Registered No: 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2021

Incorporated and registered in England and Wales. Registered No. 992726.
Registered office: 10 Fenchurch Avenue, London EC3M 5AG.

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PRUDENTIAL PENSIONS LIMITED

Directors

Ms C J Bousfield
Mr R S Bowie (Chairman)
Mr P D Cooper

Secretary

M&G Management Services Limited

Auditor

KPMG LLP, London

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Principal activity

The principal activity of Prudential Pensions Limited ('the Company') in the course of 2021 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2022.

The Company is a wholly owned subsidiary undertaking of The Prudential Assurance Company Limited (PAC), a company registered in England and Wales. The Company has taken advantage of disclosure exemptions under the Companies Act 2006 (the 'Act') and therefore group financial statements and a group business review are not prepared. Accordingly, the financial statements present information about the Company as an individual undertaking and are not consolidated.

PAC is a wholly owned subsidiary of M&G Group Regulated Entity Holding Company Limited. M&G Group Regulated Entity Holding Company Limited's principal activity is that of an intermediate holding company with subsidiaries engaged in underwriting long-term insurance business and asset management. The Company's ultimate parent company is M&G plc.

Business review

The Company accepts reinsurance from both PAC, its immediate parent company, and external parties in respect of corporate pension schemes. In addition, the Company sells direct investment-only business to group pension schemes. Most of the Company’s products are unit-linked products. The Company has a small book of annuities reassured to PAC.

Reinsurance accepted consists of life insurance, pension products and pension annuities. The Company remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions.

Direct investment-only clients largely invest money into the Company on behalf of defined benefit pension schemes. The key determinant of success and retention is delivery of good investment performance. The Company is further exposed to changes in the marketplace, such as competitors' fund offerings for the traditional defined benefit book, and actively monitors those changes.

The Company continues to make progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and bring greater stability. This involves modernising the business so that it is fit for the digital era through significant investment in new administration systems and digitalisation.

Key Performance Indicators and measurement

The following table sets out the key performance indicators for the Company. These are considered to be the key metrics for the Company.

Key Performance Indicators	**2021**	**2020**	**Change**
	£'000	**£'000**	**%**
Operating (loss) / profit on ordinary activities before tax	(1,044)	3,623	(128.8)%
Shareholder funds	75,690	76,632	(1.2)%
Assets held to cover linked liabilities	9,871,876	11,177,431	(11.7)%
Estimated Solvency II capital surplus	32,693	35,242	(7.2)%

Profit on ordinary activities has fallen from £3.6m in 2020 to a loss of £1m in 2021. This is due to increases in government bond yields generating a loss of £2.3m in contrast to a gain of £1.3m in 2020 which reflected the fall in asset prices and interest rates at the beginning of the pandemic.

The Company is regulated under Solvency II and supervised as an insurance company by the Prudential Regulation Authority ('PRA'). The Company has been granted approval by the PRA to calculate its Solvency Capital Requirement ('SCR') based on its Internal Model, which reflects the key risks the Company is exposed to, the most significant of which are insurance risk (primarily expense risk and persistency risk).

The Solvency II surplus allows for the Transitional Measure on Technical Provisions (TMTP). The TMTP was last formally recalculated, following approval from the regulator, at 31 December 2021 in line with expectations of recalculation every 24 months.

The reduction in the estimated Solvency II capital surplus is primarily due to a reduction in the present value of future profits ('PVFP'), along with increases in Risk Margin and SCR. The reduction in PVFP is primarily driven by an increase in renewal expense assumptions and a fall in the risk-free yield curve, increasing the present value of future expenses, partially offset by a reduction in investment management expenses. The Solvency II basis is covered in more detail in Note 15.

Section 172(1) Statement

Section 172 of the Act requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging the Board's section 172 duties, regard has been given to the factors applicable to PPL. The Board also recognises the matters it considers can often have unique characteristics. This can require the Board to consider additional factors, which are relevant to the specific matter under consideration. There is an acknowledgement from the Board that the relative importance of each factor they consider will vary depending on the decision being taken across all of the Board's decisions and that they are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with the Group's overarching culture, vision and values.

As is normal for large companies, authority for day-to-day management is delegated to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Directors review at each regular Board meeting: financial and operational performance, risk, compliance and regulatory reporting. The Board also reviews other areas over the course of the financial year including the Company's business strategy; financial reporting; key risks; stakeholder-related matters; and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

The Company's key stakeholders are its parent, PAC, its ultimate beneficial owner M&G plc and its stakeholder groups. The views and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, for example, interaction with regulators, the size and spread of both the Company's stakeholders and the Group means that other stakeholder engagement takes place at Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company.

During the period the Board received information to help them understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance; investment governance and performance update; and non-financial key performance indicators (e.g. reputational risk, change risk, compliance and regulatory risk, etc). As a result of this the Board has had an overview of engagement with stakeholders and other relevant factors which allows it to understand the nature of the stakeholders' concerns and to comply with the section 172 duty to promote the success of the Company.

Principal decisions

The Board sets out below the principal decisions they have made with regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duties and the effect of that on decisions taken. The Board defines principal decisions as both those that are material to the Company, but also those that are significant to any of the Company's key stakeholders. In making the following principal decisions the Board considered relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal decision 1 – Property Fund Closure

In May 2019, the Prudential Pensions Limited Property ("PPLP") fund was deferred for all customer groups. At that point in time, there were multiple investors in PPLP, who in turn invested in the M&G UK Property Fund ("UKPF") which owned more than 99% of the underlying vehicle. The PPLP fund was deferred as it was not able to meet a redemption order. The regulators were notified of the deferral and updated frequently for 3-4 months after the deferral was communicated to customers.

On 6 September 2021, the Company was advised that due to a large redemption by an anchor investor in PPLP, the underlying UKPF was no longer viable and would be closed and liquidated. The Company had two options (1) to invest PPLP monies in an alternative property fund or (2) to close and liquidate PPLP. Option 1 was not deemed feasible because there were no alternative internal property funds run by M&G Real Estate (M&G RE), and investing in a third party property fund would have been prohibitively expensive. Additionally given that most property funds remained at risk of suspension or deferral, investing into a new property fund would not necessarily have resolved the liquidity squeeze. Under delegated authority, personnel from the Treasury & Investment Office therefore took the decision and approved the use of Option 2. All PPLP customers were informed that PPLP was being closed and liquidated, and that the cohort mechanism no longer applied. All customers will be paid out pro-rata according to their holding, as properties are sold. The Board and the regulators were updated of the closure and liquidation of PPLP in September 2021 and the actions taken ensured that customers had been, and would continue to be, treated fairly. The fund began liquidation on 1 November 2021.

Principal decision 2 – Decision not to pay a Dividend

Each year the Board makes an assessment of the strength of the Company's Statement of Financial Position and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. In determining whether a dividend should be paid, considerations were made in respect of the current solvency position relative to its risk appetite, the resilience of the Company's balance sheet, allowing for the capital support arrangements in place; the quality of capital and liquidity and distributable reserves. In addition, further analysis was undertaken to better understand the Company's balance sheet sensitivity to expenses and persistency, and to ensure the stated risk appetite was appropriate. The base solvency and liquidity position of the Company continued to be strong. However, as the buffer above risk appetite was below the target level, the Board agreed the proposal not to make a dividend payment to its sole shareholder, The Prudential Assurance Company Limited, over Q4 2021. The Board also agreed that the Company's solvency be monitored on an approximate monthly basis in addition to the formal quarterly valuations.

Principal decision 3 - Own Risk and Solvency Assessment ('ORSA')

During the year, the Board reviewed and approved the 2021 ORSA report for submission to the Regulators. The ORSA presented a current and forward-looking view of the risk landscape and solvency profile of the Company's business and was also built around three key existing processes, i.e. strategy and business planning, risk management and capital management. The ORSA was produced with inputs from Subject Matter Experts from the Finance, Risk and Compliance functions.

Principal risks and uncertainties

As a provider of savings and retirement solutions, the Company's business involves the managed acceptance of risk. The Company is subject to the Group's internal control and risk management processes as detailed in the Group Governance Framework (GGF) and associated Group Risk Management Framework (RMF). The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. The Company takes on exposure to risks where such risks are adequately rewarded, and can be appropriately quantified and managed to safeguard the Company's ability to meet commitments to customers, comply with regulations, and protect its reputation.

The RMF requires all entities within the Group, including the Company, to establish processes for identifying, measuring, managing, monitoring and reporting key risks. The RMF is designed to manage risk within agreed appetite levels which are aligned to delivering the Group and Company strategy. The RMF is approved by the Group Risk Committee and operates based on the concept of three lines of defence: (1) risk identification and management; (2) risk oversight, advice and challenge; and (3) independent assurance.

The Company's results and financial condition are exposed to both financial and non-financial risks from its core activities. The key risk factors, mentioned below, should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Financial and Insurance risks

(a) Market, Credit, Insurance and Liquidity Risk

As a unit-linked pensions business, the Company's profits are driven by the income arising from management charges taken over the lifetime of the business, offset by the expenses incurred in administration. The Company is therefore exposed to unexpected changes in expenses (including expense inflation) and persistency (the rate of policyholder exits) and the impact of market risk on the value of Assets Under Management and Administration (AUMA) and management charges. However, the Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are directly linked to the value of assets backing those liabilities.

The Company has a small amount of annuity business, but this is reinsured internally within the Group and as such, the financial risk resides with the reinsurer.

The financial and insurance risk factors affecting the Company are discussed further in Note 21.

(b) Investment performance and risk

The investment objectives and risk profiles of funds and segregated mandates are agreed with customers. A failure to deliver against these objectives (including sustained underperformance of funds), maintain risk profiles that are consistent with customers' expectations, or ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for larger funds or a range of funds then profitability, reputation and plans for growth may be impacted. The impact of the COVID-19 pandemic on economies may continue to cause sharp movements in market values, interest rates, dividend levels, rental income and defaults, all of which could adversely impact investment performance and fund flows. While market volatility persists and customer confidence remains low, there is a risk of further deterioration of fund flows.

The Investment Office establishes the asset allocation and agrees investment mandates with fund managers. Fund managers are accountable for the performance of the funds they manage and the management of the risks to the funds. There is regular monitoring to identify, measure and oversee investment performance, investment risk and fund liquidity risks. Such activities feed into established oversight and escalation forums.

Non-financial risks

The Company is exposed to a wide range of non-financial risks.

(a) Operational risk

Operational Risk is the risk of financial and non-financial impact (for example, regulatory and reputational) resulting from inadequate or failed internal processes, or from personnel and systems, or from external events, excluding external events covered under Business Environment Risk. Operational failures can also give rise to financial risk exposures; for example, through process failures in the management of market and credit risk.

In particular, a material failure in the processes and controls supporting the Company's activities, that of third-party suppliers or of technology could result in poor customer outcomes, reputational damage, increased costs and regulatory censure. The Company has a high dependency on technology and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact the Company's ability to operate effectively. Additionally, serious failings in the delivery and/or persistent under performance of third-party supplier arrangements could impact the delivery of services to customers.
The Company does not actively seek to take operational risk to generate returns, instead it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities.

The Operational Risk Framework defines the Group's approach to the identification, assessment, management and reporting of operational risks and associated controls including Information Technology, data and outsourcing arrangements. Operational risk is primarily measured and monitored through the Integrated Control Framework and Risk and Control Self Assessment (RCSA) process, which are used to assess the effectiveness of operational controls across the Group. This is further supported by a comprehensive suite of non-financial risk appetites and limits, key risk indicators and operational risk management information.

(b) Business environment and market forces risk

Changing customer preferences and economic and political conditions could adversely impact the Company’s ability to deliver its strategy and have implications for the profitability of its business model. The markets in which the Company operates are highly competitive whilst customer needs and expectations are changing rapidly. Economic factors, including those resulting from the COVID-19 pandemic, may impact the Company's products, investments and operating model.

In addition, increased geopolitical risks and conflicts and policy uncertainty can impact the Company's products, investments and operating model. The conflict in Ukraine has potential to impact the Company's risk profile including but not limited to; adverse and volatile economic and market conditions; impacts on investment performance and underlying assets; increased cyber risk; and regulatory risk from sanctions. The uncertainty around these impacts requires the Company to continually monitor and assess developments. The Company has responded to events by mobilising resources and standing up incident response protocols. These protocols allow the Company to effectively manage risks for stakeholders and respond to potential adverse impacts in a timely manner.

The Company's strategy is aligned to the Group's strategy with the PAC Business Plan incorporating the financial impact of the Company. The Business Plan is a group wide process that is a result of the annual strategic planning process which considers the potential impact of the wider business environment.

(c) Sustainability and ESG

Stakeholders increasingly expect the Company to meet the needs of the present without compromising the ability of future generations to meet their own needs. In addition sustainability, including issues concerning the climate, diversity and inclusion, corporate governance and biodiversity, is crucial to the success of the Company and that of the companies in which the Company invests. A failure to address and embed sustainability within the Company's products, business and operating model could adversely impact profitability, reputation and plans for growth.

Sustainability risks, along with other risk types, are identified, assessed and managed under the ESG Risk Management Framework and Policy which has been developed in 2021 and is currently being embedded across the Group. Consideration of ESG Risk is built into the decision making processes and is a requirement of key strategic board risk assessment papers.

(d) Change risk

The Company has a number of significant change and transformation programmes underway to deliver its strategy for growth, key financial and non-financial benefits (including cost savings, improved customers experiences, greater resilience and strengthening the control environment) and regulatory change. Failure to deliver these programmes within timelines, scope and cost may impact the business model and ability to deliver against the business plan and strategy.

Project governance is in place (including oversight) with reporting and escalation of risks to management and the Board. A Strategic Investment Board is responsible for prioritisation decisions, ensuring that the activities that maximise the ability to achieve the business plan, key regulatory items and growth activity are delivered and funded appropriately. A suite of metrics is used to monitor and report on the delivery, costs and benefits of our transformation programmes. Regular deep-dive assessments are conducted of transformation programmes, individually and collectively.

(e) People risk

Although the Company does not directly employ staff, as this is done through servicing companies within the wider Group, it is still exposed to people risk in relation to those employees that service the Company. The success of the Company is highly dependent on the ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support the business strategy and culture.

As part of a large and listed public company, and as the Company continues to implement its change programme, people risk and associated reputational impact is heightened in a number of areas including pay practices, staff workloads and morale, the conduct of individuals or groups of individuals and industrial relations (internally and that of key third party providers).

The Company manages its people risk in line with the Group-wide HR Framework which includes policies for Diversity and Inclusion, Employee Relations, Talent and Resourcing, Remuneration, and Performance and Learning. The framework is designed to align staff objectives and remuneration to business strategy and culture.

(f) Regulatory compliance

The Company operates in a highly regulated market, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of national regulatory initiatives in progress, with a continuing focus on solvency and capital standards, financial crime, conduct of business and systemic risks. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, fines and restrictions on operations or products.

Accountability for compliance with regulatory and legal requirements sits with senior management. The Compliance function provides guidance to, and oversight of, the Company in relation to regulatory compliance and conflicts of interest, and carries out routine monitoring and deep dive activities to assess compliance with regulations and legislation. Regulatory developments are monitored and form part of the Company's engagement with government policy teams and regulators, which includes updates on responses to the changes.

(g) Reputational risk

The Company's reputation is the sum of its stakeholders' perceptions, which are shaped by the nature of their expectations and the Company's ability to meet them. Consequently, there is a risk that through activities, behaviours or communications, the Company fails to meet stakeholder expectations in ways which adversely impact trust and reputation. Failure to effectively manage reputational risk could therefore have an adverse impact on revenues and cost base, the ability to attract and retain the best staff and could also result in regulatory intervention or action.

The Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks utilising a suite of metrics to monitor stakeholder groups. In addition, embedded reputational risk champions perform an active role in the identification and monitoring of key reputational risks and drivers.

On behalf of the Board of directors

Mr I Bothamley
On behalf of M&G Management Services Limited
Company Secretary
3 March 2022

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Incorporated and registered in England and Wales. Registered no. 992726

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

Likely developments, business strategies and prospects

Likely future developments in the business of the Company are discussed in the strategic report in accordance with Section 414C(11) of the Act.

Ultimate parent company

The Company is a wholly owned subsidiary undertaking of The Prudential Assurance Company Limited. The Prudential Assurance Company Limited is a wholly owned subsidiary of its intermediate parent M&G Group Regulated Entity Holding Company Ltd. The Company's ultimate parent company, M&G plc, is a public limited company, limited by shares, incorporated and registered in England and Wales.

Statement of corporate governance arrangements for large private companies

In accordance with The Companies (Miscellaneous Reporting) Regulations 2018 the Board confirms that it has established and maintained its own corporate governance arrangements, supported and monitored by the Group Secretariat function to ensure that they are appropriate for a regulated subsidiary within a listed company group.

No specific governance code has been applied to the Company in the 2021 year, as it has an established set of governance procedures and practices. It is a regulated entity and so follows certain regulatory requirements and is working within the established system of internal controls and risk management. The overall risk appetite and tolerance set for the Company is set making reference to all relevant Group policies and limits.

The below describe some of the Company’s governance arrangements in place during the reporting year:

- Composition of Board - comprised of an independent Non-executive Chairman, alongside executives who are employees of the Group. The operational management of the Company is delegated to the CEO.

- Director Appointment - all directors are appointed only following regulatory approval and internal approval processes.

- Company Secretary - the Company Secretariat function comprises of appropriately qualified and experienced Company Secretaries who are responsible for ensuring that ongoing governance principles and processes are adhered to.

- Terms of Reference - The Board has in place Terms of Reference which have been followed in 2021 and are periodically reviewed.

Other disclosures

There have been no material issues of concern in relation to the Company’s governance arrangements and practices raised to the Board or its Company Secretary.

Stakeholder relationships and engagement

For details of the Company’s engagement with its stakeholders please see the Section 172 Statement on pages 3-5.

Corporate responsibility

The Company is a wholly owned subsidiary within the Group and Corporate Responsibility ('CR') is integral to the way the Group does business.

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Material Subsidiary Corporate Governance Manual. This encompasses all key policies and procedures.

As a business that provides savings, income, investment and protection products and services, social value is created through the day-to-day operations. The Group provides customers with ways to help manage uncertainty and build a more secure future. In seeking to match the long-term liabilities the Group has towards its customers with similarly long-term financial assets, it provides capital that finances businesses, builds infrastructure and fosters growth in both developed and developing markets.

The Group's sustainable approach to business is reinforced by the Group-wide CR strategy. The Group has a clearly defined overarching social purpose with flagship programmes (urban regeneration; economic empowerment; and skills and education) to support each pillar of the Group's strategy.

The Group's social purpose is to help empower a million people to build better futures for themselves, their families and their communities over the next three years. The Group's ambition is to build inclusive and resilient communities through urban regeneration, economic empowerment and skills and education. Social mobility is our core focus and we want to use community investment to help break down the barriers that prevent people from living the life they want. The Group do this by investing in essential needs for communities to thrive, strengthening social networks and equipping people with the skills, tools and opportunities to be financially secure.

The Group establish long-term relationships with charity partners to improve lives, build communities and provide support, not only through funding, but also with the experience and expertise of our colleagues. The projects we support are sustainable and we work closely with our partners to ensure that our programmes continuously improve.

These themes demonstrate the Group's CR commitments and principles to its stakeholders and provide clarity to its businesses, including the Company, on where they should focus their CR efforts and resources in the context of their individual markets.

The M&G plc Board discusses the Group's performance in the areas of social and environmental management at least once a year and also reviews and approves the Group's corporate responsibility report and strategy on an annual basis.

Post balance sheet events

To the knowledge of the directors, there are no material post balance sheet events which are required to be disclosed in the financial statements.

Financial performance and dividends

The state of affairs of the Company at 31 December 2021 is shown in the Statement of Financial Position on page 22. The Statement of Comprehensive Income appears on pages 19 to 20. No interim dividend was paid in the year (2020: £nil). The directors have not proposed a final dividend for the year (2020: £nil).

Financial instruments

The Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are essentially the same as the net asset values backing those liabilities. The financial risk factors affecting the Company include expense risk, market risk, persistency risk, liquidity risk and credit risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in Note 21.

Share capital

There were no changes in the Company's share capital during 2021.

Directors

The present directors are shown on page 1. There are no changes to this list.

Disclosure to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

KPMG LLP were reappointed as auditor of the Company by the members at the Annual General Meeting on 24 April 2017.

On 28 October 2020, the Company approved the appointment of PricewaterhouseCoopers LLP ('PwC') as its external auditor for the year ending 31 December 2022. Consequently, KPMG LLP will resign as the Company's statutory auditor at the conclusion of the 2021 audit and the Company will resolve to appoint PwC to fill the vacancy. A resolution to appoint PwC as auditor will be recommended to the Group's shareholders for approval at the Annual General Meeting expected to take place on 25 May 2022.

Directors' and officers' protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc Group. In addition, the Articles of Association of the Company provide for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2021 and remain in force.

Going concern

As described in the Basis of Preparation section of the Accounting Policies at note 1, an assessment of the Company's prospects has been carried out. The Board has also performed a robust assessment of the principal and emerging risks facing the Company, and is satisfied that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements.

Greenhouse gas emissions

The Company has availed itself of the exemption afforded at section 20A of Schedule 7A of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, and relies on disclosures regarding greenhouse gas emissions and energy consumption made by the ultimate parent undertaking, M&G plc, in their consolidated financial statements.

On behalf of the Board of directors

Mr I Bothamley
On behalf of M&G Management Services Limited
Company Secretary
3 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101, *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Prudential Pensions Limited

1. Our opinion is unmodified

We have audited the financial statements of Prudential Pensions Limited ("the Company") for the year ended 31 December 2021 which comprise the statement of comprehensive income, statement of changes in equity, statement of financial position and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

– give a true and fair view of the state of Company's affairs as at 31 December 2021 and of its profit for the year then ended;
– have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
– have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders on October 1999. The period of total uninterrupted engagement is for the 22 financial years ended 31 December 2021

We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:		£20m (2020: £20m)
financial statements as a whole		0.19% (2019: 0.18%) of total assets
Risks of material misstatement		**vs 2020**
Recurring risks	Valuation of investments that require judgement	▼

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2019), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of investments that require judgement

2021: £405 million (2020: £441 million)

The risk has decreased compared to the prior year.

Refer to page 25 (accounting policy) and pages 36 to 46 (financial disclosures of level 3 assets).

Subjective valuation:

The areas that involved significant audit effort and judgement in were the valuation of unlisted Net Asset Value ('NAV') funds. We consider the risk to have decreased compared to the prior year, as a result of the limited impact of COVID-19 on the investment markets at 31 December 2021.

For these positions an observable price was not readily available and therefore involved the application of expert judgement in the valuations adopted is required.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments that require judgment has a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 21 discloses the sensitivity estimated by the Company.

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed substantive procedures descried.

Our procedures included:

- **Tests of detail:**
  - Independently obtaining the most recent NAV statements to assess the appropriateness of the fair value of the unlisted funds.
  - Performing a retrospective test over the NAV valuation to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time.
- **Assessing transparency:** Assessing whether the Company's disclosures in relation to the valuation of investments that require judgement are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes.

Our results

We found valuation of investments that require judgement to be acceptable. (2020: acceptable).

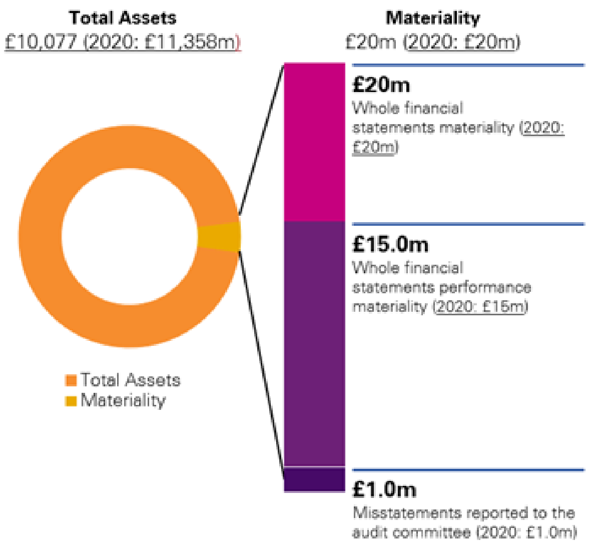
3. Our application of materiality and an overview of the scope of our audit

Prudential Pensions Limited is part of a group headed by M&G plc. Materiality of £20 million (2020: £20 million), as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality that we would otherwise have determined and represents 0.19% (2020: 0.18%) of total assets.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £15m (2020: £15m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1m (2020: £1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.



The scope of the audit work performed was fully substantive as we did not rely upon the Company's internal control over financial reporting.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and solvency over this period were adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Company's investments that require judgement.

We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Company (such as banks and reinsurers) to meet commitments that could give risk to a negative impact on the Company's financial position, increased liquidity which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

We considered whether these risks could plausibly affect the solvency and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern including the identified risks and dependencies, and related sensitivities.

Our conclusions based on this work,

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the audit committee, internal audit, legal, risk and compliance and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- using analytical procedures to identify any usual or unexpected relationships;
- reading Board, Audit Committee and risk committee meeting minutes; and
- inspecting correspondence with regulators to identify instances or suspected instances of fraud.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of investments that require judgment. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited judgement involved in the determination of all material revenue streams as the amounts are contractually derived and therefore the audit evidence supporting these balances is straightforward to obtain.

We did not identify any additional fraud risks.

We also performed procedures including:

- Assessing significant accounting estimate for bias; and
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised personnel, those posted with unusual dates or descriptions and those posted with unusual account combinations.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and have discussed the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.
The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified regulatory capital and liquidity as those most likely to have such an effect recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12, the Directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

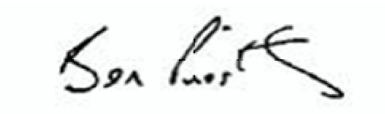
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
3 March 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

Long-term Business Technical Account	2021 £'000	2020 £'000	Note
Investment income	**640,025**	678,917	3
Unrealised (losses) / gains on investments	**(186,481)**	93,101	3
Other technical income	**23,504**	21,694	3
	477,048	793,712	
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
- gross amount	**6,900**	1,221	
- reinsurers' share	**(6,900)**	(1,221)	
	—	—	14
Change in technical provisions for linked liabilities	**(448,177)**	(768,384)	14
	(448,177)	(768,384)	
Net Operating Expenses			
- Acquisition costs	**(205)**	(199)	
- Administrative expenses	**(2,881)**	(4,420)	
Investment expenses and charges	**(16,870)**	(14,436)	3
Foreign exchange losses	**(3,698)**	(1,128)	3
Interest payable	**(4,183)**	—	3
Tax attributable to long-term business	**(1,971)**	(2,880)	4
	(29,808)	(23,063)	
Balance on the long-term business technical account	**(937)**	2,265	

All of the amounts above are in respect of continuing operations.

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 27 to 46 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Non-Technical Account	2021 £'000	2020 £'000	Note
Balance on the long-term business technical account	**(937)**	2,265	
Tax attributable to the balance on the long-term business technical account	**(101)**	1,447	4
Balance on the long-term business technical account before tax	**(1,038)**	3,712	
Investment income	**4**	—	3
Investment expenses and charges	**(10)**	(89)	3
Operating (loss) / profit on ordinary activities before tax	**(1,044)**	3,623	
Tax on (loss) / profit on ordinary activities	**102**	(1,430)	4
(Loss) / Profit and comprehensive (expense) / income for the financial year	**(942)**	2,193	

All of the amounts above are in respect of continuing operations.

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 27 to 46 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share Capital £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Total £'000
Balance at 1 January 2020	6,000	4,088	64,351	74,439
Profit for the year	—	—	2,193	2,193
Total comprehensive income for the year	—	—	2,193	2,193
Balance at 31 December 2020	6,000	4,088	66,544	76,632
Balance at 1 January 2021	**6,000**	**4,088**	**66,544**	**76,632**
Loss for the year	—	—	**(942)**	**(942)**
Total comprehensive expense for the year	—	—	**(942)**	**(942)**
Balance at 31 December 2021	**6,000**	**4,088**	**65,602**	**75,690**

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 27 to 46 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	2021 £'000	2020 £'000	Note
Assets			
Investments			
Other financial investments	**97,296**	107,532	8
Assets held to cover linked liabilities	**9,871,876**	11,177,431	9
Reinsurers' share of technical provisions			
Long-term business provision	**44,184**	51,084	16
Debtors			
Other debtors	**51,269**	14,801	10
Other assets			
Cash at bank and in hand	**11,760**	7,205	11
Prepayments and accrued income	**130**	130	
Total assets	**10,076,515**	11,358,183	
Equity and liabilities			
Capital and reserves			
Share capital	**6,000**	6,000	13
Capital redemption reserve	**4,088**	4,088	
Profit and loss account	**65,602**	66,544	
Total shareholders' funds attributable to equity interests	**75,690**	76,632	
Technical provisions			
Long-term business provision	**44,264**	51,164	16
Technical provisions for linked liabilities	**9,871,876**	11,177,431	14
Provisions for other risks and charges			
Deferred taxation	**340**	754	4
Creditors			
Other creditors including taxation and social security	**84,345**	52,202	17
Total equity and liabilities	**10,076,515**	11,358,183	

The financial statements on pages 19 to 46 were approved by the board of directors on 3 March 2022.

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 27 to 46 form an integral part of these financial statements.

Mr P D Cooper
Director
3 March 2022

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company information

Prudential Pensions Limited (the Company) is a private limited company, incorporated and registered in England and Wales.

The address of its registered office is 10 Fenchurch Avenue, London EC3M 5AG.

B. Basis of preparation

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and are not consolidated.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101), Part 15 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs).

The immediate parent company is The Prudential Assurance Company Limited. The Company's ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. The consolidated financial statements of M&G plc are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs). Copies of these accounts can be obtained from the Company Secretary at 10 Fenchurch Avenue, London EC3M 5AG.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliation for share capital;
- Disclosures in respect of transactions between wholly owned subsidiaries within the Group;
- The effects of new but not yet effective accounting standards;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures in respect of revenue from contracts with customers.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The area involving a higher degree of judgement or complexity is in the classification between insurance and investment contracts. The area where assumptions and estimates are significant to the financial statements is in the determination of fair value of financial investments, in Note 21 B.

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following:

- The Company is a subsidiary within the M&G plc group ('the Group') and it, its parent company and the ultimate parent company are continuing to trade profitably and there are no plans for liquidation in the foreseeable future. The Prudential Assurance Company Limited and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available to the Company. The drawdown of support would be triggered by a breach of pre-specified solvency conditions in the Company. While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to the Company and its policyholders.

- The Company has a satisfactory estimated capital surplus, well in excess of the regulatory capital requirement (as shown in Note 15) and no debt financing. In addition, consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report, and the management of financial risk as set out in Note 21, including its exposure to liquidity risk and credit risk.

- To satisfy themselves of the appropriateness of the use of the going concern assumption in relation to these financial statements, the directors have assessed the future prospects of the Company, by considering the business plan that includes cash flow forecasts for at least the next 12 months from the date of signing these financial statements, various market scenarios as well as changes in the Company's principal risks. In addition, the directors have also considered the results of reasonably plausible severe downside scenarios to assess the potential implications on the Company's solvency and liquidity. The results of these assessments demonstrated the ability of the Company to meet all obligations and future business requirements. In addition, these assessments demonstrated that the Company was able to remain above its regulatory solvency requirements in reasonably plausible severe downside scenarios.

For these reasons, the directors continue to adopt the going concern basis in preparing these financial statements.

C. Long-term business

As permitted by IFRS 4 *Insurance contracts,* insurance contracts are accounted for under previously applied UK GAAP and therefore the modified statutory basis of reporting has continued to be applied.

The measurement basis of assets and liabilities of long-term business contracts is dependent upon the classification of the contracts under FRS 101 as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. The Company's contracts are mainly unit-linked contracts which are investment contracts without discretionary participation features ('DPF'). The Company also has a small amount of non-profit annuity business.

Investment contracts without DPF are accounted for as financial liabilities under IFRS 9 as they are closer in nature to a deposit-style arrangement between the investors and the Company. Premiums and withdrawals for these contracts are recorded within the Statement of Financial Position as a movement on the investors' liability and the long-term business technical account reflects the fee income accounted for under IFRS 15, expenses, and taxation on these contracts. The liabilities for investment contracts without DPF are included in Technical Provisions for Linked Liabilities in the Statement of Financial Position.

The long-term business provision is determined by the Company's directors based on advice from the Company's actuarial function, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2013/58/EU. Provisions are predominantly calculated by the net premium valuation method. Discount rates are derived based on gilt yields of a duration consistent with that of the underlying business.

D. Reinsurance

The Company seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. An asset or liability is recognised in the Statement of Financial Position representing premiums due to or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers.

E. Classification of instruments issued by the Company

Having adopted FRS 101, IAS 32 is being applied to financial instruments issued by the Company and are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
(ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

F. Financial instruments - recognition and measurement

Financial assets

Recognition and initial measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or fair value through profit or loss ('FVTPL') less, for a financial asset not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This includes assets that are held-for-trading or are part of a portfolio that is managed on a fair value basis. Derivatives are included in this category.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost (using the effective interest method) or FVTPL. A financial liability is classified as at FVTPL if it is in respect of an investment contract without participation features, held-for-trading or a derivative. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

G. Financial assets - impairment

Impairment is recognised on financial assets measured at amortised cost based on expected credit losses ('ECL').

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The impact of any collateral and financial guarantees is taken into account when determining ECL.

ECLs are discounted at the effective interest rate of the financial asset.

A financial instrument is considered to have low credit risk where it has an external credit rating of ‘investment grade’. The Company has determined that the cash balances and deposits with credit institutions are considered to have low credit risk and therefore impairment is based on a 12 month ECL for these assets, where material. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs, where material.

H. Premiums and claims

For unit-linked business, premiums are accounted for when the liabilities arising from the premiums are recognised. Premiums exclude any taxes or duties based on premiums.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are accounted for on the policy maturity date. Annuity claims are accounted for when the annuity becomes due for payment. Surrender claims are accounted for when paid and death claims when notified.

Accounting for investment contracts without DPF reflects the deposit nature of the arrangement with premiums and claims reflected as deposits and withdrawals taken directly to the Statement of Financial Position as a movement on the investors' liability with the long-term technical account reflecting fee income, expenses, and taxation on these contracts.

Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised and unrealised gains are included in the non-technical account.

Realised gains are determined as the difference between net proceeds on disposal and the purchase price. Movements in unrealised gains comprise the change in the value of investments held at the Statement of Financial Position date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

I. Securities lending and reverse repurchase agreements

The Company is party to various securities lending agreements and repurchase agreements under which securities are transferred to third parties on a short-term basis. The transferred securities are not de-recognised; rather, they continue to be recognised within the appropriate investment classification. The Company’s policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities’ borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Company takes possession of the collateral under its securities lending programme, including cash collateral which is not legally separated from the Company, the collateral and corresponding obligation to return such collateral, is recognised as a financial liability in the Statement of Financial Position.

The Company is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the Statement of Financial Position. The right to receive the return of any cash paid as purchase consideration plus interest is recognised as a financial asset in the Statement of Financial Position.

J. Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

K. Foreign currencies

Monetary foreign currency assets and liabilities are translated at the year end exchange rates and foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. Exchange differences are included in the statement of comprehensive income.

2. Analysis of premiums

Gross Premiums

Premiums comprise corporate pension business where investment risk is borne by policyholders and which are transacted within the UK. All direct single and regular premiums are group pension business. Premiums for 2021 and 2020 are nil as all business is investment contracts without discretionary participation features and is deposit accounted for, as described in the accounting policies.

	2021	2020
	£'000	£'000
Single premiums – Pensions – Investment-linked contracts		
Direct	**844,358**	1,042,281
External reinsurance accepted	**71,873**	43,145
Intragroup reinsurance accepted	**253,506**	292,487
	1,169,737	1,377,913

Premiums received include those contracts excluded from premium income in the technical account because they are accounted for as deposits. These are investment contracts without discretionary participation features and carry no significant insurance risk.

3. Revenue and investment return

The revenue and investment return derive from financial instrument classifications as follows:

	Long-term business technical account		
	2021	2021	2021
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from listed investments	214,372	—	214,372
Income from other investments	2,551	30	2,581
Gains on the realisation of investments at fair value through profit or loss other than derivatives	416,184	—	416,184
Gains on the realisation of derivatives	6,888	—	6,888
	639,995	30	640,025
Investment expenses and charges			
Investment managers' expenses	(16,855)	(15)	(16,870)
Unrealised losses on investments			
Debt securities	(2,236)	—	(2,236)
Linked assets - other than derivatives	(181,021)	—	(181,021)
Linked assets - derivatives	(3,224)	—	(3,224)
	(186,481)	—	(186,481)
Foreign exchange losses	(3,698)	—	(3,698)
Fee income from investment contracts	23,504	—	23,504
Intragroup interest payable	(4,183)	—	(4,183)
Net revenue and investment return	452,282	15	452,297

	Non-technical account		
	2021	2021	2021
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from other investments	—	4	4
	—	4	4
Investment expenses and charges			
Investment managers' expenses	—	(10)	(10)
Net revenue and investment return	—	(6)	(6)

NOTES ON THE FINANCIAL STATEMENTS (continued)

	Long-term business technical account		
	2020	2020	2020
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from listed investments	203,064	—	203,064
Income from other investments	4,860	133	4,993
Gains on the realisation of investments at fair value through profit or loss other than derivatives	466,557	—	466,557
Gains on the realisation of derivatives	4,303	—	4,303
	678,784	133	678,917
Investment expenses and charges			
Investment managers' expenses	(14,434)	(2)	(14,436)
Unrealised gains on investments			
Debt securities	1,264	—	1,264
Linked assets - other than derivatives	90,434	—	90,434
Linked assets - derivatives	1,403	—	1,403
	93,101	—	93,101
Foreign exchange losses	(1,128)	—	(1,128)
Fee income from investment contracts	21,694	—	21,694
Intra-group interest paid	—	—	
Net revenue and investment return	778,017	131	778,148

	Non-technical account		
	2020	2020	2020
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from other investments	—	—	—
	—	—	—
Investment expenses and charges			
Investment managers' expenses	—	(91)	(91)
Net revenue and investment return	—	(91)	(91)

4. Tax

(a) Tax charged

	Long-term business technical account		Non-technical account	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Current tax				
UK Corporation tax on profits for the year	**328**	1,102	**(1)**	(17)
Adjustments in respect of previous years	**(15)**	631	**—**	—
	313	1,733	**(1)**	(17)
Foreign tax	**2,072**	1,433	**—**	—
Total current tax	**2,385**	3,166	**(1)**	(17)
Deferred tax				
Origination and reversal of temporary difference	**(429)**	(176)	**—**	—
Effect of changes in tax rate	**15**	(110)	**—**	—
Tax charge on profit on ordinary activities	**1,971**	2,880	**(1)**	(17)

Shareholders' attributable tax in respect of the long-term business		
Current tax	**313**	1,733
Deferred tax	**(414)**	(286)
	(101)	1,447
Total	**(102)**	1,430

(b) Factors affecting tax charge for period

Deferred tax is provided at the rate applicable when the temporary differences are expected to reverse. In March 2020, the UK Government announced that the main rate of corporation tax was to remain at 19% for the financial years 2020 and 2021 rather than reducing it to 17% from 1 April 2020 as previously anticipated. It has also been announced that the tax rate will increase to 25% from 1st April 2023.

Other than the effects of permanent differences and adjustments in respect of previous periods, it is not expected that the tax charge will deviate from that calculated by applying the standard rate of corporation tax to the profit before tax of the Company.

	2021	2020
	£'000	£'000
(Loss) \ profit on ordinary activities before tax	**(1,044)**	3,623
(Loss) \ profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19% (2020: 19%)	**(198)**	689
Effects of		
Adjustments to current tax in respect of previous periods	**(15)**	631
Permanent differences	**126**	
Impact of changes in local statutory tax rates	**(15)**	110
Total tax (credit) \ charge for the period	**(102)**	1,430

(c) Statement of Financial Position

The UK Government made substantial changes to the rules relating to the taxation of life insurance companies, effective from 1 January 2013. A deferred tax liability has been recognised for the adjustment that arises on transition to the new regime. This adjustment is required to be spread and taxed over a 10 year period.

Provision for deferred tax	**2021** **£'000**	2020 £'000
Accelerated capital allowances	(62)	(51)
Transitional adjustments	**402**	805
Undiscounted provision for deferred tax liability	**340**	754
Deferred tax liability at start of the period	**754**	1,040
Deferred tax credited in technical/non-technical account for the period	**(414)**	(286)
Deferred tax liability at the end of period	**340**	754

5. Staff costs

The Company has no employees (2020: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies. The majority of employees in the UK are employed by Prudential Distribution Limited, a service company within the Group.

6. Directors' emoluments

During the year the directors of the Company received the following emoluments in respect of work on behalf of the Company:

	2021 **£'000**	2020 £'000
Aggregate emoluments and benefits	**15**	15

The Company's directors perform services for other group companies. These costs are not included in the amounts charged to the Company as shown in the table above. Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. An assessment has been made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this. None of the directors received shares under long-term incentive schemes in 2021 (2020: nil), and no director exercised share options in either 2021 or 2020. No director (2020: none) was entitled to retirement funds under a defined contribution pension scheme.

7. Auditor's remuneration

	2021 **£'000**	2020 £'000
Audit of these financial statements	**477**	473

8. Other financial investments

	Cost		**Carrying value**	
	2021 **£'000**	2020 £'000	**2021** **£'000**	2020 £'000
Debt securities and other fixed income securities	**19,843**	19,843	**23,696**	25,932
Deposits with credit institutions	**73,600**	81,600	**73,600**	81,600
	93,443	101,443	**97,296**	107,532

All debt securities and other fixed income securities are listed on a recognised UK investment exchange. There has been no change to the cost of debt securities and other fixed income securities between 2021 and 2020.

9. Assets held to cover linked liabilities

	2021	2020
	£'000	£'000
Shares and other variable yield securities	**5,071,765**	5,284,183
British government securities - fixed income	**1,131,090**	1,182,266
British government securities - index-linked	**224,335**	230,278
Debentures and loan stocks	**2,672,521**	3,435,792
Provincial and municipal stocks	**287,510**	317,258
Deposits with credit institutions	**592,286**	617,700
Derivatives	**367**	6,382
Other assets / (liabilities)	**(107,998)**	103,572
Assets held to cover linked liabilities – carrying value	**9,871,876**	11,177,431
Assets held to cover linked liabilities - cost	**8,577,758**	9,794,784

Included within shares and other variable yield securities is a Fond commun de placement called M&G UK Property Fund FCP - FIS, which at 31 December 2021 was 97.58% owned by Prudential Pensions Limited (2020: 97.99%). The value of the investment in this fund at 31 December 2021 was £405.3m (2020: £440.5m). The registered office of this investment is 16 Boulevard Royal, L-2449 Luxembourg.

Included within other assets / (liabilities) are derivatives owned by the fund to offset currency movements. These can have a negative valuation.

The above assets account for the bulk of investment income analysed in note 3. Deposits with credit institutions and other unlisted securities account for other investment income.

10. Other debtors

All debtors are due within one year.

	2021	2020
	£'000	£'000
Debtors arising from reinsurance operations	**—**	6,243
Amounts owed by group undertakings	**857**	—
Other debtors	**50,412**	8,558
	51,269	14,801

Other debtors have increased due to seed capital of £42m, The increase is due to the closure of two property funds that are currently suspended. The units held in the suspended funds are now treated as shareholder units. When the units are sold the cash is due to The Prudential Assurance Company Limited (PAC). See note 17 on page 34.

11. Bank current accounts

Under the terms of the Company's arrangements with the Group's main UK banker, the bank has a right of set-off between credit balances (other than those of long-term business funds) and all overdrawn balances of those Group undertakings with similar arrangements.

12. Assets attributable to the long-term business fund

Of the total amount of assets shown on the Statement of Financial Position, £10,045m (2020: £11,327m) is attributable to the long-term business fund.

NOTES ON THE FINANCIAL STATEMENTS (continued)

13. Share capital

	2021 £'000	2020 £'000
Issued and fully paid		
6 million ordinary shares (2020: 6 million) of £1 each	**6,000**	6,000

There has been no change to the share capital in the year.

14. Policyholder liabilities

	Long-term business provision net of reinsurance £'000	Provision for linked liabilities net of reinsurance £'000
Balance at 1 January 2020	80	11,073,321
Movement in technical provisions for year		
Gross amount	(1,221)	768,384
Reinsurers' share	1,221	—
Deposits received from policyholders under investment contracts	—	1,377,913
Payments made to policyholders of investment contracts	—	(2,042,187)
As at 31 December 2020/1 January 2021	80	**11,177,431**
Movement in technical provisions for year		
Gross amount	**(6,900)**	**448,177**
Reinsurers' share	**6,900**	**—**
Deposits received from policyholders under investment contracts	**—**	**1,169,737**
Payments made to policyholders of investment contracts	**—**	**(2,923,469)**
Balance at 31 December 2021	**80**	**9,871,876**

All of the reinsurer's share of technical provisions for long-term business relates to reinsurance agreements with other Group companies. There are no gains or losses arising from these reinsurance agreements.

15. Capital requirements and management

The Company's estimated and unaudited shareholder Solvency II surplus at 31 December 2021 is £33m (2020: £35m), as calculated on a regulatory Transitional Measure on Technical Provisions ('TMTP') basis. Own Funds is the Solvency II measure of assets less liabilities.

The Solvency II Pillar I capital requirements at 31 December 2021 have been calculated using the Company's Internal Capital Model. The method used to calculate the capital has been to:

(i) identify the major risks to which the business is exposed;
(ii) specify a probability distribution which defines the full range of outcomes for each risk, including the 99.5% (or 1-in-200) worst outcome that the directors believe could occur over the coming year;
(iii) specify an appropriate dependency structure between each of the risks;
(iv) use stochastic modelling to generate up to 100,000 equally likely risk scenarios where each risk is simulated at the same time, having regard to the probability distribution for each risk and the dependency between different risks;
(v) calculate the change in the available capital over a one year period in each scenario; and
(vi) set the capital as the change in the available capital in the 99.5th worst scenario.

The Company manages its own funds to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the regulatory Statement of Financial Position resilient to stresses that affect the Company's shareholder-backed business, and is calibrated such that following a stress event (at the calibrated likelihood) the business remains able to cover its Solvency II Solvency Capital Requirement ('SCR').

The estimated and unaudited Solvency II capital position for the Company as at 31 December 2021 and 2020 is shown below:

	2021	2020
	Unaudited	Unaudited
	£'000	£'000
Solvency II Own Funds	77,297	85,065
Solvency II SCR	(44,604)	(49,823)
Solvency II surplus	32,693	35,242
Solvency II capital ratio	173%	171%

The Company's Solvency II capital requirement has been met during the year and during the comparative year.

16. Long-term business provision

The long-term business provision comprises a provision for annuity business.

For annuity business, the provisions are the present value of the annuity payments and expenses. The calculation of the provisions requires a number of actuarial assumptions regarding future experience to be made. The assumptions are set by the Directors having regard to actuarial advice and based on analysis of relevant past and current data and information on anticipated future trends.

Valuation interest rates and expense inflation have been amended in line with changes in market yields. Renewal expenses, mortality rates and mortality improvement rates have also been amended.

The reinsurers' share of the long-term business provision relates to cessions to The Prudential Assurance Company Limited, the immediate parent company.

The provision for annuity business has been calculated on the following bases:

	2021	2020
Discount Rate assumption pre-2019	**2.03% for annuities**	**1.429% for annuities**
Discount Rate assumption post-2019	**2.03% for annuities**	**1.429% for annuities**
Expense Inflation	**3.29% gross**	**3.29% gross**
Renewal expenses:		
Reassured annuity business	£29.76 per policy p.a. plus third party (TCS) costs	£24.89 per policy p.a. plus third party (TCS) costs
Annuity mortality	Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on England & Wales General Population mortality tables (E&W_Reference_Population for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality. Future mortality improvements: Calibration of CMI2019 with a long term rate of 1.75% for males and 1.50% for females, an Sk parameter of 7.5 for males and 8.0 for females, a 0.45% addition to initial improvements, plus 0.5% constant increase to per annum improvement rates	Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on England & Wales General Population mortality tables (E&W_Reference_Population for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality. Future mortality improvements: Calibration of CMI2018 with a long term rate of 1.75% for males and 1.50% for females, an Sk parameter of 7.75 for males and 8.25 for females, plus 0.5% constant increase to per annum improvement rates.

17. Creditors

All creditors are due within one year.

	2021	2020
	£'000	£'000
Creditors arising from reinsurance operations	**40,826**	142
Amounts due to group undertakings	**4,582**	3,377
Tax payable	**463**	477
Sundry creditors	**38,474**	48,206
	84,345	52,202

Creditors arising from reinsurance operations have increased due to the closure of two suspended property funds. Prudential Assurance Company (PAC) provided the cash to purchase units in the continuing funds. This balance represents the cash due back to PAC once units are sold in the suspended funds.

18. Charges

In the normal course of business, certain reinsurance liabilities are secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reinsurance) policies, over the long-term insurance assets of the Company. Amounts secured by charges of this nature were £5,477.5m, £257.6m, £64.5m, £37.0m, and £22.1m, representing liabilities to five different customers (2020: £5,673.2m, £289.1m, £76.3m, £36.4m, and £23.9m representing liabilities to five different customers).

19. Guarantees and Commitments

At present, the Company has not provided any guarantees or commitments to third parties that have been entered into in the normal course of business. From time to time the Company may enter into these arrangements, however the Directors do not consider the amounts to be significant.

20. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited.

The ultimate parent of the Company is M&G plc. M&G plc is the only group including the Company in its consolidated financial statements. Copies of its accounts can be obtained from the Company Secretary at 10 Fenchurch Avenue, London EC3M 5AG.

21. Financial Assets and Financial Liabilities

A. Financial assets and financial liabilities – classification and measurement

Under FRS 101, IFRS 9 requires financial assets and liabilities to be valued at either FVTPL or amortised cost.

2021	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value where applicable
Financial Assets	**£'000**	**£'000**	**£'000**	**£'000**
Deposits with credit institutions	—	73,600	73,600	73,600
Debt securities	23,696	—	23,696	23,696
Assets held to cover linked liabilities	9,871,876	—	9,871,876	9,871,876
Other debtors	—	51,269	51,269	51,269
Cash at bank and in hand	—	11,761	11,761	11,761
Accrued investment income	—	129	129	129
Total	9,895,572	136,759	10,032,331	10,032,331
Financial Liabilities				
Investment contracts without discretionary participating features	9,871,876	—	9,871,876	9,871,876
Deferred tax liabilities	—	340	340	340
Other creditors	—	43,520	43,520	43,520
Total	9,871,876	43,860	9,915,736	9,915,736

2020	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value where applicable
Financial Assets	£'000	£'000	£'000	£'000
Deposits with credit institutions	—	81,600	81,600	81,600
Debt securities	25,932	—	25,932	25,932
Assets held to cover linked liabilities	11,177,431	—	11,177,431	11,177,431
Other debtors	—	14,801	14,801	14,801
Cash at bank and in hand	—	7,205	7,205	7,205
Accrued investment income	—	130	130	130
Total	11,203,363	103,736	11,307,099	11,307,099
Financial Liabilities				
Investment contracts without discretionary participating features	11,177,431	—	11,177,431	11,177,431
Deferred tax liabilities	—	754	754	754
Other creditors	—	52,063	52,063	52,063
Total	11,177,431	52,817	11,230,248	11,230,248

B. Financial assets and financial liabilities - determination of fair value

The fair values of the financial assets and liabilities as included in the table above have been determined on the following bases.

The fair values of the financial instruments are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques. Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument.

Financial assets held at amortised cost have been shown net of provisions for impairment. The fair value of deposits has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

The estimated fair value of derivative financial instruments reflects the estimated amount the Company would receive or pay in an arm’s length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third-parties or valued internally using standard market practices.

The fair value of investment contracts is based on the fair value of the assets held within the linked funds.

The fair value of other financial liabilities is determined using discounted cash flows of the amounts expected to be paid.

Level 1, 2 and 3 fair value measurement hierarchy of financial instruments

The table below includes financial instruments carried at fair value analysed by level of the fair value hierarchy, as defined in accordance with IFRS (and also includes loans carried at amortised cost in the balance sheet but for which the fair value is disclosed in the financial statements). This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement. The Company's policy is to recognise transfers into and transfers out of levels at the end of each half year except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

The classification criteria and its application to the Company can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Where there is sufficient evidence that the instruments were trading in an active market at the period end they are classified as Level 1. Level 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and certain national government and corporate bonds.

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 principally includes corporate bonds and other less frequently traded national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts, certain loans that use observable inputs and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without DPF that are valued using observable inputs.

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 principally includes investments in unlisted funds and debt securities which are exposed to bespoke properties or risks.

	31 December 2021			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Unit-linked				
Equity securities	4,555,396	1,035	409,055	4,965,486
Debt securities	2,543,734	1,757,775	13,946	4,315,455
Derivative assets	914	894	—	1,808
Derivative liabilities	(1,057)	(385)	—	(1,442)
Total financial investments, net of derivative liabilities	7,098,987	1,759,319	423,001	9,281,307
Investment contracts without discretionary participation features held at fair value	—	(9,871,876)	—	(9,871,876)
Total	7,098,987	(8,112,557)	423,001	(590,569)
Non-linked				
Debt securities	23,696	—	—	23,696
Total	23,696	—	—	23,696
Company total				
Equity securities	4,555,396	1,035	409,055	4,965,486
Debt securities	2,567,430	1,757,775	13,946	4,339,151
Derivative assets	914	894	—	1,808
Derivative liabilities	(1,057)	(385)	—	(1,442)
Total financial investments, net of derivative liabilities	7,122,683	1,759,319	423,001	9,305,003
Investment contracts without discretionary participation features held at fair value	—	(9,871,876)	—	(9,871,876)
Total	7,122,683	(8,112,557)	423,001	(566,873)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Unit-linked				
Equity securities	4,843,182	303	440,698	5,284,182
Debt securities	1,918,843	3,241,748	5,003	5,165,594
Derivative assets	3,348	4,740	—	8,089
Derivative liabilities	(176)	(1,530)	—	(1,706)
Total financial investments, net of derivative liabilities:	6,765,197	3,245,261	445,701	10,456,159
Investment contracts without discretionary participation features held at fair value	—	(11,177,431)	—	(11,177,431)
Total	6,765,197	(7,932,170)	445,701	(721,272)
Non-linked				
Debt securities	25,932	—	—	25,932
Total	25,932	—	—	25,932
Company total				
Equity securities	4,843,182	303	440,698	5,284,182
Debt securities	1,944,775	3,241,748	5,003	5,191,526
Derivative assets	3,348	4,740	—	8,088
Derivative liabilities	(176)	(1,530)	—	(1,706)
Total financial investments, net of derivative liabilities	6,791,129	3,245,261	445,701	10,482,090
Investment contracts without discretionary participation features held at fair value	—	(11,177,431)	—	(11,177,431)
Total	6,791,129	(7,932,170)	445,701	(695,341)

Additional disclosures required by IFRS 13 for items within Level 3

Reconciliation of movements in level 3 financial instruments measured at fair value

The following information reconciles the value of level 3 financial instruments at 1 January to that presented at 31 December. Total gains and losses recorded in the long-term technical account in the period represents realised gains and losses, including interest and dividend income, unrealised gains and losses on financial instruments classified at fair value through profit or loss and foreign exchange movements on overseas investments. All of these amounts are included within “investment income” and “unrealised gains/(losses)” in the long-term technical account. Level 3 items consists government debt, corporate bonds, securitised assets and equities.

Reconciliation of Level 3 opening to closing balances 2021

2021	**At 1 Jan 2021**	**Total losses in long-term technical account**	**Purchases**	**Sales**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec 2021**
Unit-linked	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity securities	**440,698**	**(35,534)**	**3,575**	**(161)**	**476**	**—**	**409,055**
Debt securities	**5,003**	**81**	**90**	**(1,226)**	**9,998**		**13,946**
Total	**445,701**	**(35,452)**	**3,665**	**(1,387)**	**10,474**	**—**	**423,002**

Reconciliation of Level 3 opening to closing balances 2020

2020	At 1 Jan 2020	Total losses in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2020
Unit-linked	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity securities	524,272	(24,861)	—	(58,900)	187	—	440,698
Debt securities			—		5,003	—	5,003
Total	524,272	(24,861)	—	(58,900)	5,190	—	445,701

As at 1 January 2021, £445.7m of level 3 assets were held (2020: £524.3m). During 2021, £10.5m of transfers were made into level 3 (2020: £5.2m) and there were sales of level 3 items of £1.4m (2020: £58.9.m).

Of the total loss in the long-term technical account of £186.5m (2020: gains of £93.1m), the unrealised loss on level 3 assets securities for 2021 was £35.5m (2020: loss of £24.9m). As stated above this is included within "unrealised gains/(losses)" in the long-term technical account.

As at 31 December 2021, the Company held £409.1m (2020: £440.7m) of equity investments classified as level 3 in the fair value hierarchy of which £405.3m (2020: £440.5m) comprised of investments in a property fund.

As at 31 December 2021, the Company held £13.9m (2020: £5.0m) of debt securities classified as level 3 in the fair value hierarchy which comprise unquoted debt securities valued using broker quotes. For such instruments, the Company has determined that the unobservable input is the fair value itself, therefore sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase of 10% would result in the fair value of these debt securities increasing by £1.4m; a decrease of 10% would have an equal, but opposite, effect.

C. Risk management

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with the RMF.

A number of risk factors affect the Company's operating results and financial condition. The financial and insurance risk categories affecting the Company's financial assets, financial liabilities and customer liabilities are set out below:

Risk Type:	Definition:
Market risk	The risk of loss, or of adverse change in the Company's financial situation resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets, currencies, liabilities and financial instruments.
Credit risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Insurance risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from changes in the level, trend or volatility of mortality, longevity, morbidity, persistency, expenses and margin pricing experience.
Liquidity risk	Treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (for example claims, creditors and other corporate costs as they fall due). Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

As a unit-linked pensions business, a significant part of the Company's profits are driven by the income arising from management charges taken over the lifetime of the business, offset by the expenses incurred in administration. The Company is therefore exposed to unexpected changes in expenses (including expense inflation) and persistency (the rate of policyholder exits), and the impact of market risk on the value of AUMA and management charges (which are generally expressed as a percentage of AUMA). However, the Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are directly linked to the value of assets backing those liabilities.

D. Market risk

Market risk comprises three types of risk, namely:

- Interest rate risk: due to changes in market interest rates;
- Currency risk: due to changes in foreign exchange rates; and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk) such as equity risk and property risk.

Market risk primarily arises in relation to the income generated from management charges. Falls in the values of equities and property, changes in interest rates and fluctuations in currencies can negatively impact asset values, and therefore the value of charges.

Market risk is managed through a robust market risk framework which includes: policies, risk appetite statements and risk limits and triggers covering key market risk exposures; asset and liability management programmes; a quality of capital framework; strategic asset allocations; investment and hedging strategies; and investment constraints.

Procedures are in place to respond to significant market events and disruptions, bringing together colleagues from across the business to provide enhanced monitoring and decision-making capability.

(i) Interest rate risk

Due to the matching of policyholder liabilities to attaching asset value movements the unit-linked business within the Company is not directly sensitive to interest rate movements and so these assets are excluded from the tables below.

The following table shows an analysis of the classes of financial assets with direct exposure to interest rate risk where the Company still retains a risk. Each applicable class of the Company's assets are analysed between those exposed to fair value interest rate risk and those exposed to cash flow interest rate risk.

2021	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Total**
Financial Assets	**£'000**	**£'000**	**£'000**
Deposits with credit institutions	**—**	**73,600**	**73,600**
Debt securities	**23,696**	**—**	**23,696**
Cash at bank and in hand	**—**	**11,761**	**11,761**
	23,696	**85,361**	**109,057**

2020	Fair value interest rate risk	Cash flow interest rate risk	Total
Financial Assets	£'000	£'000	£'000
Deposits with credit institutions	—	81,600	81,600
Debt securities	25,932	—	25,932
Cash at bank and in hand	—	7,205	7,205
	25,932	88,805	114,737

The estimated sensitivity of the Company to a movement in interest rates (including assumed investment returns for all asset classes, market values of debt securities and all risk discount rates) of 1% and 2% is as follows:

	31 December 2021			
	Fall of 1%	**Fall of 2%**	**Rise of 1%**	**Rise of 2%**
	£'000	**£'000**	**£'000**	**£'000**
Carrying value of debt securities	**2,460**	**4,921**	**(2,460)**	**(4,921)**
Interest on deposits with credit institutions	**30**	**30**	**854**	**1,707**
Related tax effects	**(473)**	**(941)**	**305**	**611**
Net sensitivity of profit after tax and shareholders' funds	**2,017**	**4,010**	**(1,301)**	**(2,603)**

	31 December 2020			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£'000	£'000	£'000	£'000
Carrying value of debt securities	2,910	5,820	(2,910)	(5,820)
Interest on deposits with credit institutions	(35)	(35)	718	1,436
Related tax effects	(546)	(1,099)	416	833
Net sensitivity of profit after tax and shareholders' funds	2,329	4,686	(1,776)	(3,551)

(ii) Currency risk

Due to the matching of policyholder liabilities to attaching asset value movements, the unit-linked business is not directly sensitive to currency risk. Outside of the unit-linked business, no assets or liabilities are held in currencies other than the functional currency, Sterling.

(iii) Other price risk

Due to the matching of policyholder liabilities to attaching asset value movements, the unit-linked business is not directly sensitive to other price risk. The Company does not hold any investment property outside of the unit-linked funds. The Company holds no equity securities outside of the unit-linked funds (2020: £nil), and so is not exposed to other price risk.

E. Credit risk

Due to the matching of policyholder liabilities to attaching asset value movements, the unit-linked business is not directly sensitive to credit risk. However, as a large proportion of the Company's income is earned via fund management charges expressed as a percentage of funds under management, a fall in asset values as a result of credit defaults or credit spread widening could reduce the value of charges. The Company is directly exposed to credit-related losses in the event of non-performance by counterparties.

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, risk appetite statements, limits and triggers (including relevant governance and controls); investment constraints; regular reviews of the investment strategy adopted for surplus assets; limits on the asset portfolios (in relation to credit rating, seniority, sector and issuer, and counterparties in particular for derivatives, reinsurance and cash); and a robust credit rating process.

Debtors arising from reinsurance operations relate principally to reinsurance agreements with The Prudential Assurance Company Limited, the immediate parent company. The Prudential Assurance Company Limited has a strong credit rating.

Debt securities

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
As at 31 December 2021	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Unit-linked	**227,226**	**1,651,229**	**876,437**	**1,468,568**	**61,684**	**25,796**	**4,310,940**
Other	**—**	**23,696**	**—**	**—**	**—**	**—**	**23,696**
Total debt securities	**227,226**	**1,674,925**	**876,437**	**1,468,568**	**61,684**	**25,796**	**4,334,636**

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
As at 31 December 2020	£000	£000	£000	£000	£000	£000	£000
Unit-linked	310,197	1,800,501	1,016,048	1,887,858	112,376	38,614	5,165,594
Other	—	**25,932**	—	—	—	—	25,932
Total debt securities	310,197	1,826,433	1,016,048	1,887,858	112,376	38,614	5,191,526

Reverse repurchase agreements

At 31 December 2021, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The value of these transactions at 31 December 2021 was £665.9m (2020: £699.3m). The fair value of the collateral held in respect of these transactions was £678.3m (2020: £713.3m).

During 2021 and 2020 the Company did not take possession of any other collateral held as security

Collateral and pledges under derivative transactions

At 31 December 2021, the Company had pledged £nil (2020: £0.3m) for liabilities and held collateral of £nil (2020: £nil) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

Impairment methodology

The impairment allowance calculation is based on Group’s counterparty default risk calibration used for Solvency II. The counterparty default risk uses a default state model and a recovery rate model which is run through 1 million scenarios to generate a probability distribution of losses.

This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2021 to derive the Expected Credit Losses ('ECL').

The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL.

The Company held cash and deposits with credit institutions balances of £73.6.m at 31 December 2021 (2020: £88.8m). These balances are held with bank and financial institution counterparties.

A 12 month ECL has been calculated in respect of these balances. This reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

F. Insurance Risk

The Company is primarily exposed to two types of insurance risk as a result of its insurance business operations:

- Persistency risk: arises from unexpected changes in policyholder rates of exit; and
- Expense risk: arises from the risk that expenses (including expense inflation) could be higher than assumed.

The Company’s persistency assumptions are set with reference to past experience with consideration of emerging trends in future persistency rates. If actual levels of policyholder exits are higher than assumed, then the Company’s profitability could be negatively impacted due to a reduction in income from management charges. Similarly the Company’s profitability could be negatively impacted if expenses are higher than assumed.

The Company fully reinsures its longevity risk and has very limited exposure to mortality and morbidity risk.

Insurance risk is managed in accordance with requirements set out in the insurance risk policy and risk appetite statements. Persistency risk and expense risk are predominantly managed through regular reviews of best estimate assumptions, supported by detailed assessments of actual experience and consideration of emerging trends.

G. Liquidity Risk

Under normal circumstances, policyholders bear most of the investment and liquidity risk for unit-linked business. However, if product terms and conditions are such that the deferral of claims is only permitted for a limited period of time, or not at all, the mismatch relative to fund mandates can give rise to risk to the shareholder. Examples of situations where this could occur are:

- higher than expected customer withdrawals, and/or lower than expected market liquidity for assets in unit-linked funds which may be combined with a reduction in new business and/or reductions in asset values; and
- ineffective asset/liability matching leading to a mismatch between outgoing cash flows and incoming cash flows and/or asset liquidations.

Liquidity risk is managed through a robust Liquidity Risk Management Framework, including governance and controls, liquidity risk policies, a Liquidity Contingency Plan, regular monitoring of exposures and asset and liability management programmes.

To mitigate liquidity risk in those unit-linked funds which may be inherently more illiquid, in particular property funds, deferral clauses are in place which allow the deferral of cash payments to withdrawing customers in extreme adverse liquidity scenarios. The Company's M&G Pooled Pensions UK Property Fund which was deferred in May 2019, was closed to new money in September 2021 and began liquidation in November 2021.

Liquidity analysis - Contractual maturities

Maturity profile for investment contracts and durations of long-term business contracts on an undiscounted basis

The majority of the in force business consists of pooled investment vehicles used for pension scheme business which by nature do not have any contractual repricing or maturity dates, as the benefits are the realisation values of the units held in the internal linked funds and may be surrendered at any time.

The long-term business contracts are annuity contracts which have no maturity date. The liabilities for these contracts are wholly reassured so the maturity profile for the liability is matched by the profile for the asset and so no liquidity risk arises from these contracts.

All remaining financial liabilities are held as creditors which will be settled within one year, as disclosed at note 17.

22. Related Undertakings

The related undertakings are presented in accordance with The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The following is a list of related undertakings of the Company at 31 December 2021.

Name	Class of Shares Held	Proportion Held	Country of Incorporation	Address
M&G UK Property Fund FCP - FIS	‘C’ Units class	98 %	Luxembourg	16 Boulevard Royal, L-2449 Luxembourg

23. Post balance sheet events

To the knowledge of the directors, there are no material post balance sheet events which are required to be disclosed in the financial statements.