Registered No: 992726

# PRUDENTIAL PENSIONS LIMITED

## Annual Report and Financial Statements for the year ended 31 December 2022

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

CONTENTS

Directors and Officers

**Directors (in office at date of approval of the financial statements)**

Ms C J Bousfield
Mr R S Bowie (Chairman)
Mr S Horgan
Mr S Paton Evans

**Secretary**

M&G Management Services Limited

**Independent Auditors**

PricewaterhouseCoopers LLP
Chartered Accountant and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Principal activities

The principal activities of Prudential Pensions Limited ('the Company') in the course of 2022 were transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2023.

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 investment products. The Company has a small book of annuities reassured to PAC.

Reinsurance accepted consists of life insurance and pension products investing into the Company's unit linked life funds. 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's unit linked solutions 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** | **2022** | **2021** | **Change** |
|---|---|---|---|
| | **£'000** | **£'000** | **%** |
| | | | |
| Operating loss on ordinary activities before tax | **(2,574)** | (1,044) | 146.6 % |
| Shareholder funds | **73,711** | 75,690 | (2.6)% |
| Assets held to cover linked liabilities | **7,285,909** | 9,871,876 | (26.2)% |
| Estimated Solvency II capital surplus | **44,236** | 32,693 | 35.3 % |

Loss on ordinary activities has increased from £1m in 2021 to a loss of £2.6m in 2022. The loss arises mainly due to increasing interest rates reducing UK gilt valuations and increasing unrealised losses. This has been partially offset by a reduction in expenses.

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 increase in the estimated Solvency II capital surplus is primarily driven by an increase in the risk-free yield curve, reducing the capital requirement by £11m. 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 of the Company 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 – 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, recognising the impact of recent market conditions and the potential volatility arising from lapse and expense experience, the Board agreed the proposal not to make a dividend payment to its sole shareholder, The Prudential Assurance Company Limited.

**Principal decision 2 - Own Risk and Solvency Assessment ('ORSA')**

During the year, the Board reviewed and approved the 2022 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). The Company is also exposed to market risk, primarily through the impact on the value of Assets Under Management and Administration (AUMA), and therefore the value of management charges taken by the Company. 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 Company has an Investment Office that 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 or outsourced processes, colleague errors, technology issues, or from external events. 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 or operational disruption 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 or persistent under performance of third-party supplier arrangements could impact the delivery of services to customers.

The Operational Risk Policy defines the Group's approach to identifying, assessing, managing and reporting operational risks and associated controls across the business including Information Technology, data and outsourcing arrangements.

Business Continuity and Crisis Management requirements are applied across the Group. Key business services and the critical shared services on which they rely need an enhanced approach to avoid causing intolerable harm. This is achieved through a risk-based approach which considers the harm that a service could cause if disrupted.

The Group’s Technology Key Control Framework has been created in line with recognised best practice including the Information Security Forums Standard of Good Practice and COBIT Governance and Management Objectives.

Oversight and risk management of third parties has been enhanced across the Group, including its approach to selection, contracting and on-boarding, management and monitoring, and termination and exiting. Positive progress was made across the business during 2022 in building on the risk and control framework foundations previously put in place. The Group is focused on fully embedding the framework and reaching operational maturity.

The increased cyber-security threat arising from geopolitical tensions and the continually evolving external cyber-threat landscape, technological disruption and data loss remains a significant threat both to the Company and its third party suppliers. The Group’s sustainable secure programme continues to improve the control environment by delivering additional security capabilities.

(b) Business environment and market forces risk

Changing customer preferences together with economic and political conditions, could adversely impact the performance of the Company. The markets in which the Company operates are highly competitive while customer needs and expectations are changing rapidly. Economic factors, including heightened levels of inflation, may impact product demand and the ability to generate an appropriate return. Increased geopolitical risks and conflicts and policy uncertainty may impact the Company's products, investments and operating model.

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 is overseen by the Risk function, and results in an approved strategy. The process considers the potential impact of the wider business environment and, throughout the year, the Group (including the Company) monitors and reports on the delivery of the plan.

Macroeconomic headwinds are expected to continue during 2023 including inflationary pressures, rising interest rates, UK political instability, heightened recessionary fears in Europe and US and geopolitical instability. These headwinds may have an impact on investment performance.

(c) Sustainability and ESG

A failure to address and embed sustainability considerations within the Company’s strategy, products, operating model, communication approach and an internal/external changing landscape could adversely impact on the Company's financial performance, reputation and future growth. Consequently the Company recognises the risk and opportunity of sustainability in the Company’s business and the companies invested in.

Recognising the complex range of risks that sit under ESG, a specific M&G plc ESG risk management framework has been developed to further enhance the approach to identification, assessment and management of ESG risks, based on the three lines of defence model. The framework is supported by the M&G plc ESG Risk Policy, which articulates the Group's ESG risk appetite and sets out key business requirements. Consideration of ESG Risk is built into the decision-making processes and a requirement of key strategic board risk assessment papers and regular reporting. Climate change risk is integrated into the Group’s scenario analysis process with both top down and bottom up consideration over a range of time horizons.

The importance of robust ESG risk management and controls will continue to grow as the industry further develops its approach to ESG, addressing issues such as the quality of ESG data, greenwashing, enhancement of climate change methodologies and implementation of regulatory requirements. The external ESG risk environment is expected to remain challenging, with climate physical and transition risks accelerating, biodiversity emerging and social issues continuing to be important.

(d) Change risk

The Company has a number of significant change programmes underway to deliver its strategy for growth, key financial and non-financial benefits (including cost savings, improved customer's experience, greater resilience and strengthening the control environment) and regulatory change. Failure to deliver these programmes within timelines, scope and cost with employees and skill-set capacity 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. The Efficiency 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 the Group's transformation programmes including those affecting the Company. 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’s operations are highly dependent on the ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support a positive culture and growth.

As part of a large and listed public company, and as the Group continues to re-focus its strategy, people risk and associated reputational impact is heightened in areas including pay practices, workloads and morale, the conduct of colleagues or groups of colleagues 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 is designed to align colleague 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 a large number of national regulatory initiatives in progress, with a focus on solvency and capital standards, financial crime, conduct of business and systemic risks. There are wide-ranging consequences of non-compliance or failing to adequately consider regulatory expectations, standards or principles including 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.

National and global regulatory developments are monitored and form part of the Group's engagement with government policy teams and regulators, which includes updates on responses to the changes.

In December 2022, the Chancellor of the Exchequer announced a set of reforms to drive growth and competitiveness in the financial services sector. These 'Edinburgh Reforms' will increase the volume and pace of regulatory change that will be introduced in the coming years and are also likely to accelerate the UK's regulatory divergence from the EU.

(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. There is a risk that through activities, behaviours or communications, the Company fails to meet stakeholder expectations and adversely impact trust and reputation. Failure to effectively manage reputational risk could impact on revenues and cost base, the ability to attract and retain the best staff and potential regulatory intervention or action.

The Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks using a suite of metrics to monitor stakeholder groups. In addition, embedded Reputational Risk Champions throughout the Country. They perform an active role in identifying and monitoring of key reputational risks and drivers. They also support the Company in creating processes that include full consideration of reputational risks in key decisions.

The Group has a relatively new corporate identity with a newly appointed Chief Executive Officer and so, the Group including the Company, are subject to significant scrutiny from different stakeholders. Key to managing evolving stakeholder expectations will be the need to address the material aspects of sustainability risk, in addition to current sustainability priorities – climate change, and diversity and inclusion.

(h) Conduct risk

There is a risk that through the acts or omissions of the Company, or individuals within the Company, result in poor or unfair outcomes for customers and clients, employees, other stakeholders or that we affect market integrity.

The FCA Consumer Duty regime which will come into effect on 31 July (for new and existing products and services) requires firms to deliver good customer outcomes with focus on four areas (products and services, price and value, consumer understanding and consumer support) and to consider the needs, characteristics and objectives of customers at every stage of the customer journey.

On behalf of the Board of directors

Mr I Bothamley
On behalf of M&G Management Services Limited
Company Secretary
30 March 2023

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022.

### 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 Limited. 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 2022 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 2022 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 3-4.

### 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 ambition is to build inclusive and resilient communities through urban regeneration, economic empowerment and community building. Social mobility is a 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 colleagues. The projects we support are sustainable and partners are worked with closely 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 sustainability 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 2022 is shown in the Statement of Financial Position on page 23. The Statement of Comprehensive Income appears on pages 20 to 21. No interim dividend was paid in the year (2021: £nil). The directors have not proposed a final dividend for the year (2021: £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 2022.

Directors

The directors who held office during 2022 are shown on page 1. Mr P D Cooper resigned on 6th May 2022. Mr S Horgan and Mr S Paton Evans were appointed on 15 August 2022 and 28th November 2022 respectively. There have been no further changes.

Disclosure to the auditors

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 auditors are 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 auditors are 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.

Independent auditors

KPMG LLP resigned as the Group's statutory auditor at the conclusion of the 2021 audit and both the M&G plc Board and Company resolved to appoint PricewaterhouseCoopers LLP (PwC) to fill the vacancy. A resolution to appoint PwC as auditor was approved by the M&G plc shareholders at the Annual General Meeting which took place on 25 May 2022.

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of PricewaterhouseCoopers LLP as auditors of M&G Plc is to be proposed at the forthcoming M&G Plc Annual General Meeting on 24 May 2023.

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 2022 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.

Streamlined energy and Carbon reporting

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
30 March 2023

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

# Independent auditors' report to the members of Prudential Pensions Limited

## Report on the audit of the financial statements

**Opinion**

In our opinion, Prudential Pensions Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Statement of Financial Position as at 31 December 2022; Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

**Our audit approach**

**Context**

Prudential Pensions Limited ('PPL') transacts long-term insurance business in the United Kingdom. The year ended 31 December 2022 is our first year as the external auditors of PPL. Following the external audit tender in 2020, we undertook certain transition activities, including attending key governance meetings during the 2021 financial reporting process. In planning for our first year audit, we met with the Audit Committee and members of management across the business to understand the business activities, any significant changes during the year, and to understand their perspectives on associated business risks. We used this insight, in addition to our reviewing the previous auditors' audit work papers, when forming our own views regarding the audit risks and as part of developing our planned audit approach to address those risks. Given the activities of PPL in addition to forming this opinion, in this report we have also provided information on a key audit matter we discussed with the Audit Committee, setting out a description of the matter, how we approached the audit in this area, and our conclusion. In designing our audit, we have considered the impacts that climate change could have on PPL, including physical or transitional risks which could arise. In particular, we have assessed the impacts on financial statements of the commitments related to climate change which the Group has made.

## Overview

Audit scope

- Our audit scope has been determined to provide coverage of all material financial statement line items, and as part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- We tailored our scope based on our assessment of inherent risk and their financial significance to the financial results of PPL. In particular, we considered where Management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

- Valuation of hard to value financial investments - Level 3

Materiality

- Overall materiality: £21.4 million which is 0.29% of total assets.
- Performance materiality: £13.9 million.

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of hard to value financial investments (level 3)<br><br>Refer to notes E,F,G,H,I,8,9 and 21 to the financial statements for disclosures of related accounting policies, valuation methodologies and balances.<br><br>PPL's financial investments are held to back the insurance contract liabilities and linked liabilities within its Retail and Savings business, and to meet regulatory capital requirements.<br>Most of the Company's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. The models vary in complexity depending on the nature of the investments. Investments that require the use of significant judgement and inputs that are not market observable are complex. These investments are classified as Level 3 in the fair value hierarchy and include:<br>- Investment property.<br>We focused on these complex investments because they are significant in size, the valuation is inherently uncertain and changes in estimates could result in material changes in their valuation.<br><br>Investment Property<br>PPL holds property (indirectly) within the UK, Europe and Asia. The valuation of the property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. The wider challenges currently facing the real estate sector as a result of rising inflation and the impact of climate change further contributed to the subjectivity at 31 December 2022. Valuations are carried out by third party valuers engaged by the Group, who perform their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards or equivalent local standards. The valuations take into account the property-specific information including the current tenancy agreements and rental income, condition and location of the property, and future rental prospects, as well as prevailing market yields and market transactions.</td><td><br><br><br>We understood the nature of the investments, Management's approach to valuation, and made inquiries on the models and the source of the data used in the valuation to split the investments into categories by type.<br><br>For each category, we:<br>• Understood and assessed Management's process and controls over the valuations;<br>• We assessed both the methodology and assumptions used by Management in the calculation of the year end values as well as understanding the governance controls in place to monitor these processes.<br><br>For indirect Investment property in the UK, Europe, and Asia, we:<br>• Considered the methodology adopted by Management for investments in property funds and assessed its appropriateness;<br>• Agreed the valuations applied to the most recent NAV statements, and sample tested any adjustments made for subsequent capital movements; and<br>• Performed look back testing on the NAV statements provided by each fund manager against the equivalent audited financial statements to ensure materially consistent.<br><br>For all asset classes we assessed the adequacy of the disclosures in the financial statements.<br><br>Based on the work performed and the evidence obtained, we consider the valuations for hard to value assets to be appropriate.</td></tr>
</table>

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall company materiality | £21.4 million. |
| Materiality benchmark | 0.29% of total assets |
| How we determined it | In determining our materiality we have considered financial metrics and benchmarks which we believe to be relevant to the primary users of the consolidated financial statements.Due to the disparate size of the Income Statement and Statement of Financial Position, the materiality amount was selected judgmentally by the PPL audit team having considered a range of relevant benchmarks including Adjusted Operating Profit, Profit before tax, Operational Capital Generation, Total assets, and Solvency II own funds. A materiality amount was selected judgementally and expressed as a percentage of total assets as an appropriate benchmark for materiality. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 65% of overall materiality, amounting to £13.9 million for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.96 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Independent auditors' report to the members of Prudential Pensions Limited (continued)

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained the Directors' going concern assessment and challenged the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Group's business performance, review of regulatory correspondence and obtaining further corroborating evidence
- Agreed the PPL Solvency II information to the draft quantitative reporting templates prepared by Management
- Considered information obtained during the course of the audit and publicly available market information to identity any evidence that would contradict Management's assessment of going concern
- Reviewed the disclosures included in the financial statements in relation to going concern, including the Basis of Preparation

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the Strategic report, the Directors report and the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

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 error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK and European regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgmental areas of the financial statements as shown in our 'Key audit matter' and journals. Audit procedures performed by the engagement team included:

- Discussions with the Board, Senior Management, Internal Audit, senior management involved in the Risk and Compliance functions and Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud
- Reviewing relevant meeting minutes including those of the Board of Directors and Audit Committees;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of Management's investigation of such matters;
- Identifying and testing journal entries based on risk criteria;
- Testing of judgements and assumptions in subjective areas as set out in the key audit matters;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Testing transactions entered into outside of the normal course of the Company's business, including notably acquisitions of businesses in the period
- Reviewing the Company's register of litigation and claims, Internal Audit reports, and compliance reports in so far as they related to non-compliance with laws and regulations and fraud; and
- Attendance at Audit Committee meetings

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

## Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 25 May 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 March 2023

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

| Long-term Business Technical Account | 2022 £'000 | 2021 £'000 | Note |
|---|---|---|---|
| Investment (losses)/income | **(24,615)** | 640,025 | 3 |
| Unrealised losses on investments | **(1,402,531)** | (186,481) | 3 |
| Other technical income | **18,148** | 23,504 | 3 |
| | **(1,408,998)** | 477,048 | |
| Change in other technical provisions, net of reinsurance | | | |
| Long-term business provision, net of reinsurance | | | |
| - gross amount | **12,109** | 6,900 | |
| - reinsurers' share | **(12,109)** | (6,900) | |
| | **—** | — | 14 |
| Change in technical provisions for linked liabilities | **1,427,356** | (448,177) | 14 |
| | **1,427,356** | (448,177) | |
| Net Operating Expenses | | | |
| - Acquisition costs | **(82)** | (205) | |
| - Administrative expenses | **(4,391)** | (2,881) | |
| Investment expenses and charges | **(9,074)** | (16,870) | 3 |
| Foreign exchange losses | **(570)** | (3,698) | 3 |
| Interest payable | **(5,397)** | (4,183) | 3 |
| Tax attributable to long-term business | **(934)** | (1,971) | 4 |
| | **(20,448)** | (29,808) | |
| **Balance on the long-term business technical account** | **(2,090)** | (937) | |

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

The accounting policies on pages 24 to 28 along with the accompanying notes on pages 28 to 47 form an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)**

| Non-Technical Account | 2022 £'000 | 2021 £'000 | Note |
|---|---|---|---|
| Balance on the long-term business technical account | **(2,090)** | (937) | |
| Tax attributable to the balance on the long-term business technical account | **(620)** | (101) | 4 |
| Balance on the long-term business technical account before tax | **(2,710)** | (1,038) | |
| Investment income | **181** | 4 | 3 |
| Investment expenses and charges | **(45)** | (10) | 3 |
| **Operating loss on ordinary activities before tax** | **(2,574)** | (1,044) | |
| Tax on loss on ordinary activities | **595** | 102 | 4 |
| **Loss and comprehensive expense for the financial year** | **(1,979)** | (942) | |

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

The accounting policies on pages 24 to 28 along with the accompanying notes on pages 28 to 47 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

| | Share Capital £'000 | Capital Redemption Reserve £'000 | Profit and Loss Account £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|
| 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 |
| **Balance at 1 January 2022** | **6,000** | **4,088** | **65,602** | **75,690** |
| Loss for the year | — | — | **(1,979)** | **(1,979)** |
| Total comprehensive expense for the year | — | — | **(1,979)** | **(1,979)** |
| **Balance at 31 December 2022** | **6,000** | **4,088** | **63,623** | **73,711** |

The accounting policies on pages 24 to 28 along with the accompanying notes on pages 28 to 47 form an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

| | 2022<br>£'000 | 2021<br>£'000 | Note |
|---|---|---|---|
| **Assets** | | | |
| **Investments** | | | |
| Other financial investments | **71,703** | 97,296 | 8 |
| **Assets held to cover linked liabilities** | **7,285,909** | 9,871,876 | 9 |
| **Reinsurers' share of technical provisions** | | | |
| Long-term business provision | **32,075** | 44,184 | 16 |
| **Debtors** | | | |
| Other debtors | **16,510** | 51,269 | 10 |
| **Other assets** | | | |
| Cash at bank and in hand | **13,479** | 11,760 | 11 |
| Deferred tax asset | **58** | — | 4 |
| Prepayments and accrued income | **120** | 130 | |
| **Total assets** | **7,419,854** | 10,076,515 | |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | **6,000** | 6,000 | 13 |
| Capital redemption reserve | **4,088** | 4,088 | |
| Profit and loss account | **63,623** | 65,602 | |
| **Total shareholders' funds** | **73,711** | 75,690 | |
| **Technical provisions** | | | |
| Long-term business provision | **32,155** | 44,264 | 16 |
| **Technical provisions for linked liabilities** | **7,285,909** | 9,871,876 | 14 |
| **Provisions for other risks and charges** | | | |
| Deferred taxation | **—** | 340 | 4 |
| **Creditors** | | | |
| Other creditors including taxation and social security | **28,079** | 84,345 | 17 |
| **Total equity and liabilities** | **7,419,854** | 10,076,515 | |

The financial statements on pages 20 to 47 were approved by the board of directors on 29 March 2023.

The accounting policies on pages 24 to 28 along with the accompanying notes on pages 28 to 47 form an integral part of these financial statements.

Mr S Horgan
Director
30 March 2023

## 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 financial statements 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, although loss making in the current year, is a subsidiary within the M&G plc group ('the Group') and its parent company and the ultimate parent company are continuing to trade profitably on an operating profit basis 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. Premiums received and withdrawals for these contracts are excluded from the Statement of Comprehensive Income and recorded directly within the Statement of Financial Position as a movement on the Technical Provision for linked liabilities. The fee income on these contracts are accounted for under IFRS 15, expenses, and taxation on these contracts are included in the long-term business technical account along with the Change in technical provisions for linked liabilities reflecting the policyholders' share of investments income, investment gains / losses, and expenses. 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 for insurance contracts is determined by the Company's directors based on advice from the Company’s actuarial function, who determined the provision using recognised actuarial methods.

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.

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. Financial instruments - recognition and measurement

Financial assets

Recognition and initial measurement

A financial asset is initially measured at fair value plus, for a financial asset not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or FVTPL.

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.

Financial assets are not reclassified subsequent to their initial recognition unless the entity 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 derecognition is recognised in profit or loss.

Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised. Where relevant, the Company makes use of the exemption available for financial instruments with low credit risk, for which, an assessment of a significant increase in credit risk is not required.

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.

F. 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.

G. 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.

Unit-linked business is accounted for as Investment contracts without DPF. Unit-linked premiums and claims are reflected as deposits and withdrawals and taken directly to the Statement of Financial Position as a movement on the Technical provisions for linked liabilities. Fee income, change in technical provisions for linked liabilities, expenses, and taxation on these contracts is included in the long-term technical account in the Statement of Comprehensive Income.

H. 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.

I. 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.

J. 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 2022 and 2021 are nil as all business is investment contracts without discretionary participation features and is deposit accounted for, as described in the accounting policies.

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Single premiums – Pensions – Unit-linked contracts | | |
| Direct | **268,848** | 844,358 |
| External reinsurance accepted | **51,397** | 71,873 |
| Intragroup reinsurance accepted | **241,482** | 253,506 |
| | **561,727** | 1,169,737 |

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 | | |
|---|---|---|---|
| | 2022 | 2022 | 2022 |
| | £'000 | £'000 | £'000 |
| | At fair value through profit or loss | Amortised cost | Total |
| Investment income | | | |
| Income from listed investments | 189,731 | — | 189,731 |
| Income from other investments | 20,382 | 1,530 | 21,912 |
| Losses on the realisation of investments at fair value through profit or loss other than derivatives | (229,476) | — | (229,476) |
| Losses on the realisation of derivatives | (6,782) | — | (6,782) |
| | (26,145) | 1,530 | (24,615) |
| Investment expenses and charges | | | |
| Investment managers' expenses | (8,974) | (100) | (9,074) |
| Unrealised gains/(losses) on investments | | | |
| Debt securities | (8,850) | — | (8,850) |
| Linked assets - other than derivatives | (1,396,092) | — | (1,396,092) |
| Linked assets - derivatives | 2,411 | — | 2,411 |
| | (1,402,531) | — | (1,402,531) |
| Foreign exchange losses | (570) | — | (570) |
| Fee income from investment contracts | 18,148 | — | 18,148 |
| Intragroup interest payable | (5,397) | — | (5,397) |
| **Net revenue and investment return** | (1,425,469) | 1,430 | (1,424,039) |

| | Non-technical account | | |
|---|---|---|---|
| | 2022 | 2022 | 2022 |
| | £'000 | £'000 | £'000 |
| | At fair value through profit or loss | Amortised cost | Total |
| Investment income | | | |
| Income from other investments | — | 181 | 181 |
| | — | 181 | 181 |
| Investment expenses and charges | | | |
| Investment managers' expenses | — | (45) | (45) |
| **Net revenue and investment return** | — | 136 | 136 |

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

| | 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 |
| Intra-group interest paid | (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) |

## 4. Tax on loss on ordinary activities

### (a) Tax charged

| | Long-term business technical account | | Non-technical account | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Current tax | | | | |
| UK Corporation tax on profits for the year | **—** | 328 | **—** | (1) |
| Adjustments in respect of previous years | **(222)** | (15) | **25** | — |
| | **(222)** | 313 | **25** | (1) |
| Foreign tax | **1,554** | 2,072 | **—** | — |
| Total current tax | **1,332** | 2,385 | **25** | (1) |
| Deferred tax | | | | |
| Origination and reversal of temporary difference | **(397)** | (429) | **—** | — |
| Effect of changes in tax rate | **(1)** | 15 | **—** | — |
| **Tax charge on profit on ordinary activities** | **934** | 1,971 | **25** | (1) |

**Shareholders' attributable tax in respect of the long-term business**

| | | |
|---|---|---|
| Current tax | **(222)** | 313 |
| Deferred tax | **(398)** | (414) |
| | **(620)** | (101) |
| **Total** | **(595)** | (102) |

### (b) Factors affecting tax charge for period

Deferred tax is provided at the rate applicable when the temporary differences are expected to reverse. The rate of UK corporation tax will increase from 19% to 25% with effect from 1 April 2023, as enacted into UK law. This has been reflected in the carrying values of deferred tax assets and liabilities of the Company and will be reflected in the effective tax rate from 2023 onwards.

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.

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Loss on ordinary activities before tax | **(2,574)** | (1,044) |
| Loss on ordinary activities multiplied by effective rate of corporation tax in the UK of 19% (2021: 19%) | **(489)** | (198) |
| Effects of | | |
| Adjustments to current tax in respect of previous periods | **(107)** | (15) |
| Permanent differences | **—** | 126 |
| Impact of changes in local statutory tax rates | **1** | (15) |
| **Total tax credit for the period** | **(595)** | (102) |

### (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. The deferred tax liability relating to the transition to the new regime, spread and taxed over a 10-year period, was fully reversed at the end of 2022.

| **Provision for deferred tax** | **2022** **£'000** | 2021 £'000 |
|---|---|---|
| Accelerated capital allowances | **(58)** | (62) |
| Transitional adjustments | **—** | 402 |
| Undiscounted provision for deferred tax liability | **(58)** | 340 |
| | | |
| Deferred tax liability at start of the period | **340** | 754 |
| Deferred tax credited in technical/non-technical account for the period | **(398)** | (414) |
| **Deferred tax (asset)/liability at the end of period** | **(58)** | 340 |

## 5. Staff costs

The Company has no employees (2021: 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:

| | **2022** **£'000** | 2021 £'000 |
|---|---|---|
| Aggregate emoluments and benefits | **34** | 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 2022 (2021: nil). Three directors (2021: none) exercised share options. Two directors (2021: none) were entitled to retirement funds under a defined contribution pension scheme.

## 7. Auditors' remuneration

| | **2022** **£'000** | 2021 £'000 |
|---|---|---|
| Audit of these financial statements | **615** | 477 |

The above table shows the auditor remuneration. For the year ended 31 December 2022 total fees payable are in relation to those payable to PwC by the Company with the comparative period information relating to fees payable to KPMG. Total fees paid to PwC and its network firms for services to the M&G plc group are disclosed in the consolidated 2022 M&G plc Annual Report Accounts which are publicly available.

## 8. Other financial investments

| | **Cost** | | **Carrying value** | |
|---|---|---|---|---|
| | **2022** **£'000** | 2021 £'000 | **2022** **£'000** | 2021 £'000 |
| Debt securities and other fixed income securities | **21,101** | 19,843 | **16,103** | 23,696 |
| Deposits with credit institutions | **55,600** | 73,600 | **55,600** | 73,600 |
| | **76,701** | 93,443 | **71,703** | 97,296 |

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 2022 and 2021.

## 9. Assets held to cover linked liabilities

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Shares and other variable yield securities | **3,982,437** | 5,071,765 |
| British government securities - fixed income | **471,611** | 1,131,090 |
| British government securities - index-linked | **135,841** | 224,335 |
| Debentures and loan stocks | **2,094,676** | 2,672,521 |
| Provincial and municipal stocks | **105,164** | 287,510 |
| Deposits with credit institutions | **416,359** | 592,286 |
| Derivatives | **2,166** | 367 |
| Other assets / (liabilities) | **77,655** | (107,998) |
| Assets held to cover linked liabilities – carrying value | **7,285,909** | 9,871,876 |
| Assets held to cover linked liabilities - cost | **7,398,217** | 8,577,758 |

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 2022 was 97.58% owned by Prudential Pensions Limited (2021: 97.58%). The value of the investment in this fund at 31 December 2022 was £111.2m (2021: £405.3m). 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.

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Amounts owed by group undertakings | **108** | 857 |
| Other debtors | **16,402** | 50,412 |
| | **16,510** | 51,269 |

Other debtors have decreased due to reduction in seed capital from £42m in 2021 to £16m in 2022. The decrease is due to the sale of units in 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 37.

## 11. Cash at bank and in hand

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, £7,388m (2021: £10,045m) is attributable to the long-term business fund.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

## 13. Share capital

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Issued and fully paid | | |
| 6 million ordinary shares (2021: 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 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) |
| **As at 31 December 2021/1 January 2022** | **80** | **9,871,876** |
| Movement in technical provisions for year | | |
| Gross amount | **(12,109)** | **(1,427,356)** |
| Reinsurers' share | **12,109** | **—** |
| Deposits received from policyholders under investment contracts | **—** | **561,725** |
| Payments made to policyholders of investment contracts | **—** | **(1,720,336)** |
| **Balance at 31 December 2022** | **80** | **7,285,909** |

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 (unaudited)

The Company's estimated and unaudited shareholder Solvency II surplus at 31 December 2022 is £44m (2021: £33m), 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 2022 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 2022 and 2021 is shown below:

| | **2022** | 2021 |
|---|---|---|
| | **Unaudited** | Unaudited |
| | **£'000** | £'000 |
| Solvency II Own Funds | **77,883** | 77,297 |
| Solvency II SCR | **(33,647)** | (44,604) |
| Solvency II surplus | **44,236** | 32,693 |
| Solvency II capital ratio | **231 %** | 173 % |

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

The increase in the estimated Solvency II capital surplus is primarily driven by an increase in the risk-free yield curve, reducing the capital requirement by £11m.

## 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:

| | **2022** | 2021 |
|---|---|---|
| Discount Rate assumption | **5.228% for annuities** | **2.03% for annuities** |
| Expense Inflation | **3.09% gross** | **3.29% gross** |
| Renewal expenses: | | |
| Reassured annuity business | £33.13 per policy p.a. plus third party (TCS) costs | £29.76 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 CMI2020 with a long term rate of 1.6% for both males and females, an Sk parameter of 7.25 for males and 7.75 for females, an age dependent A parameter varying between 0% - 0.2% for males and females plus 0.5% constant increase to per annum improvement rates. Nil weighting applied to 2020 data within the CMI model. | 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 |

## 17. Creditors

All creditors are due within one year.

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Creditors arising from reinsurance operations | **8,892** | 40,826 |
| Amounts due to group undertakings | **4,586** | 4,582 |
| Tax payable | **348** | 463 |
| Sundry creditors | **14,253** | 38,474 |
| | **28,079** | 84,345 |

Creditors arising from reinsurance operations have reduced due to the partial repayment to PAC on sale of units in two suspended property funds. Prudential Assurance Company (PAC) had provided the cash in 2021 to purchase units in the continuing 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 £4,719.8m, £268.3m, £39.0m, £33.4m, and £17.5m, representing liabilities to five different customers (2021: £5,477.5m, £257.6m, £64.5m, £37.0m, and £22.1m representing liabilities to five different customers).

## 19. Guarantees and Commitments

At present, the Company has not provided any guarantees or commitments to third parties. 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 financial statements 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.

| **2022** | **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 | — | **55,600** | **55,600** | **55,600** |
| Debt securities | **16,103** | — | **16,103** | **16,103** |
| Assets held to cover linked liabilities | **7,285,909** | — | **7,285,909** | **7,285,909** |
| Other debtors | — | **16,510** | **16,510** | **16,510** |
| Cash at bank and in hand | — | **13,480** | **13,480** | **13,480** |
| Deferred tax asset | — | **58** | **58** | **58** |
| Accrued investment income | — | **119** | **119** | **119** |
| **Total** | **7,302,012** | **85,767** | **7,387,779** | **7,387,779** |
| | | | | |
| **Financial Liabilities** | | | | |
| Investment contracts without discretionary participating features | **7,285,909** | — | **7,285,909** | **7,285,909** |
| Deferred tax liabilities | — | — | — | — |
| Other creditors | — | **8,892** | **8,892** | **8,892** |
| **Total** | **7,285,909** | **8,892** | **7,294,801** | **7,294,801** |

| 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 |

**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 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| **Unit-linked** | | | | |
| Equity securities | 3,786,427 | 967 | 111,265 | 3,898,659 |
| Debt securities | 723,540 | 2,069,006 | 14,746 | 2,807,292 |
| Derivative assets | 4,345 | 1,631 | — | 5,976 |
| Derivative liabilities | (2,077) | (1,733) | — | (3,810) |
| Total financial investments, net of derivative liabilities | 4,512,235 | 2,069,871 | 126,011 | 6,708,117 |
| Investment contracts without discretionary participation features held at fair value | — | (7,285,909) | — | (7,285,909) |
| Total | 4,512,235 | (5,216,038) | 126,011 | (577,792) |
| **Non-linked** | | | | |
| Debt securities | 16,103 | — | — | 16,103 |
| Total | 16,103 | — | — | 16,103 |
| **Company total** | | | | |
| Equity securities | 3,786,427 | 967 | 111,265 | 3,898,659 |
| Debt securities | 739,643 | 2,069,006 | 14,746 | 2,823,395 |
| Derivative assets | 4,345 | 1,631 | — | 5,976 |
| Derivative liabilities | (2,077) | (1,733) | — | (3,810) |
| Total financial investments, net of derivative liabilities | 4,528,338 | 2,069,871 | 126,011 | 6,724,220 |
| Investment contracts without discretionary participation features held at fair value | — | (7,285,909) | — | (7,285,909) |
| **Total** | 4,528,338 | (5,216,038) | 126,011 | (561,689) |

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| **Unit-linked** | | | | |
| Equity securities | 4,555,396 | 1,036 | 409,054 | 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 | 1,759,320 | 423,000 | 9,281,307 |
| Investment contracts without discretionary participation features held at fair value | — | (9,871,876) | — | (9,871,876) |
| Total | 7,098,987 | (8,112,556) | 423,000 | (590,569) |
| **Non-linked** | | | | |
| Debt securities | 23,696 | — | — | 23,696 |
| Total | 23,696 | — | — | 23,696 |
| **Company total** | | | | |
| Equity securities | 4,555,396 | 1,035 | 409,054 | 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 | 423,000 | 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) | 423,000 | (566,873) |

**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 2022**

| **2022** | **At 1 Jan 2022** | **Total losses in long-term technical account** | **Purchases** | **Sales** | **Transfers into level 3** | **Transfers out of level 3** | **At 31 Dec 2022** |
|---|---|---|---|---|---|---|---|
| **Unit-linked** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Equity securities** | **409,054** | **(294,332)** | **1** | **(605)** | **68** | **(2,921)** | **111,265** |
| **Debt securities** | **13,946** | **(3,446)** | **111** | **—** | **4,135** | **—** | **14,746** |
| **Total** | **423,000** | **(297,778)** | **112** | **(605)** | **4,203** | **(2,921)** | **126,011** |

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 | — | 409,054 |
| Debt securities | 5,003 | 81 | 90 | (1,226) | 9,998 | — | 13,946 |
| Total | 445,701 | (35,453) | 3,665 | (1,387) | 10,474 | — | 423,000 |

As at 1 January 2022, £423m of level 3 assets were held (2021: £445.7m). During 2022, £4.2m of transfers were made into level 3 (2021: £10.5m) and there were sales of level 3 items of £0.6m (2021: £1.4.m).

Of the total loss in the long-term technical account of £1,402.5m (2021: loss of £186.5m), the unrealised loss on level 3 assets securities for 2022 was £297.7m (2021: loss of £35.5m). As stated above this is included within "unrealised gains/(losses)" in the long-term technical account.

As at 31 December 2022, the Company held £111.3m (2021: £409m) of equity investments classified as level 3 in the fair value hierarchy of which £111m (2021: £405m) comprised of investments in a property fund.

As at 31 December 2022, the Company held £15m (2021: £14m) 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 £1.5m; 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). |

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). The Company is also exposed to market risk, primarily through the impact on the value of AUMA, and therefore the value of management charges (which are generally expressed as a percentage of AUMA) taken by the Company. 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 four types of risk, namely:

- Interest rate risk: fluctuations in the level or volatility of interest rates or the shape or curvature of the yield curve or spread relationships;
- Inflation risk: fluctuations in actual or implied inflation rates;
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures; 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 and inflation 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 and inflation 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 and inflation 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.

| **2022** | **Fair value interest rate risk** | **Cash flow interest rate risk** | **Total** |
|---|---|---|---|
| **Financial Assets** | **£'000** | **£'000** | **£'000** |
| Deposits with credit institutions | **—** | **55,600** | **55,600** |
| Debt securities | **16,103** | **—** | **16,103** |
| Cash at bank and in hand | **—** | **13,480** | **13,480** |
| | **16,103** | **69,080** | **85,183** |

| 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 |

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 2022** | | | |
|---|---|---|---|---|
| | **Fall of 1%** | **Fall of 2%** | **Rise of 1%** | **Rise of 2%** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Carrying value of debt securities | **3,251** | **6,501** | **(3,251)** | **(6,501)** |
| Interest on deposits with credit institutions | **(1,836)** | **(1,836)** | **691** | **1,382** |
| Related tax effects | **(269)** | **(886)** | **486** | **973** |
| Net sensitivity of profit after tax and shareholders' funds | **1,146** | **3,779** | **(2,074)** | **(4,146)** |

| | 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) |

### (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 or equity securities outside of the unit-linked funds (2021: £nil), and so is not directly 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 2022** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Unit-linked** | **86,270** | **774,968** | **626,866** | **1,200,358** | **87,322** | **31,508** | **2,807,292** |
| **Other** | **—** | **16,103** | **—** | **—** | **—** | **—** | **16,103** |
| **Total debt securities** | **86,270** | **791,071** | **626,866** | **1,200,358** | **87,322** | **31,508** | **2,823,395** |

| | 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 |

**Reverse repurchase agreements**

At 31 December 2022, 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 2022 was £472.0m (2021: £665.9m). The fair value of the collateral held in respect of these transactions was £486.2m (2021: £678.3m).

During 2022 and 2021 the Company did not take possession of any other collateral held as security.

**Collateral and pledges under derivative transactions**

At 31 December 2022, the Company had pledged £nil (2021: £nil) for liabilities and held collateral of £nil (2021: £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 2022 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 £55.6m at 31 December 2022 (2021: £73.6m). 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  by virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience. 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 primarily managed through regular reviews of best estimate assumptions, supported by detailed assessments of actual experience and consideration of emerging trends.

## G. Treasury 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 treasury liquidity risk . 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.

Treasury liquidity risk is managed through a robust Liquidity Risk Management Framework, including governance and controls, a liquidity risk policy, 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 is currently selling down its holdings and paying out to investors ahead of closure.

**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 2022.

| 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.