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Principles & Practices of Financial Management

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2021

Contents

Summary

In the opinion of the Board ("the Board") of The Prudential Assurance Company Limited ("PAC"), PAC has complied with its obligations in relation to the Principles and Practices of Financial Management ("PPFM") over the period 1 January 2021 to 31 December 2021 (inclusive) and at the bonus declaration in respect of the year 2021, announced on 24 February 2022.

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

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2021

1. Introduction

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

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

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

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

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

The PPFM covers all with-profits policies issued in the UK by:

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

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

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

This report covers the period from 1 January 2021 to 31 December 2021 (inclusive), and includes the bonus declaration announced on 24 February 2022. It describes:

- changes to the PPFM during 2021,
- how PAC has complied with the PPFM in exercising discretion in managing its with-profits business,
- how PAC has addressed competing or conflicting rights, interests and expectations,
- governance arrangements for with-profits business, and
- maintenance of the PPFM.

Any terms used in this report have the meaning set out in the PPFM which can be found at **pru.co.uk/ppfm**.

2. Strategic Matters

As part of our continuing transformation programme which was described in previous reports to policyholders, the SALAS policyholder administration system was migrated in October 2019 to a new third-party platform, BaNCS. The Hartlink administration system that serviced some of our corporate pensions book was also migrated to BaNCS in November 2020. These are some of the largest migrations that PAC has undertaken. The challenges brought about by the COVID-19 outbreak during 2020 and early 2021 have had a significant further impact on service levels. We continuously strive to serve policyholders as best as possible in such extraordinary times, and contingency plans were put in place during 2021 which helped to recover service and improve the experience for our policyholders. During 2021 no further migrations took place, however further migrations may be undertaken in 2022 subject to ensuring servicing standards are maintained.

As set out in last year's report, on 1 April 2021, SAIF merged with the WPSF. The PAC and Scottish Amicable Boards approved the merger of the funds having carefully considered the interests of all their respective policyholders throughout the development of the proposals. The terms of the merger were reviewed by the relevant Boards, and the With-Profits Committee (WPC), who were satisfied that it was not expected to have an adverse impact on PAC's other policyholders. Our regulators were kept informed throughout the merger process.

On 14 March 2018, Prudential plc announced the reinsurance of a portion of PAC's shareholder-backed annuity portfolio to Rothesay Life plc by way of a collateralised reinsurance arrangement to be followed by an insurance business transfer scheme (the "Scheme") under Part VII of Financial Services and Markets Act 2000. On 24 November 2021 the Scheme was sanctioned by the High Court and became effective on 15 December 2021. On this date £9.6bn of Insurance contract liabilities were transferred via Part VII and the reinsurance agreement was terminated.

The sale of shareholder-backed non-profit annuities to Rothesay Life plc has resulted in the transfer of a significant volume of policies out of PAC's shareholder business. Since there will be a material reduction in shareholder policy volumes, this will lead to a re-allocation of overhead costs from the shareholder to the WPSF. Absent any action, this means that with-profits policyholders would be worse off as a result of this transaction. Therefore PAC's business has undertaken to compensate the WPSF for the re-allocation of costs that will ensure that there is no adverse impact on the WPSF.

3. Changes to the PPFM during 2021

The PPFM is updated regularly as required. A significant update of the PPFM was published on 1 April 2021 to reflect the merger of SAIF with WPSF and to simplify the way we describe our principles and practices, making it more accessible to advisers/customers. In addition, a PruFund specific version of the PPFM was produced.

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

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

The PAC Board, having taken advice from the With-Profits Actuary (WPA) and following discussion with the WPC has confirmed that PAC complied with the obligations set out in the PPFM in respect of 2021. Compliance with the PPFM is subject to the investigation and appropriately addressing the operational issues covered further in section 4.10.

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

4.1 Bonus rates

Setting the rates of regular and final bonus for with-profits policies is probably the single most important item of discretion that PAC has which affects its with-profits policyholders.

Bonus declarations covering regular and final bonuses were made on 23 February 2021 and 24 February 2022.

The 2021 and 2022 bonus declarations were reviewed by both the WPA and the WPC prior to being approved by the PAC Board. For each bonus declaration, the PAC Board was supplied with sufficient information for it to be comfortable that the declaration was consistent with the requirements of the PPFM. The Scottish Amicable Board also considered and approved the 2021 bonus declaration for SAIF business, which took place prior to the early merger of the funds.

When setting regular bonuses a number of factors are considered, including the long-term returns expected on the relevant with-profits fund and the level of existing guarantees. Consideration of these factors at the February 2022 bonus declaration showed that current rates of regular bonus can be maintained at the same level based on our expectations of future returns.

In 2021, our globally diversified With-Profits Fund performed well in mostly positive financial markets, despite the backdrop of COVID-19 uncertainty. Against this background, investment returns for the main with-profits funds were 12.0% before tax. As a result, at the February 2022 bonus declaration, rates of final bonus were increased for the vast majority of with-profits policyholders leading to an overall increase in policy values at the point of claim. The change in a policy's value from one year to the next will differ from the returns earned on the fund due to the smoothing of returns and the impact of policy charges.

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

When PAC's Ordinary Branch (OB) assets and Industrial Branch (IB) assets were merged in 1988, PAC undertook to link IB policy bonuses to OB policy bonuses so that, for IB policies issued from July 1988, total bonus additions will be 100% of those for corresponding OB policies and for IB policies issued prior to 1988, total bonus additions would not be less than 90% of those on corresponding OB policies. In addition, an annual test is carried out to confirm that, in aggregate, this approach produces IB pay-outs that are higher than the corresponding value of the underlying assets (asset shares) in respect of IB policies. The undertaking and aggregate test continued to be satisfied at the February 2022 bonus declaration.

4.2 Target Ranges

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

At the February 2022 bonus declaration, PAC expected the bonus rates declared to meet its target range requirements. Pay-out levels relative to asset share do, however, vary over time, in particular as actual investment returns earned by the with-profits funds differ from those assumed when bonus rates and surrender value bases are set. We therefore continue to monitor pay-out levels regularly to ensure that they do not deviate too far from asset shares. Policies with claim values falling outside our target range are also investigated to ensure there is no underlying problem with our bonus setting processes and that pay-outs remain fair to customers. The monitoring of actual claims carried out during 2021 demonstrated that target range requirements were met.

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

4.3 PruFund range of Funds

Policies invested in the PruFund range of Funds participate in profits via an increase in the unit price of the selected Fund at the relevant expected growth rate (EGR) subject to adjustments when the unit price moves outside specified limits. EGRs were set quarterly on 25 February 2021, 25 May 2021, 25 August 2021 and 25 November 2021 by the PAC Board following consultation with the WPA. The WPC is also informed of the EGRs declared. As noted in the 2020 report to policyholders, EGRs for all PruFund Funds were reduced slightly at the May 2020 quarter date reflecting the adverse impact that COVID-19 had on market conditions and the global economic outlook. EGRs for all PruFund Funds remained at the same level at each quarter date in 2021. Upward Unit Price Adjustments (UPAs) were triggered during 2021 across some funds, further information on the funds and size of adjustments is available at: **mandg.com/pru/customer/en-gb/funds/investment-fund-range/prufund/prufund-range**

As set out in the PPFM, a unit price reset and/or temporary suspension of smoothing are discretionary actions available to the PAC Board, if required, to manage our smoothing process; or to protect PAC's With-Profits Fund and the interests of all our with-profits policyholders. Smoothing was not suspended in 2021. On the 25th August 2021 we applied an upward price reset to all existing PruFund Funds. The decisions to apply a Unit Price Reset (UPR) was taken with reference to our ongoing monitoring of the PruFund smoothing mechanism and approved by the PAC Board, having taken advice from the WPA and WPC.

4.4 Surrender values

Surrender values and Market Value Reductions (MVRs) were monitored during 2021 to ensure that they remained appropriate. Surrender value bases were updated alongside changes in final bonus rates. No change was made to the MVR policy during 2021. We continue to monitor market conditions regularly and surrender and/or MVR practice can change at any time without prior notice.

4.5 Investment strategy

The investment strategy for the WPSF and the Defined Charge Participating Sub-Fund (DCPSF) was regularly monitored by the business and any proposals for changes in investment strategy were put before the PAC Board for approval during 2021. The investment strategy for the Scottish Amicable Funds was also monitored until the merger with the PAC WPSF in April 2021 with additional oversight from the Scottish Amicable Board.

The PPFM states that the objective of each with-profits fund is to maximise investment return subject to an appropriate level of risk. This is achieved by investing in a broad and well diversified portfolio of assets. In determining this level of risk, consideration is given to the overall solvency of each fund relative to its risk appetite, policyholder expectations and investment views. In light of these factors PAC Board agreed in 2021 to retain broadly the same level of risk as the previous year, which was maintained through a broadly similar asset allocation. For information, at the end of 2021 about 75% of the assets backing the WPSF were invested in real assets such as equities and property.

The PAC Board and WPC continue to keep investment strategy under review to ensure that the with-profits funds (including SAIF following SAIF's merger with the WPSF on 1 April 2021) continue to achieve an appropriate balance between risk and return, having regard to regulatory changes, the financial strength and risk appetite of the funds, the attractiveness of the expected returns available on different asset classes and the on-going volatility in investment markets.

An important driver of investment performance is the choice of investment managers who manage the assets of the fund and the business regularly reviews their performance and capabilities. Over the course of 2021 a number of managers were assessed which resulted in some re-allocation of mandates across both internal and external managers.

Over 2021 M&G plc (PAC's parent company) continued to develop its approach to sustainable investing by further embedding Environmental, Social and Governance (ESG) measures into its investment processes. The PAC Board and WPC are fully supportive of these developments. As part of this, in February 2021, M&G plc announced that it would allocate £5 billion from PAC's With-Profits Fund into privately-owned enterprises working to create a more sustainable world. For further information on M&G plc's sustainability plans see:
mandgplc.com/sustainability/sustainability-report

On 26 July 2021, we successfully launched a new sustainable version of our PruFund proposition. The PruFund Planet range shares similar features to PruFund combining the benefits of smoothed market returns, but also providing ESG(Environmental, Social and Governance) impact outcomes.

Information on the current investment strategies of the WPSF can be found at **pru.co.uk/ppfm**, section 2 within the PPFM.

4.6 Business Risks

In consultation with the WPC and WPA, the PAC Board (and, until 1 April 2021 the Scottish Amicable Board for SAIF) continually monitor the business risks and approve any management actions required to protect the security of the with-profits funds and limit any adverse impact on with-profits policies. This continued to be the case, as such no material actions were required during 2021.

4.7 Charges and expenses

PAC's apportionment of administration expenses to with-profits funds and products is regularly monitored and reviewed for fairness. In line with the PPFM, the WPA and Chief Actuary (CA) review the fairness of the cost allocation to each category of with-profits policy each year, and this is discussed with the WPC. In 2020 a new cost allocation methodology was developed against which the 2021 cost allocation was assessed.

The outcome of the 2021 review was that the cost allocation in 2021 was consistent with the agreed methodology and that it did not result in an unfair outcome for with-profits policyholders. The cost allocation methodology will continue to be reviewed regularly to ensure the ongoing fair treatment of our customers.

In addition to the expenses of administering with-profits policies, PAC pays fees from the with-profits funds to the asset managers for the investment management of PAC's assets. Where assets are managed by M&G plc's in house asset manager, M&G Investments, these investment fees are reviewed at least every three years with the latest review being completed in 2020. The review followed the same approach as adopted during the previous review which concluded in 2018. Updated fees were approved in early 2021, and apply for the period 2021-2023.

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

4.8 Management of the inherited estate

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

The inherited estate is reviewed each year to identify whether there is any available surplus to share with policyholders.

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

At the end of 2020 the PAC Board concluded that there should not be an additional distribution of the inherited estate at the February 2021 bonus declaration, however this position is reviewed on an annual basis.

At the end of 2021 the PAC Board concluded there would be an additional surplus distribution of the WPSF inherited estate at the February 2022 bonus declaration, as announced in February 2022, which applied to investments in the With Profits Sub Fund. If your plan was invested in PruFund we increased your unit price by 1.25% on 28 February 2022, while if your investment was in any type of plan, other than PruFund, the final bonus rates declared in February 2022 reflected a 1.75% increase in asset shares made in respect of this surplus distribution. You can find out more details on our website at: **pru.co.uk/aboutadditionalsurplus**

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

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

Currently the assets backing the inherited estate are mainly invested in a range of fixed interest securities and cash. There was no change in this investment strategy over 2021.

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

Prior to the merger with the WPSF, the SAIF inherited estate was distributed under the terms of the SALAS Scheme as an addition to the payments to its policyholders. As required by the terms of the Scheme, the SAIF enhancement was recalculated based on the position of the SAIF at the merger effective date. The final value of the enhancement (the "Actual Final Relevant Policies Enhancement") was confirmed at 12.4%. This value has been agreed by the PAC With-Profits Actuary and the PAC Chief Actuary, and approved by the PAC Board on the advice of the With-Profits Committee (see merger webpage: **pru.co.uk/saifmerger**).

4.9 Management of new business

PAC sets limits on the capital available to support new business, and the terms on which new business is written, to ensure new sales do not adversely affect existing with-profits policyholders. The new business written during 2021 stayed within the allocated capital budget.

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

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

4.10 Operational Issues

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

As mentioned in last year's report, during 2019, an error in the level of tax allowed for in the tax charged to asset shares for certain product lines and the actual amounts paid to HMRC was identified. The PPFM outlines PAC's practice with regards to tax, containing provision for retrospective adjustments to be made to asset shares for any significant difference in tax paid versus tax charged. As at 28 February 2022, c97% of impacted policies had been remediated with plans in place to complete the exercise in 2022.

5. Competing or conflicting rights, interests and expectations

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

5.1 Equity between with-profits policyholders and shareholders

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

5.1.1 Tax

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

As noted in section 4.10, an issue was identified with regard to the historic tax charged to asset shares and that paid to HMRC and significant progress has been made to remediate impacted policyholders. A review of the methodology for charging tax to asset shares was carried out and a new approach was approved and implemented for the Final 2021 bonus declaration.

The PPFM issued in April 2021 was updated to reflect the new approach. The new approach charges an assumed level of tax (based on best information available) to asset shares and PruFund net asset value, where applicable, through the net investment return. Any difference between the assumed tax and the actual tax payable will be paid by the estate.

Given that there was a review of the methodology in 2020 and a remediation project in place to resolve the tax issue, PAC is, therefore, satisfied that the allocation of the overall tax charge for 2021 was fair to both with-profits policyholders and shareholders.

5.1.2 Expenses

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

As noted in section 4.7, the WPA, WPC and CA reviewed the overall expense apportionment for 2021, which used a new expense methodology and model.

5.1.3 Inter-fund transactions

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

5.1.4 New business pricing

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

5.2 Equity between different groups of with-profits policyholders

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

- different products,
- policies of different sizes or policy terms,
- policies with different entry dates or maturity dates, or with-profits policyholders of different ages,
- policies with different levels of guarantees,
- policies claiming for different reasons (e.g. maturity, death, surrender), and
- policies exercising different policy options, who could receive different benefits relative to each other depending on how discretion is exercised.
- The main areas in which judgement and discretion are exercised in balancing the interests of these groups are:
- smoothing of policy benefits, and
- grouping of policies for setting bonus rates and surrender values and sharing of investment and other experience, such as surrender, expense and mortality profits or losses.

The approach taken to smoothing during 2021 was as described in the PPFM.

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

6. Governance arrangements for with-profits business

There are two specific roles to ensure that PAC is managing its with-profits business in accordance with the PPFM – the WPC and the WPA. As described below, prior to its early merger additional governance arrangements were in place for Scottish Amicable with-profits policyholders.

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

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

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

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

The WPC comprises at least three members, all of whom are independent of the company. David Keeler, Julius Pursaill and Ronald Bowie retired from the WPC during 2021 and there were two new appointed members, Eithne McManus and Stephen Wilson. The Committee was comprised as follows:

- Robert Talbut (Committee Chair), former Chief Investment Officer of Royal London Asset Management for 10 years until September 2014 and Non-Executive Director experience at various Financial Services Companies – joined the Committee in September 2019 and appointed Committee Chair in 2021.
- Bruno Marcel David Geiringer, formerly a Partner specialising in financial services at international law firm Pinsent Masons and past Chairman of the board of the Investment and Life Assurance Group (ILAG), a trade body – joined the Committee in June 2015,
- Katie Blacklock, over 15 years of Fund Manager experience, a Non-Executive Director at two Financial Services Companies and a member of various Advisory Committees since 2012 – joined the Committee in May 2019,
- Eithne McManus, former Chief Executive of City of Westminster Assurance Ltd, Non-Executive Director at three insurance companies and chairs the Countrywide Assured WPC – joined the Committee in January 2021, and
- Stephen Wilson, Independent Non-Executive Member at Phoenix Group WPC, former With Profits Actuary at Royal London with over 40 years' experience in the Life Assurance industry – joined the Committee in February 2021.

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

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

Phil Roberts was appointed as the WPA on 10 March 2020, The WPA reviews all material aspects of the operation of the with-profits business, including communications to with-profits policyholders, and advises PAC on compliance with the PPFM, on the interests of with-profits policyholders, on the exercise of discretion and on the management of conflicts of interests.

The WPA's report to with-profits policyholders in respect of 2021 can be found in the Appendix.

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

Upon merger with the PAC WPSF on 1 April 2021, the role of Monitoring Actuary and the Scottish Amicable Board ceased to exist. From 1 April 2021 PAC's WPC and WPA advise the PAC Board on the application of discretion and the fair treatment of former Scottish Amicable with-profits policyholders.

6.4 Governance of ex-ELAS policies

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

7. Maintenance of the PPFM

The PPFM content is reviewed regularly and updated as and when required to reflect significant developments. As noted in section 3, a significant update of the PPFM was published on 1 April 2021.

Appendix

Report from the With-Profits Actuary

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

I have been involved in consideration of all the matters referred to in the attached report on PAC's compliance with its Principles and Practices of Financial Management (PPFM), and I have carried out a review of PAC's compliance with the PPFM and its exercise of discretion over 2021, including the bonus declaration for the year ending 31 December 2021 which was announced in February 2022.

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

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

Philip John Roberts, Fellow of the Institute and Faculty of Actuaries
With-Profits Actuary

June 2022

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