With-Profits Operating Principles (WPOP).

Report to Defined Charge Participating Sub-Fund Policyholders of Prudential International Assurance for 2019

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1. Introduction

Insurance companies supervised by the Central Bank of Ireland are required to prepare a With-Profits Operating Principles ("WPOP") document setting out the principles and enduring standards adopted in all aspects of the management of its With-Profits portfolios. The Prudential International Assurance plc Board of Directors ("PIA Board") is responsible for the content of the WPOP. The WPOP is available on the PIA website: **www.prudential-international.com/financial-report/**.

The Defined Charge Participating Sub-Fund ("DCPSF") is owned and managed by The Prudential Assurance Company Limited ("PAC") and the way the DCPSF is managed is described in the PAC Principles and Practices of Financial Management ("PPFM") document. The PPFM is a technical document that describes in detail how the DCPSF is managed and can be found on the PAC website: **www.pru.co.uk/funds/ppfm/**. The PPFM applies to all policies covered by the DCPSF WPOP, with the exception of the "Prudential Europe Vie" product. However, in practice, all of the business written in the DCPSF is managed in accordance with the same principles.

PIA policyholders may ultimately be invested in the DCPSF via the following:

Unitised With-Profits ("UWP")

- Investment into the PAC With-Profits funds; investment is granted using either the Prudential International Investment Bond ("PIIB") or the International Prudence Bond ("IPB") products.
- Investment into the Prudential Bond Fund; investment is granted via the Prudential Europe Vie product. This product was originally written by PAC France and was transferred to PIA on 1 January 2019.

PruFund

- Investment into the PruFund Range of Funds; both PIIB and IPB products may be invested in the PruFund Range of Funds.

With-Profit Annuities

- Ex-Equitable Life Assurance Society ("ELAS") German and Irish With-Profit Annuities, transferred from PAC to PIA on 1 January 2019.

The Central Bank of Ireland regulations require the PIA Board to produce a written report on the consistency of the management of the DCPSF with the principles in the WPOP. This report is produced annually and is available on the **PIA website**, within six months of the end of the financial year. Alternatively, a copy can be provided upon request by email or by post.

In the opinion of the PIA Board the management of the DCPSF was consistent with the principles detailed in the WPOP over the period 1 January 2019 to 31 December 2019 (inclusive). The PIA Head of Actuarial Function provided a report to the PIA Board which supports this opinion with no exceptions.

Under UK Regulation, the PAC Board must also report annually in writing to its with-profits policyholders on compliance with PAC's obligations relating to its PPFM. In the opinion of the PAC Board, PAC has complied with its obligations in relation to the PPFM over the period 1 January 2019 to 31 December 2019 (inclusive). The report is available on the **PAC website**.

2. Determining Pay-out Values, bonuses, profit sharing and smoothing

Bonus rates for UWP and ELAS

The bonus rates were set following the approach set out in the WPOP. Bonus declarations covering regular and final bonuses were made on 26 February 2019.

The 2019 bonus declarations were reviewed by both the PAC With-Profits Actuary ("WPA") and the PAC With-Profits Committee ("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.

Smoothing

The smoothing process was in line with the approach set out in the WPOP for the UWP and ELAS business.

The DCPSF business is managed with the aim of ensuring that maturity and surrender pay-outs for with-profits policies fall within the target range set of 80%-120% of asset share. This allows 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.

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

PruFund range of Funds

The setting of PruFund Expected Growth Rate's ("EGR") and the smoothing process were in line with the approach set out in the WPOP.

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 EGR subject to adjustments when the unit price moves outside specified limits. EGRs were set quarterly on 25 February 2019, 28 May 2019, 27 August 2019 and 25 November 2019 by the PAC Board following consultation with the WPA. The WPC is also informed of the EGRs declared. EGRs for all PruFund Funds were reduced slightly at the August 2019 quarter date due to falls in interest rates which reduced the returns expect to be earned in the longer-term. No changes were made to EGRs on PruFund Funds at any other point during 2019.

As set out in the WPOP, a unit price reset and/or temporary suspension of smoothing are discretionary actions available to the PAC Board, if required, to manage smoothing profits or losses; or to protect PAC's With-Profits Fund and the interests of all with-profits policyholders. Smoothing was not suspended and there were no unit price resets on any PruFund Fund during 2019.

3. Leaving the DCPSF

Surrender values were determined in line with the approach detailed in the WPOP.

Surrender values and Market Value Reductions (MVRs) were monitored during 2019 to ensure that they remained appropriate. No change was made to the MVR policy during 2019 however market conditions are regularly monitored and surrender and/or MVR practice can change at any time without prior notice.

4. The Investment Strategy of the DCPSF

The investment strategy of the DCPSF and the management of investment risk was in line with the approach detailed in the WPOP. The investment strategy is regularly monitored by PAC and PIA were provided with details of the strategy and rationale behind it. Any proposals for changes in investment strategy are put before the PAC Board for approval.

The PAC Board continues to keep investment strategy under review to ensure that the with-profits funds continue to achieve an appropriate balance between risk and return while maintaining adequate diversification and ensuring the protection of policyholders' interest.

5. The Risks which may affect DCPSF Policyholders

The business risks were managed following the approach detailed in the WPOP.

PAC continually monitors the business risks and approves any management actions required to protect the security of the with-profits funds and limit any adverse impact on with-profits policies. This continued to be the case during 2019.

The PIA approach to managing its business risks is detailed in section B.3 of the PIA SFCR which is available on our website: **www.prudential-international.com/financial-report**/.

6. Charges and Expenses

The charges and expenses for DCPSF business were in line with the approach in the WPOP.

The charges on DCPSF business were not amended during 2019.

The policy administration systems and procedures used for the administration of policies issued by PIA are in line with the approach set out in the WPOP.

7. The Inherited Estate

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

The management of the Inherited Estate was in line with the approach in the WPOP.

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

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

Currently the assets backing the inherited estate are mainly invested in fixed interest securities and cash. This was reviewed during 2019 and no change in investment strategy was recommended.

8. Equity Between Policyholders invested in the DCPSF and Shareholders

The approach to balancing any conflicts of interest between different generations and types of policyholder invested in the DCPSF, and between those policyholders and shareholders was in line with the approach in the WPOP.

Section 6 of this report covers charges and expenses. Bonus rates, smoothing and MVRs are covered in sections 2 and 3 of this report.

9. Volumes of New Business and Closing to New Business

The management of new business into the DCPSF was in line with the approach in the WPOP.

PAC sets limits on the capital available to support new business, and the terms on which new business is written, to ensure new sales do not adversely affect existing with-profits policyholders. The new business written during 2019 stayed within the allocated capital budget.

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

The terms on which new business was written in 2019 met PAC's guidelines to ensure that new business did not adversely affect existing with-profits policyholders. These guidelines are regularly reviewed and are an area in which PAC exercises discretion. Based on the volumes and terms of new business written in 2019, no shareholder contribution was required. In addition, shareholders currently pay a subsidy to cover any shortfall in the costs of providing certain guarantees in excess of charges taken.

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

10. Changes to the WPOP

The WPOP was published on 1 January 2020 and there have been no changes made to it since then.

11. Further Information

Further information can be found in your contract conditions and also in the WPOP and PPFM. The WPOP is available on the **PIA website**. The PPFM can be found on the **PAC website**.

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