2%
Optimum Bonus Fund	9.2%	-2.4%	11.5%	3.5%	9.1%	34.2%	104.7%
Optimum Return Fund	10.3%	-2.8%	11.5%	1.7%	12.0%	36.2%	113.2%
SAIF business	10.3%	-2.8%	11.7%	2.0%	10.9%	35.5%	106.0%
PruFund Growth Fund	10.3%	-2.8%	11.5%	1.7%	12.0%	36.2%	113.2%
PruFund Protected Growth Fund	10.3%	-2.8%	11.5%	1.7%	12.0%	36.2%	113.2%
PruFund Growth & Income Fund	9.2%	-2.4%	11.5%	3.5%	9.1%	34.2%	104.8%
PruFund Protected Growth & Income Fund	9.2%	-2.4%	11.5%	3.5%	9.1%	34.2%	104.8%
PruFund Cautious Fund	7.1%	-2.2%	11.0%	4.4%	5.8%	28.4%	80.1%
PruFund Protected Cautious Fund	7.1%	-2.2%	11.0%	4.4%	5.8%	28.4%	80.1%
PruFund Risk Managed 1 Fund	7.2%	-1.7%	10.9%	5.5%	5.5%	30.1%	82.2%
PruFund Risk Managed 2 Fund	8.6%	-2.3%	11.6%	4.6%	7.8%	33.5%	98.3%
PruFund Risk Managed 3 Fund	10.1%	-3.0%	12.2%	3.8%	10.0%	36.8%	112.9%
PruFund Risk Managed 4 Fund	11.6%	-3.9%	13.1%	2.8%	12.3%	40.0%	129.7%
PruFund Risk Managed 5 Fund			10.2%	1.8%	14.8%		
PruFund Planet 1 Fund							
PruFund Planet 2 Fund							
PruFund Planet 3 Fund							
PruFund Planet 4 Fund							
PruFund Planet 5 Fund							

Source: The company.

Transparency

In a number of ways Prudential has set the standard for others to follow in terms of improving transparency. For example, it was the first company to establish a fully independent with profits committee, and it allows it to have a significant involvement in the management of the company's with profits business. It also tends to define intended maximum charges for smoothing and guarantees at the start of a policy.

The general quality of the company's literature is high, although prior to April 2021 the PPFM was slightly difficult to follow because of the wide range of different types of business in force, which entailed a large number of departures in practice from the norm. The new document has been simplified and there are now fewer such departures and there is now a new appendix bringing together all of the specific practices for Ex-Equitable With Profits Annuity Plans. There is also a separate PruFund specific version of the PPFM although PruFund continues to be covered in the main PPFM. A wide range of different publications on with profits issues are available, although occasionally some are difficult to track down online. The annual report to policyholders on compliance with the PPFM covers a lot of ground and a clear summary of changes is published on the company's website whenever the PPFM changes.

The annual report in respect of 2018 revealed that an operational issue had arisen in respect of some of the assets backing the PruFund Cautious business, which were incorrectly invested in the PruFund Growth Fund. All policyholders received the correct growth rate on their policies and the error resulted in a significant gain to the WPSF.

Similarly the report in respect of 2019 revealed an error in the level of tax charged to asset shares for certain product lines. The issue was addressed for in-force traditional business at the 2020 bonus declaration and was expected to be fully resolved for leavers and Pru Fund policyholders over 2020 although the exercise did eventually run over into 2022, with around 97% of policies remediated by the end of February that year.

A review of the methodology for charging tax to asset shares was carried out, reviewed by the WPC and a new approach approved and implemented for the final 2021 bonus declaration.

The Board Report to Policyholders in respect of 2021 revealed that the combination of migrating the SALAS business and part of the corporate pensions policy book with the pandemic led to a significant impact on service levels. Contingency plans put in place in 2021 helped to recover service and improve experience for policyholders.

The 'new-style' PruFund funds are inherently more transparent than the company's older with profits funds, but their mechanics are fairly complex to understand. Policyholders receive a six-monthly statement along the lines of a bank statement.

With-Profits Fund (Sterling OB business)

5

Optimum Bonus Fund

5

Optimum Return Fund

5

SAIF business

5

PruFund Growth Fund

5

PruFund Protected Growth Fund

5

PruFund Growth & Income Fund

5

PruFund Protected Growth & Income Fund

5

PruFund Cautious Fund

5

PruFund Protected Cautious Fund	5
PruFund Risk Managed 1 Fund	5
PruFund Risk Managed 2 Fund	5
PruFund Risk Managed 3 Fund	5
PruFund Risk Managed 4 Fund	5
PruFund Risk Managed 5 Fund	5
PruFund Planet 1 Fund	5
PruFund Planet 2 Fund	5
PruFund Planet 3 Fund	5
PruFund Planet 4 Fund	5
PruFund Planet 5 Fund	5

Future Performance

With-Profits Fund (Sterling OB business) **5**

The company remains highly committed to with profits and the philosophy that equities offer the best prospect of longer term returns. It is far and away the biggest writer of new with profits business in the UK market. The equity backing ratio had fallen from its level of a few years ago, but it had recovered to around 70% at the end of September 2017 and remains above this level. The fund's investment returns have consistently outperformed other major funds. Payout levels for both maturities and surrenders have been respectable and compare well against other major UK with profits funds. On the downside, there are charges for smoothing and guarantees, but the strength and scale of the company also contribute to keeping future performance prospects looking solid.

Optimum Bonus Fund **3**

Growth prospects are lower than those in the more traditional equity based Optimum Return Fund. However, given the aim is for income, AKG regards the fund as well placed to deliver this.

Optimum Return Fund **5**

The company remains highly committed to with profits and the philosophy that equities offer the best prospect of longer term returns. It is far and away the biggest writer of new with profits business in the UK market. The equity backing ratio had fallen from its level of a few years ago, but it had recovered to around 70% at the end of September 2017 and remains above this level. The fund's investment returns have consistently outperformed other major funds. Payout levels for both maturities and surrenders have been very respectable and compare well against other major UK with profits funds. On the downside, there are charges for smoothing and guarantees, but the strength and scale of the company also contribute to keeping future performance prospects looking solid.

SAIF business

5

Following the merger of the SAIF Fund with the With Profits Sub Fund this business now benefits from an EBR around 75% and also benefitted from the distribution of the SAIF estate at the time of the merger as well as guarantee charges being ruled out in future. The new fund's investment returns have consistently outperformed other major funds and the strength and scale of the company also contribute to keeping future performance prospects looking solid.

PruFund Growth Fund

5

The company remains highly committed to with profits and the philosophy that equities offer the best prospect of longer term returns. It is far and away the biggest writer of new with profits business in the UK market. The equity backing ratio had fallen from its level of a few years ago, but it had recovered to around 70% at the end of September 2017 and remains above this level. The fund's investment returns have consistently outperformed other major funds. Payout levels for both maturities and surrenders on the company's other products sharing the same asset mix have been very respectable and compare well against other major UK with profits funds. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge. The strength and scale of the company also contribute to keeping future performance prospects looking solid.

PruFund Protected Growth Fund

4

The company remains highly committed to with profits and the philosophy that equities offer the best prospect of longer term returns. It is far and away the biggest writer of new with profits business in the UK market. The equity backing ratio had fallen from its level of a few years ago, but it had recovered to around 70% at the end of September 2017 and remains above this level. The fund's investment returns have consistently outperformed other major funds. Payout levels for both maturities and surrenders on the company's other products sharing the same asset mix have been very respectable and compare well against other major UK with profits funds. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge. The strength and scale of the company also contribute to keeping future performance prospects good. The additional charge for guarantees on the PruFund Protected funds reduces the Future Performance Rating, relative to the PruFund Growth Fund. Charges are pre-defined, and those for smoothing and guarantees (apart from the protected investment guarantee) are contained within the annual management charge.

PruFund Growth & Income Fund

3

Growth prospects are lower than those in the more traditional equity based Growth Fund. However, given the aim is also for income, AKG regards the fund as well placed to deliver this. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Protected Growth & Income Fund

2

Growth prospects are lower than those in the more traditional equity based Growth Fund, because of the aim for income. Also, the additional charge for guarantees on the PruFund Protected funds reduces the Future Performance Rating, relative to the PruFund Growth & Income Fund. Charges are pre-defined, and those for smoothing and guarantees (apart from the protected investment guarantee) are contained within the annual management charge.

PruFund Cautious Fund

2

Long-term growth prospects are lower than those in the company's more traditional equity based with profits funds, because of the intentionally cautious target EBR. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Protected Cautious Fund

2

Long-term growth prospects are lower than those in the company's more traditional equity based with profits funds, because of the intentionally cautious target EBR. Also, the additional charge for guarantees on the PruFund Protected funds reduces the Future Performance Rating, relative to the PruFund Cautious Fund. Charges are pre-defined, and those for smoothing and guarantees (apart from the protected investment guarantee) are contained within the annual management charge.

PruFund Risk Managed 1 Fund

2

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 9% p.a. over the medium to long term. This is designed to be a cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Risk Managed 2 Fund

3

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 10% p.a. over the medium to long term. This is designed to be a fairly cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Risk Managed 3 Fund

4

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 12% p.a. over the medium to long term. This is designed to be a slightly cautious approach, with the upper limit inherently constraining the potential to achieve market-leading future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Risk Managed 4 Fund

5

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 14.5% p.a. over the medium to long term. This provides scope for the fund to take an adventurous approach when appropriate, offering the potential for achieving good levels of future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Risk Managed 5 Fund

5

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 17% p.a. over the medium to long term. This provides even more scope for the fund to take an adventurous approach when appropriate, offering the potential for achieving good levels of future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Planet 1 Fund

2

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 9% p.a. over the medium to long term. This is designed to be a cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Planet 2 Fund

3

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 10% p.a. over the medium to long term. This is designed to be a cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Planet 3 Fund

4

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 12% p.a. over the medium to long term. This is designed to be a cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Planet 4 Fund

5

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 14.5% p.a. over the medium to long term. This is designed to be a cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

PruFund Planet 5 Fund

5

The fund's objectives are clearly focused, with a target maximum volatility, after allowing for smoothing, of 17% p.a. over the medium to long term. This is designed to be a cautious approach, which inherently limits the potential for future performance on a long-term basis. Charges are pre-defined, and those for smoothing and guarantees are contained within the annual management charge.

Financial Strength of the Fund

PAC has the largest with profits portfolio in the UK, and it continues to write new UK with profits business in volumes that dwarf all others in the market. The company has renewed its focus on the with profits market and it remains committed to with profits and the long term returns of an equity based strategy. The inherent strength of its with profits fund remains apparent.

Own Funds for PAC's with profits funds (of which the WPSF is the major component) were £11.6bn in 2021 [2020: £11.9bn, 2019: £12.2bn, 2018: £9.6bn, 2017: £9.6bn, 2016: £8.4bn] (excluding the undisclosed present value of future shareholder transfers [2019: £2.7bn, 2018: £2.4bn, 2017: £2.7bn, 2016: £2.3bn]) and reduced by £271m as follows: underlying capital generation of £395m (£377m from the expected surplus from in-force business and £18m from new business); other operating capital generation of £8m (including the impact of the merger of SAIF into the WPSF, model changes in respect of PIA modelling of options and guarantees, changes in the parameterisation of the modelled management actions, updates to non-market assumptions and non-market experience); market movements of £(422)m (primarily reflecting the reduction in the cost of guarantees from the investment return in excess of expected return); £(45)m from exceptional transformation expenses and restructuring costs; tax changes of £(174)m (driven primarily by the increase in the long-term corporation tax assumption); and £(33)m from the impact of recalculating TMTP.

The Solvency Capital Requirement for the with profits funds was £3.8bn [2020: £4.9bn, 2019: £4.6bn, 2018: £4.2bn, 2017: £4.8bn, 2016: £4.7bn], reducing by £1,047m in 2021 as follows: a £368m release of capital requirements as the in-force business runs off, offset by £56m additional capital requirements in respect of new business written over the period; a £329m decrease in the SCR, primarily as a result of model development and management actions, including the merger of SAIF into the WPSF on 1 April 2021; market movements reduced the SCR by £294m over the period, primarily driven by the rise in interest rates over 2021; and a £112m reduction in SCR driven by an update to the future corporation tax assumption (19% for 2021 and 2022, 23.5% for 2023 and 25% for 2024 onwards).

This led to a surplus in the with profits funds of £7.8bn [2020: £7.0bn, 2019: £7.6bn, 2018: £5.5bn, 2017: £4.8bn, 2016: £3.7bn] and a coverage ratio of 302% [2020: 243%, 2019: 267%, 2018: 231%, 2017: 201%, 2016: 179%].

Under the previous regulatory regime, the fund's Realistic Balance Sheet at the end of 2015 showed the RCM covered 7.2 times with £6.5bn of realistic excess available capital in the fund.

The Fund is strengthened by the presence of a legally enforceable capital support arrangement between M&G plc and PAC under which M&G plc has an obligation to provide PAC with capital support up to an agreed maximum aggregate level in the event of PAC's solvency falling below specified levels.

2021 saw a transfer to the combined WPSF and SAIF FFA of £1.2bn [2020 transfer from of £0.5bn, 2019: transfer to of £2.6bn, 2018: transfer from of £0.1bn, 2017: transfer to £1.6bn, 2016: £1.2bn, 2015: £0.2bn] bringing it to a total of £16.9bn [2020: £15.7bn, 2019: £16.2bn, 2018: £13.5bn]. During 2020 bonuses of £3.0bn [2020: £2.5bn, 2019: £2.7bn, 2018: £2.7bn] were distributed to PAC's with profits policies. At the end of 2020 the FFA for SAIF was set to zero and technical provisions set to equal assets.

Fund Name

Defined Charge Participating Sub-Fund

Fund Basics

Assets Earmarked?	Open?	Year Opened	Year Closed
No	Yes		

Significant Classes of With Profits Business within the Fund

	Open?	Opened	Closed	Assets (31/12/21) (£000's)
French Branch UWP business	No	2001	2003	
ex-Equitable With Profits Annuity Plans	No	2007	2007	
UWP Reinsurance from Canada Life (Europe)	No			
PIA's PAC Sterling With-Profits Fund	No	2002		
PIA's PAC Euro With-Profits Fund	No	2002		
PIA's PAC US Dollar With-Profits Fund	No	2002		
PIA PruFund Growth (Sterling) Fund	Yes	2008		
PIA PruFund Growth (Euro) Fund	Yes	2008		
PIA PruFund Growth (US Dollar) Fund	Yes	2008		
PIA PruFund Protected Growth (Sterling) Fund	Yes	2008	2013	
PIA PruFund Protected Growth (Euro) Fund	Yes	2008	2013	
PIA PruFund Protected Growth (US Dollar) Fund	Yes	2008	2013	
PIA PruFund Cautious (Sterling) Fund	Yes	2009		
PIA PruFund Cautious (Euro) Fund	Yes	2009		
PIA PruFund Cautious (US Dollar) Fund	Yes	2009		
PIA PruFund Protected Cautious (Sterling) Fund	Yes	2009		
PIA PruFund Protected Cautious (Euro) Fund	Yes	2009		
PIA PruFund Protected Cautious (US Dollar) Fund	Yes	2009		

Fund Type/Classification

French Branch UWP business	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
ex-Equitable With Profits Annuity Plans	Conventional With Profits business only	Mixed Investment Fund (40%-85% Shares)
UWP Reinsurance from Canada Life (Europe)	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA's PAC Sterling With-Profits Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA's PAC Euro With-Profits Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA's PAC US Dollar With-Profits Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Growth (Sterling) Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Growth (Euro) Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Growth (US Dollar) Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Protected Growth (Sterling) Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Protected Growth (Euro) Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Protected Growth (US Dollar) Fund	Unitised With Profits business only	Mixed Investment Fund (40%-85% Shares)
PIA PruFund Cautious (Sterling) Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PIA PruFund Cautious (Euro) Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PIA PruFund Cautious (US Dollar) Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PIA PruFund Protected Cautious (Sterling) Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PIA PruFund Protected Cautious (Euro) Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)
PIA PruFund Protected Cautious (US Dollar) Fund	Unitised With Profits business only	Mixed Investment Fund (20%-60% Shares)

Fund Background

The DCPSF was set up as a 100:0 fund to contain the accumulated investment content of premiums paid on Defined Charge Participating business, which is either reinsured from Prudential International Assurance plc (PIA), based in Dublin, or from other companies (e.g. Canada Life (Europe) Assurance Ltd), or written through the company's French branch between January 2001 and December 2003, which on 1 January 2019 was transferred from PAC to PIA and reinsured back to PAC.

Defined Charge Participating business is defined as with-profits business on which policyholders only incur the charges stated explicitly in the policy (which include an annual management charge on the assets held in the DCPSF). These charges accrue to the NPSF which bears all of the corresponding expenses. In 2006 to 2010 a 0.2% p.a. reduction in the investment return credited to the with profits benefit reserve also applied in respect of capital support provided by the WPSF.

The range of UWP sub-funds available for investment to policyholders within PIA is quite large. Initially there were separate Sterling, US Dollar and Euro denominated asset pools, which were superseded with the PAC Sterling/US Dollar/Euro With-Profits Funds in July 2005. The Optimum Bonus/Return Funds have also been available, and separate Sterling, US Dollar and Euro denominated variants of the WPSF's PruFund range of funds were introduced in 2008. The latter range was extended in 2009 when Cautious variants were launched by PIA.

Since December 2007, the fund has also included the closed block of CWP annuity business transferred at that time from Equitable Life Assurance Society (ELAS). This block is subject to a 1% p.a. expense charge (deducted from the gross investment return credited to asset shares and which is transferred to the NPSF, which meets all expenses), and a charge in respect of guarantees expressed as a reduction in investment return credited to asset shares of up to 0.5% p.a. (which accrues to the inherited estate within the WPSF, which bears the cost of the guarantees). In 2008 to 2010 a 0.14% p.a. reduction in the investment return credited to the with profits benefit reserve for this block of business also applied in respect of capital support provided by the WPSF.

The fund is classified as open because of the ongoing reinsurance new business received from PIA, but it does not write any new business directly (hence no products are listed in the table of products currently marketed in the fund on the next page). The company has no current intention to close the fund to new business. There has been a greater focus on writing with profits business via PIA in recent years.

Unless otherwise stated, this report only contains details relevant to the ex-Equitable Life business in the DCPSF, since business from overseas branches and business reinsured from offshore are outside the scope of the report.

Fund Objectives

ex-Equitable With Profits Annuity Plans

The aim is to seek to secure the highest total return (allowing for the effect of taxation and investment expenses) whilst maintaining an acceptable overall risk level for the fund and protecting the relative interests of all groups of policyholders. The policy for with profits business is to invest in a highly diversified portfolio of UK and overseas assets.

This block of business is guaranteed to have the same asset mix as the main OB business within the WPSF.

PPFMs Applicable to the Fund

Business Covered

With-Profits business issued by the Prudential Assurance Company to UK policyholders

Latest Edition

April 2021

Governance Arrangements

The With Profits Committee acts in an advisory capacity to inform the decision-making of the PAC Board and each of its relevant subsidiaries, 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 as a whole or as separately identifiable groups of policyholders. The Committee is appointed by the PAC Board and will have at least three members, all independent of and external to PAC.

Membership is currently five, all independent.

With Profits Committee meetings are usually attended by PAC's CEO and CRO, CFO, the Chief Actuary, the With Profits Actuary and the General Counsel, though the Chairman may choose to hold meetings, or parts of meetings, restricted to committee members only.

The With Profits Committee also reviews the operation of the transferred ELAS business to ensure compliance with the Scheme and indeed has some decision making responsibilities under the scheme.

With Profits Actuary: Philip Roberts

Willis Towers Watson plc

With Profits Committee Name:

With Profits Committee

Members of With Profits Committee:

Name	Position
Robert Talbut	Chair and Former CIO, Royal London Asset Management
Katie Blacklock	Non Executive Director, Edmond de Rothschild
Eithne McManus	Former CEO, Westminster Assurance
Stephen Wilson	Former WPA, Royal London
Louise Fowler	Former CMO, First Direct & Coop

With Profits Products Currently Marketed in the Fund

Product

Rights to Share in Profits

The DCPSF is a 100:0 fund. The profit in the fund arises solely from investment performance (after the deduction of any fixed charges) and is entirely attributable to DCPSF policyholders. Shareholders have no rights to the investment profits in the fund.

The total tax apportioned to the fund is limited to the amount that would be charged if the sub fund individually comprised the entire with profits fund of a UK proprietary life assurance company.

Profit-Sharing Philosophy

The main aims of the bonus policy are to give returns which take account of the earnings of the underlying investments, whilst smoothing peaks and troughs of investment performance and to ensure that all with profits policyholders receive a fair share of distributed profits by way of bonus additions to their policies.

ex-Equitable With Profits Annuity Plans

The business is governed by the terms of the 2007 Scheme of Transfer. The ex-ELAS with profits annuities have two elements that are tracked separately, the guaranteed income and the non-guaranteed income ('Total Annuity'). The policyholder receives the higher of the two elements.

Any regular bonus declared has a permanent effect on the guaranteed income. The guaranteed income will increase from the previous year if the bonus declared is higher than the anticipated bonus rate selected by the policyholder, or decrease if the bonus declared is lower than the anticipated rate. The level of regular bonus declared is expected to be zero for the foreseeable future. Some policies have a Guaranteed Investment Return (GIR) which has been anticipated within the guaranteed income, and the level of regular bonus declared could differ for different levels of GIR.

The amount of Total Annuity is adjusted at annuity anniversaries by the Overall Rate of Return (ORR) and Interim Rate of Return (IRR) applicable at that time.

The ORR reflects the earnings on the fund over the previous calendar year. It is applied to the Total Annuity at the annuity anniversaries in the 12 month period following 1 April each year. The IRR reflects the expected earnings on the fund since the end of the last calendar year for which an ORR has started to become effective. A proportion of the IRR, depending on the period between the end of the calendar year for the effective ORR and the annuity anniversary, is applied to the Total Annuity. When the IRR is applied, the proportion of the IRR that was applied to the Total Annuity at the previous annuity anniversary is removed.

Although the IRR can be changed at any time through the year to keep it in line with the return expected on the fund in that year, it is the IRR that was effective on the annuity anniversary that is used in the calculation of the Total Annuity.

Asset shares are based on an accumulation of the initial asset shares transferred from ELAS, allowing for investment returns net of charges, adjusted by deducting unsmoothed annuity payments, any uplifts/reductions as a result of the longevity risk mechanism and the re-spreading of mortality surplus each year. The investment return credited to asset shares is the same as that earned by the WPSF. The unsmoothed annuity is calculated as the annuity that is expected to exhaust the asset share over the annuity's remaining lifetime.

A fixed charge of 1% p.a. is deducted from the investment return credited to asset shares. The charge accrues to the NPSF, which bears all expenses. Hence shareholders receive any profits or losses from expenses.

Under the mortality risk mechanism, mortality profits or losses are fed back into asset shares. The amount of any loss charged/profit credited is limited to 0.5% p.a.. Any mortality profits or losses not charged to asset shares (and any differences between actual and expected mortality costs each year) fall into the inherited estate of the WPSF. Hence the inherited estate of the WPSF receives any profits or losses from guarantees.

A separate bonus smoothing account for this business is maintained in the inherited estate of the WPSF. It is intended that transfers to and from this account should generate no net profit or loss to either the WPSF or the DCPSF in the long term.

Risk

During 2016 the company developed a new with profits financial management framework and with profits risk appetite, which together provide the context within which decisions in relation to the management of the company's with profits business are taken.

Policies in the fund are only exposed to investment risk, all other risks being met through the contractual expense charges deducted and transferred to the NPSF, and the guarantee charges and smoothing transfers transferred to/from the WPSF in respect of the annuities transferred from Equitable Life. New investment expense charges applied from 2015 to 2017 but overall did not change materially from previously. A general contingency reserve of £17m was held at the end of 2015. Investment fees were due to be reviewed again in 2017 but the review continued into 2018, considering market data to ensure competitive fee rates were set. The fees agreed applied from 1 January 2018 and until 31 December 2020 and the company expected them to achieve savings of around 20% compared to the previous fee rates. The same approach was adopted for the next review completed in 2020 with updated fees applying from 2021 to 2023.

Separately the triennial review of fees paid to M&G for managing the assets backing annuity business was completed in 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.

For the with profits annuities transferred from Equitable Life, the Scheme of Transfer requires that these policies are not exposed to profits or losses arising from PAC's other policies, experience or business activities. However, these policies would be exposed in extreme circumstances if PAC were unable to meet its guaranteed liabilities.

Smoothing

The company targets that at least 90% of payouts will fall between 80% and 120% of asset share for both maturities and surrenders. The cumulative cost of smoothing is monitored and the intention is that smoothing profits and losses should balance out over time. Two separate Bonus Smoothing Accounts are maintained within the inherited estate of the WPSF - one in respect of the annuities transferred from Equitable Life, and one in respect of the other DCPSF business. Whenever a claim payment is made from the DCPSF any excess of the claim amount over the policy's underlying asset share is transferred from the relevant Bonus Smoothing Account within the WPSF inherited estate to the DCPSF and any shortfall is transferred from the DCPSF to the WPSF. Similar transfers reflect the difference between unit price and the net asset value per unit when premiums are paid. It is intended that transfers to and from these accounts should generate no net profit or loss to either the WPSF or the DCPSF in the long term.

ex-Equitable With Profits Annuity Plans

The cost of guarantee is calculated as being the guaranteed annuity less the unsmoothed annuity, subject to a minimum of zero. The smoothing cost is then calculated as the annuity paid to the policyholder less the guarantee cost and the unsmoothed annuity.

In normal circumstances, the approach seeks to ensure that annuity income does not:

- Fall by more than the combined effect of the selected anticipated bonus rate and any guaranteed investment return, in any year.
- Rise by more than the smoothing cap, less the combined effect of the selected anticipated bonus rate and any guaranteed investment return, in any year. The smoothing cap is currently 11% but it may be reviewed at any time.

Greater flexibility may be required in certain circumstances, for example following a significant fall in market values. In such situations the bonus smoothing limits could be varied to protect the overall interests of policyholders. This was the case at the 2018 bonus declaration when the rules were relaxed slightly for some policies in order to pass on the benefit of a change in expected future mortality experience in addition to income increases afforded by the strong investment returns in 2017.

In 2020 the With Profits Actuary carried out a review of the Court Scheme resulting in changes to the Scheme to remove the cap which previously limited increases to policyholder's non-guaranteed income. The new rules were reviewed by the WPC and reflected in the 2021 bonus declaration.

The bonus smoothing account is managed with the ongoing aim that it should always tend to zero subject to the need for short-term smoothing. Smoothing is applied to ensure the objective of gradual changes in income.

If the company opts to terminate the Scheme, any positive amount remaining in the bonus smoothing account will be distributed amongst the then remaining annuity policies by way of an enhancement to non-guaranteed income.

MVRs

MVRs may be imposed on UWP policies where the value of the underlying assets is less than the value of the policy including bonuses.

All the company's UWP policies contain specific MVR-free conditions, for example, on death, terminal illness or at pre-selected retirement date. Some regular automatic withdrawals have been set up with a guarantee that no MVR will apply.

MVRs were applied throughout 2010 to 2021 for certain combinations of product/year of entry.

ex-Equitable With Profits Annuity Plans

Not applicable.

Guarantees

As at December 2015 there was a small provision of £12m for guaranteed surrender values on the International Prudence Bond where the PruFund is used as a fund link. The level of provision subsequently has not been made public.

On policies other than with-profits annuity, Income Choice Annuity, those invested in the PruFund Range of Funds, or AVCs with applications received on or after 15 March 2019, the total deduction charged to asset shares over the lifetime of each policy is not currently more than 2% of asset shares, with the deduction building up to this level over the first few years of the policy.

For PruFund business an annual management charge is applied by explicit unit deduction, part of which covers guarantee costs. This charge is set at policy inception and actively reviewed each quarter for new policies.

The total of such charges in 2015 in the DCPSF was £11m [2014: £13m] but the amount has not been disclosed subsequently.

ex-Equitable With Profits Annuity Plans

This business contains guaranteed annuity levels, but the risks associated with these guarantees are borne by the inherited estate of the WPSF.

Under the mortality risk mechanism, mortality profits or losses are fed back into asset shares. The amount of any loss charged/profit credited is limited to 0.5% p.a. Any mortality profits or losses not charged to asset shares (and any differences between actual and expected mortality costs each year) fall into the inherited estate of the WPSF. Hence the inherited estate of the WPSF receives any profits or losses from guarantees.

This business is subject to a charge in respect of guarantees expressed as a reduction in investment return credited to asset shares of up to 0.5% p.a. (which accrues to the inherited estate within the WPSF, which bears the cost of the guarantees). The charge levied each year from 2010 to 2021 was 0.5% p.a.

Inherited Estate

The DCPSF does not have an inherited estate and policyholders do not have any interest in any possible future distribution or reattribution of the With Profits Sub Fund Inherited Estate.

Two separate bonus smoothing accounts are maintained in the inherited estate of the WPSF - one in respect of the annuities transferred from Equitable Life and one in respect of the other DCPSF business. It is intended that transfers to and from these accounts should generate no net profit or loss to either the WPSF or the DCPSF in the long term.

For the annuity business transferred from Equitable Life, a 0.14% p.a. reduction in the investment return credited to asset shares was made in 2008, 2009 and 2010 for the capital support provided by the WPSF to the DCPSF. There was no charge in 2011 to 2021.

For other DCPSF policies, a 0.2% p.a. reduction in the investment return credited to asset shares was made in 2009 and 2010 for the capital support provided by the WPSF and credited to the WPSF inherited estate. There was no charge in 2011 to 2021.

Investment

The M&G Treasury and Investment Office, which includes the team formerly known as the Prudential Portfolio Management Group, is the in-house investment strategist and 'manager of managers', responsible for monitoring and reviewing performance and for day-to-day allocation of monies from the fund to the fund's various fund management specialists, which include M&G Investment Managers. Over the course of 2020 a number of managers were assessed which resulted in some re-allocation of mandates across both internal and external managers.

The company's investment strategy is to seek to secure the highest net return whilst maintaining an acceptable overall risk level, maintaining an appropriate and broad asset mix, and protecting policyholders' interests. It seeks to include all with profits policies in a common asset pool wherever appropriate.

For the ex-ELAS business in the fund, the asset pool is identical to that of the main asset pool of the WPSF. For the other business in the fund, three asset pools are maintained, relating to liabilities in Sterling, Euros, and US Dollars.

The Board reviews benchmark asset mixes (and permitted variations for tactical asset allocation decisions - typically 5% of the asset pool) for each asset pool at least once a year. Limits are set in accordance with the fund's risk appetite, which is determined on the assumption that the with profits funds are managed on a standalone basis and do not rely on shareholder resources (apart from the fact that the DCPSF can rely on an appropriate proportion of the PAC inherited estate). Reductions in the EBR to 0% may be necessary in extreme investment conditions, or to protect the fund. There are no assets in the DCPSF that would not normally be traded. Derivatives are used only for the purposes of efficient portfolio management or reduction in investment risk.

ex-Equitable With Profits Annuity Plans

In 2009 the EBR fell from 65.5% to 49.1% as a result of the decision to reduce the fund's equity content. At the end of December 2013 the EBR (including Other assets) was 55.5% but this had increased to 68.4% at the end of 2015 and further still to 71.6% at the end of 2017 and remained around this level at the end of 2019 but had increased to 76.5% at the end of September 2021 and to 78.5% at the end of September 2022.

In 2017 the Board agreed to retain the overall proportion of assets invested in growth assets but to reduce the equity proportion and increase the property and alternative asset proportions. In 2018 there was a slight increase in fixed interest holdings as well as slightly greater diversification across equities, property, alternatives and geographical regions. In 2020 (2019) there was a slight increase (reduction) in the equity proportion to align with the company's long-term target allocation, but by the end of the year market movements in 2019 meant the EBR also increased slightly over that year. Broadly similar asset allocations applied in 2021.

'Other assets' in the table below include non-listed equities, investments in specialist vehicles and private assets which give an exposure similar to listed equities.

Asset type	Actual 31 Dec 2019	Actual 31 Dec 2020	Actual 31 Dec 2021	Actual 30 Sep 2022
UK Equities	18.6%	20.3%	21.2%	16.7%
Overseas Equities	29.4%	31.0%	28.8%	26.7%
Property	13.9%	13.6%	14.2%	16.8%
Fixed Interest	26.7%	22.3%	20.3%	18.5%
Cash	2.0%	5.4%	2.3%	3.0%
Other	9.4%	7.4%	13.2%	18.3%

Past Performance

Note: No historical data on Past Performance is available for this fund.

Investment Returns

Year	2017	2018	2019	2020	2021	5 Yr	10 Yr
ex-Equitable With Profits Annuity Plans	10.3%	-2.8%	11.5%	1.7%	12.0%	36.2%	113.2%

Source: The company.

Transparency

In a number of ways, Prudential has set the standard for others to follow in terms of improving transparency. For example, it was the first company to establish a fully independent with profits committee, and it allows it to have a significant involvement in the management of the company's with profits business. It also tends to define intended maximum charges for smoothing and guarantees at the start of a policy.

The general quality of the company's literature is high, although prior to April 2021 the PPFM was slightly difficult to follow because of the wide range of different types of business in force, which entailed a large number of departures in practice from the norm. The new document has been simplified and there are now fewer such departures and there is now a new appendix bringing together all of the specific practices for Ex-Equitable With Profits Annuity Plans. A wide range of different publications on with profits issues are available, but occasionally some are difficult to track down online. The annual report to policyholders on compliance with the PPFM covers a lot of ground and a summary of PPFM changes is now published on the company's website.

ex-Equitable With Profits Annuity Plans

5

The mechanics of this product are fairly tightly controlled by the terms of the Scheme of Transfer, and it sits within a 100:0 fund within a company that sets high standards of transparency. The re-calculation of the Total Annuity each year is, however, quite complex.

Future Performance

ex-Equitable With Profits Annuity Plans

3

The fund follows the same asset allocation as the WPSF. The company clearly remains highly committed to with profits and the philosophy that equities offer the best prospect of longer term returns. The equity backing ratio has reverted to a very high level for a closed block of business, although it reduced noticeably in 2009 as a result of the company's views on the uncertainty of the markets but has risen steadily in recent years and has now recovered all of that reduction and is around 75%.

This block of business is subject to guaranteed annuity levels, and there are significant potential charges for the provision of capital support and the mortality guarantees. There may also be charges for the cost of smoothing, but equally there could be credits to asset shares in respect of smoothing.

The company has stated that the level of regular bonus declared on these annuities is expected to be zero for the foreseeable future, so the scope for significant enhancements to annuity payments seems very limited.

Financial Strength of the Fund

The DCPSF is the smallest of the company's three ring-fenced funds. On a standalone basis, it maintains no free assets on a realistic basis. Support is provided to the DCPSF by the very strong WPSF in return for a yearly charge - at the rate of 0.2% p.a. of asset shares in 2006 to 2010 (or 0.14% p.a. in respect of the ex-Equitable With Profits Annuity Plans), but no charge has been levied since 2010.

The fund is also strengthened by the presence of a legally enforceable capital support arrangement between M&G plc and PAC under which M&G plc has an obligation to provide PAC with capital support up to an agreed maximum aggregate level in the event of PAC's solvency falling below specified levels.

Own Funds for PAC's with profits funds (of which the WPSF is the major component) were £11.6bn in 2021 [2020: £11.9bn, 2019: £12.2bn, 2018: £9.6bn, 2017: £9.6bn, 2016: £8.4bn] (excluding the undisclosed present value of future shareholder transfers [2019: £2.7bn, 2018: £2.4bn, 2017: £2.7bn, 2016: £2.3bn]) and reduced by £271m as follows: underlying capital generation of £395m (£377m from the expected surplus from in-force business and £18m from new business); other operating capital generation of £8m (including the impact of the merger of SAIF into the WPSF, model changes in respect of PIA modelling of options and guarantees, changes in the parameterisation of the modelled management actions, updates to non-market assumptions and non-market experience); market movements of £(422)m (primarily reflecting the reduction in the cost of guarantees from the investment return in excess of expected return); £(45)m from exceptional transformation expenses and restructuring costs; tax changes of £(174)m (driven primarily by the increase in the long-term corporation tax assumption); and £(33)m from the impact of recalculating TMTP.

The Solvency Capital Requirement for the with profits funds was £3.8bn [2020: £4.9bn, 2019: £4.6bn, 2018: £4.2bn, 2017: £4.8bn, 2016: £4.7bn], reducing by £1,047m in 2021 as follows: a £368m release of capital requirements as the in-force business runs off, offset by £56m additional capital requirements in respect of new business written over the period; a £329m decrease in the SCR, primarily as a result of model development and management actions, including the merger of SAIF into the WPSF on 1 April 2021; market movements reduced the SCR by £294m over the period, primarily driven by the rise in interest rates over 2021; and a £112m reduction in SCR driven by an update to the future corporation tax assumption (19% for 2021 and 2022, 23.5% for 2023 and 25% for 2024 onwards).

This led to a surplus in the with profits funds of £7.8bn [2020: £7.0bn, 2019: £7.6bn, 2018: £5.5bn, 2017: £4.8bn, 2016: £3.7bn] and a coverage ratio of 302% [2020: 243%, 2019

2021 saw a transfer to the combined WPSF and SAIF FFA of £1.2bn [2020 transfer from of £0.5bn, 2019: transfer to of £2.6bn, 2018: transfer from of £0.1bn, 2017: transfer to £1.6bn, 2016: £1.2bn, 2015: £0.2bn] bringing it to a total of £16.9bn [2020: £15.7bn, 2019: £16.2bn, 2018: £13.5bn]. During 2020 bonuses of £3.0bn [2020: £2.5bn, 2019: £2.7bn, 2018: £2.7bn] were distributed to PAC's with profits policies. At the end of 2020 the FFA for SAIF was set to zero and technical provisions set to equal assets.



AKG

AKG Financial Analytics Ltd
Anderton House, 92 South Street
Dorking, Surrey RH4 2EW

Tel No: +44 (0) 1306 876439
Fax No: +44 (0) 1306 885325

e-mail: akg@akg.co.uk

www.akg.co.uk

AKG is an independent organisation specialising in the provision of assessment, ratings, information and market assistance to the financial services industry

© AKG Financial Analytics Ltd