Registered No: 15454

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Annual Report and Financial Statements for the Year Ended 31 December 2019

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Incorporated and registered in England and Wales. Registered no. 15454

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Directors

Mr P Spencer CBE - Chairman
Mr C P Adamson
Mr R Bennison
Ms C J Bousfield
Ms J Dawson
Mr M Evans
Mr M T FitzPatrick (Resigned 19 September 2019)
Mr J W Foley
Dr I Owen
Mr P D Cooper (Appointed 16 September 2019)

Company Secretary

Ms J A Owens

Auditor

KPMG LLP, London

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Principal activity

The principal activity of The Prudential Assurance Company Limited (the Company) in the course of 2019 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2020. Throughout 2019 the Company also owned insurance subsidiary undertakings including Prudential Pensions Limited (PPL) and Prudential International Assurance plc (PIA). These transacted insurance business in the United Kingdom and across Europe.

The Company is a wholly owned subsidiary of M&G plc (the M&G plc group or the Group). M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales. The Group is an international financial services group, with significant operations in the United Kingdom and overseas.

M&G plc was previously named M&G Prudential Limited. It registered as a public limited company M&G Prudential plc on 24 July 2019 and changed its name to M&G plc on 16 September 2019.

The Company's long-term products consist of life insurance, pension products and pension annuities. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits participating products, or non-participating products including annuities in payment and unit-linked products. Depending on the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

The Company's Irish subsidiary, Prudential International Assurance plc (PIA), is a leading insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus in 2019 has been the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe. The Company's UK insurance subsidiary, Prudential Pensions Limited mainly sells unit-linked products.

The Company is a wholly owned subsidiary undertaking of another company registered in England and Wales and therefore group financial statements and a group business review are not prepared. Accordingly, the financial statements and the following business review present information about the Company as an individual undertaking and are not consolidated.

Business review

The Company's brand benefits from a heritage that stretches back over 170 years and a franchise that is based on long-term thinking, longevity experience and financial strength. Such attributes continue to be highly sought after by customers and their financial advisers as they plan for retirement and other long-term savings needs.

The Company's goal is to give more savers and advisers, in more markets around the world, access to the Group's full investment and capital management capabilities, in a wider range of structures and formats.

The fundamentals underpinning the UK's retirement market continue to change. Risk and responsibility for retirement provision continues to transfer away from the state and employers to individuals. The flexible arrangements introduced by Pensions Freedom in 2015 allow individuals to take control over their own pensions but have introduced significant additional complexity. The burden of mitigating investment risk, longevity risk and inflation risk in respect of retirement income increasingly falls directly onto individuals.

To support its customers in this changing environment, the Company's product and distribution profile has evolved by increasing the range of product options to mirror the flexibilities of the pensions freedom era. There has been a shift away from a reliance on annuity business to a focus on more flexible bond, ISA, pension and income drawdown products across a range of tax efficient solutions through the Company's PruFund range of products.

PruFund is the Company's customer proposition managed by the Company's market leading multi-asset management team. It is a transparent and modern way of with-profits investing in the UK, which offers individuals different rates of smoothed return aligned with their tolerance for risk. In 2019 PruFund reached assets under management or administration (AuMA) of £54bn (2018: £43bn), up 26 per cent.

As part of the product offering within PruFund, the Prudential Retirement Account (an online account based plan, that provides customers with the flexibility to save for their retirement, benefit from an income in retirement and

facilitate access to their fund as they save), experienced another successful year, with AuMA at 31 December 2019 of £18bn (2018: £12bn).

The Company continues to focus on deepening its already strong relationships with independent financial advisers. An important part of the Company's service offering is the ongoing hands-on support from its regional sales units, technical helpline and business development and consultancy team. The Company also distributes products via other group companies. Prudential Financial Planning Limited provides restricted advice services and Prudential Distribution Limited intermediates non-advised sales.

The with-profits fund is the largest and one of the financially strongest funds of its kind in the UK. It is invested across a broad range of assets and aims to provide steady returns to customers. The Company uses its bonus process to smooth some of the extreme highs and lows of investment performance. During 2019, investment returns for the with-profits fund were an increase of 11.5% before tax (2018: decrease of 2.8%) and over the last ten years the fund has delivered a cumulative investment return of 115.5% before tax.

The Company continued to make good progress on its five-year transformation plan. Transformation aims to improve the experience of its customers, provide a scalable platform for growth, and create business efficiencies, largely through significant investment in new administration systems and digitalisation.

Notable achievements on transformation in 2019 included the transfer of the Company's most complex life assurance system onto the BANCs platform of Diligenta, the UK subsidiary of Tata Consultancy Services. This has already led to improvements in customer service.

Key to the Company's future success is delivering a great experience to customers. Expectations of service have risen markedly, thanks to advances in digital technology. This is one of the reasons why the Company is making a substantial investment in transformation. This investment is already bearing fruit for customers of the life insurance and annuity operations that are closed to new business and for their financial advisers. The Company also has a duty to consider customers' wider needs, including any special access requirements, as these service improvements are made.

Strategic Direction and Corporate Transactions

In March 2018 Prudential plc announced its intention to demerge M&G plc from Prudential plc. The demerger was completed on 21 October 2019, resulting in two separately listed groups, with different investment characteristics and opportunities. M&G plc is one of the leading retirement and savings businesses in the UK and Europe.

In preparation for the demerger, the Company agreed a transaction in March 2018 to reinsure a significant portion of its shareholder annuity portfolio. Under the terms of the agreement the portfolio was initially reinsured to Rothesay Life, with the intention to then transfer most of the portfolio in accordance with Part VII of the Financial Services and Markets Act 2000 (FSMA). However, on 16 August 2019, the High Court declined to sanction the Part VII transfer. The Company and Rothesay Life were granted leave to appeal the judgement. A notice of appeal was lodged at the Court of Appeal on 27 September 2019, but the case is not expected to be heard before Spring 2020 at the earliest. The High Court's judgement has no direct impact on the reinsurance with Rothesay Life and has not had a significant financial impact on the Company's 2019 results. The reinsurance remains in place. As with other changes to the business, the Company's priority is to ensure these customers are treated fairly.

M&G plc has been reviewing its operations across Europe since the UK voted to leave the European Union. In January 2019, in accordance with Part VII of the FSMA, the Company transferred all of its long-term European business (excluding the UK) into PIA, a subsidiary of the Company which is based in the Republic of Ireland. The business transferred consisted of the business underwritten in the Company's Polish branch, and also legacy business underwritten in other European countries. Refer to note 32 for further details.

Both with-profits and shareholder-backed business transferred, however the with-profits business was reinsured back to the Company. The reinsurance arrangements were implemented in order to provide policyholders with continued access to the returns from the Company's with-profits funds, on the same basis as prior to the transfer. The shareholder-backed business has not been reinsured back to the Company following the Part VII transfer. The Company transferred net assets of £15m to PIA and as consideration, PIA issued additional share capital to the Company resulting in an increase in the investment held. The cost of the additional investment was immediately impaired which resulted in no overall gain or loss. Details are presented at note 32. The Company's Polish branch is no longer active.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

Prudential Holborn Life Limited (PHL) is a wholly owned subsidiary of the Company. In June 2019, PHL completed the sale of its subsidiary Prudential Vietnam Finance Company and undertook a capital reduction to permit remittance of the £97m net disposal proceeds from the sale to the Company. The Company remitted the proceeds up to M&G plc, the ultimate parent undertaking (which in turn remitted to Prudential plc, the previous ultimate parent company). The remittance of £97m to the Company has been treated as a return of capital of £59m, being the original cost of investment in PHL, and a dividend of £38m. As at 31 December 2019 the Company holds only a nominal investment in PHL of £1.

The Company's former subsidiary Prudential Retirement Income Limited (PRIL) was placed into liquidation in December 2017. In September 2019 PRIL was liquidated, resulting in a return of capital of £100m to the Company. The return of capital was settled through the cancellation of a £100m loan PRIL had granted to the Company.

The non-profit annuity business owned by the with-profits fund and previously reinsured to Prudential Hong Kong Limited was recaptured on 1 October 2019, in anticipation of the Group's demerger from Prudential plc. The 'recaptured reinsurance premium' in the long-term technical account of £1.1bn was equal to the value of the recaptured business. A deposit-back liability of a similar value was extinguished. The transaction removes the reinsurance recoverable from the balance sheet with a corresponding charge to reinsurance recoverable 'change in long-term business provision'. The net impact on the long-term technical account was a loss of £24m, arising from the difference between the recaptured reinsurance premium and the settlement of the reinsurance recoverable.

On 14 December 2018, the beneficial interests in the Company's Hong Kong subsidiaries, Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited were sold to Prudential Corporation Asia Limited, with the legal ownership transferring on 19 December 2018. See note 31 for further details.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

Key performance indicators and measurement

Key Performance Indicators	**2019** £m	**2018 restated*** £m
Operating Profit:		
Shareholder transfer	324	320
Hedging of current year shareholder transfer	(82)	(65)
Annuities business	460	1,132
Unit Linked and other	46	(246)
Total adjusted operating profit before tax	**748**	**1,141**
Non-Operating Profit:		
Short-term fluctuations in investment returns	217	(11)
Dividend income from shareholder subsidiaries	53	183
Transformation costs	(24)	(52)
Sale of annuity portfolio	53	(508)
Sale of Hong Kong subsidiaries	—	599
Total non-operating profit before tax	**299**	**211**
Profit on ordinary activities before tax	**1,047**	**1,352**
Estimated Solvency II capital surplus:		
Company	3,057	3,691
Shareholder	3,057	3,691
Policyholder	7,628	5,458
Estimated Solvency II coverage ratio:		
Company	131%	140%
Shareholder	159%	172%
Policyholder	267%	231%

*The 2018 figures are restated as described below.

Use of Key Performance Indicators (KPIs) and definitions

The KPIs in the table above are the measures that management uses to evaluate the performance of the Company. In addition to the measures reported in the financial statements, the Company also uses certain financial measures that are not defined or recognised under UK GAAP.

Some of the KPIs for the Company have changed following the demerger of M&G plc from Prudential plc, as the Company's objectives have been adjusted to fulfil its part in the strategic ambitions of the M&G plc group.

'Adjusted operating profit before tax' is management's alternative performance measure of profitability and is used for key decision making and the internal performance management of its operating segments. The Company uses this metric because it is less affected than UK GAAP measures of performance by one-time impacts, and therefore, in the Company's view, provides a better basis for assessing trends in the operational performance of the Company over time. This measure is not defined under UK GAAP and other companies may calculate such measures differently. The Company has aligned this measure to the same KPI used by M&G plc.

This measure is similar to the 'operating profit' definition that the Company reported in its financial statements in previous years when owned by Prudential plc. For 2019 and for 2018 the only differences between the current and previous bases are that exceptional costs associated with fundamental one-off group-wide restructuring and transformation are not included in 'adjusted operating profit before tax'. Such costs totalled £24m for 2019 (2018: £52m) and are included in non-operating profit in the table above. The 2018 figures above have been restated for this change.

For the Company's business written in the with-profits fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the transfer are excluded from adjusted operating profit before tax. These hedges are matched to the statutory transfer on an economic basis rather than a UK GAAP

basis, which may result in a mismatch between the movement in the instrument and the corresponding impact on the statutory transfer. Any such mismatch is reflected in adjusted operating profit before tax.

For the Company's shareholder annuity and non-linked products, adjusted operating profit before tax is calculated using long-term investment assumptions which reflect the Group's expectation of investment returns over the lifetime of the relevant product, allowing for expected payments into and from the product. Adjusted operating profit before tax excludes impacts that are the result of short-term, unrealised market movements.

Certain significant additional one-off items are excluded from operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Company. Such items are considered on a case by case basis. As noted above, exceptional costs associated with fundamental one-off group-wide restructuring and transformation are not included in adjusted operating profit before tax.

Total adjusted operating profit before tax

The total adjusted operating profit of £748m (2018: £1,141m) consists of £242m (2018: £255m) relating to the shareholder transfer and associated hedges from the with-profits fund, £460m (2018: £1,132m) relating to the annuities business, and £46m (2018: £246m loss) on unit-linked and other business.

The 2019 with-profits shareholder transfer is £4m higher relative to 2018. The key driver of the increase is PruFund business, where shareholder transfers have risen as funds under management have grown and the business matures. A larger volume of business has claimed during 2019 generating higher shareholder transfers. Traditional with-profits business has larger funds under management relative to PruFund business and in 2019 generated the majority of the shareholder transfer. This declined slightly relative to 2018 primarily due to the effect of the negative investment returns in 2018 reducing bonus rates that were effective from April 2019, the full effect of the negative investment return was dampened by smoothing. The impact of the negative investment return was partly offset by higher claims volumes for certain products.

The Company partially hedges movements in equity markets affecting the shareholder transfer. Equity markets performed strongly in 2019 which contributed to an £82m loss (2018: £65m loss) on the derivative protection.

For the annuities business, assumption changes contributed £166m (2018: £470m) to adjusted operating profit, of which £126m related to changes in the longevity assumption basis. The longevity changes reflect a recent slowdown in life expectancy improvements, and the adoption of the Continuous Mortality Investigation (CMI) 2017 model, albeit with an uplift to the calibration such that additional liabilities are held to cover potential differences in experience between the portfolio and the England and Wales population. Longevity assumption changes for 2018 contributed £441m to operating profit and reflected changes to annuitant mortality assumptions to reflect current mortality, as well as the adoption of the Continuous Mortality Investigation (CMI) 2016 model and some refinements to the Company's expectations for mortality for its portfolio.

The annuities result includes a charge of £33m in relation to the Thematic Review of Annuities Sales Practices (TRASP). The Company has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract based defined contribution pension customers. During 2019 the Company made significant progress towards completing the review. In addition, the Company will be conducting a review of other groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from the Company or another pension provider. The ultimate amount that will be expended by the Company on the review will remain uncertain until the project is completed.

In connection with the FCA findings that led to the Company agreeing to conduct the TRASP past business review, on 30 September 2019 the FCA fined the Company £24m in respect of failures related to non-advised sales of annuities. This was fully settled during 2019 and is also included within the annuities result.

In 2018, income of £166m from insurance recoveries in connection with TRASP was recognised and this has not recurred in 2019.

The expected return on assets and release of margins contributed £216m (2018: £251m). Asset trading and the impact of changes in interest rates contributed £165m (2018: £80m). New business and other items contributed a loss of £30m (2018: profit of £165m).

Within unit-linked and other business, the partial release of a provision for Pension Age Equalisation of £25m relating to shareholder-backed business was a contributor to profits. The 2018 loss of £246m included a £56m one-off cost related to the development of the Company's business in Poland, the cost of the provision in respect of equalising guaranteed minimum pensions of £55m and a £34m one-off shareholder contribution to the with-profits corporate pension business.

Profit on ordinary activities before tax

The results of the Company for the year as set out on pages 28 to 29 show a profit on ordinary activities before tax of £1,047m (2018: £1,352m). This is made up of the total adjusted operating profit described above, together with the non-operating items as described in the table above. In 2018 the partial sale of the annuity portfolio resulted in a £508m loss. In 2019 the partial sale of the annuity portfolio resulted in a £53m gain relating principally to contractual adjustments to premiums.

Solvency II surplus and coverage ratio

The Company is subject to the Solvency II capital regime. This was developed by the European Union (EU) in order to harmonise the various regimes previously applied across EU member states and continues to be applicable to UK insurance companies. Both policyholder and shareholder Solvency II surplus allow for the recalculation of the transitional measure on technical provisions as at 31 December 2019 following approval from the Prudential Regulation Authority (PRA).

The high quality and recurring nature of the Company's capital generation and its disciplined approach to managing balance sheet risk provide meaningful protection against significant adverse market-driven effects on this metric.

The Company has generated a shareholder capital surplus over the period before dividends and retains a surplus of £3.1bn. However, after allowing for dividend payments of £2.1bn, the Company's shareholder solvency surplus has reduced over 2019 by £0.6bn. The reduction due to dividend payments was partially offset by £0.6bn expected returns and capital releases on in-force business, £0.5bn from changes in economic conditions, revised assumptions of £0.2bn (mainly longevity and expenses) and £0.2bn relating to management actions.

The Company's policyholder solvency position has strengthened over 2019 with surplus increasing by £2.2bn. This predominantly reflects the release of capital and liabilities of £0.9bn on in-force business, £0.7bn model changes, £0.4bn benefit from investment returns over the period, and £0.2bn of non-market assumption changes.

The Company's available capital position is covered further in note 29.

Section 172(1) Statement

Section 172 of the Companies Act 2006 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 set out above. The Board also recognise 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 the Board's decisions, and that they are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with M&G plc group's overarching culture, vision and values.

As is normal for large companies, authority for day-to-day management is delegated to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Directors review at each regular Board meeting: financial and operational performance; individual business unit updates; risk, compliance and regulatory reporting. The Board also review other areas over the course of the financial year

including the Company's business strategy; financial reporting; key risks; stakeholder-related matters; 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 ultimate beneficial owner M&G plc, it's customers, colleagues, communities and investors. In respect of customers of the Company's with-profits products, further details of with-profits governance are discussed in the Director's Report on page 16. The views of 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 M&G plc 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, non-financial key performance indicators, risk, and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this the Board has had an overview of engagement with stakeholders and other relevant factors which allow the Board to understand the nature of the stakeholders' concerns and to comply with the section 172 duty to promote success of the Company.

Principal Decisions

The Board set out below, some examples of how they have had 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 define 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 - Dividends to Parent

The Board decided to pay a total of £340m in normal dividends to Prudential plc. It was also decided to pay £1,083m as a special dividend. Of this total of £1,423m, £253m was declared on 6 June 2019 and the remaining £1,170m was declared on 16 September 2019.

The Directors noted that the payments were in accordance with the detailed financial planning, which took into account the other ongoing financial obligations for the Company. The Directors also sought additional information on how quickly the solvency level would be managed following the dividend payments. This decision involved considering the likely consequences on the Company in the medium-term.

Principal decision 2 - Demerger from Prudential plc

The decisions for the Company arising as a result of the demerger of M&G plc from Prudential plc.

Pensions

The Directors approved new pensions arrangements and guarantees to reflect the new organisational structure post demerger. The changes involved the transfer of responsibilities in connection with pensions and changes to pension benefits for defined benefit scheme members, as discussed in note 9. The negotiations with the pension scheme trustees were led by the Chief Financial Officer, run by the Pensions & Benefits function within HR, and supported by relevant finance and demerger teams. Legal support was provided by an external law firm and an external accountancy firm provided specialist covenant advice. There was regular reporting into the demerger teams, to the demerger Steering Committee and to the PLC Group Pensions Committee. Approval has been obtained from the M&G plc Board and relevant approvals were obtained from the relevant Boards including Prudential Distribution Limited. This involved the Company considering the interests of pensions scheme members and likely consequences on the Company in the long-term.

Capital Support Deed Replacement

The Directors approved a new parental support arrangement between the Company, M&G plc and Prudential Capital plc to meet the Company's Solvency II requirements.

Solvency II - Major Model Changes
During the year the Board updated the Solvency II internal model to reflect the planned demerger from Prudential plc and submitted this to the PRA. Key stakeholders included in the process included the PRA, Prudential plc and M&G plc. This decision making involved the desirability of the Company to maintain a reputation for high standards of business conduct.

Principal decision 3 - Annuities Transfer to Rothesay Life
On 14 March 2018, approval was given for the disposal of circa £12bn of the Company's UK shareholder-backed annuity business to Rothesay Life plc. It was expected that this would be followed by an insurance business transfer under Part VII of the FSMA. This transfer was subject to approval by the High Court of England and Wales (the Court). However, the Court declined to sanction the transfer. Rothesay Life and the Company were given permission to appeal by the Court.

The pros and cons of appealing were carefully discussed by the Directors, noting that Rothesay Life had indicated that they were keen to appeal. It was also noted that there was wider industry interest. Consequently the Company decided to lodge a joint appeal on 27 September 2019 having taken account of the long-term impact on both the business and policyholders. The Court of Appeal has not yet set a timetable for the appeal process. However, we do not expect the hearing to be before Spring 2020, with the Court of Appeal's judgement to follow later in the year.

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, which are materially unchanged from the policies adopted under Prudential plc, are designed to manage, rather than eliminate, the risk of failure to meet business objectives. As such they can only provide reasonable, rather than absolute, assurance against misstatement or loss, and focus on optimising the levels of risk and reward within a clearly defined risk appetite, with the aim of achieving the business objectives.

The RMF requires all entities within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The RMF for the Company is approved by the Board Risk Committee and operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

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

As at the date of approval of the Report and Accounts, the Company's Financial Strength is rated Aa3 by Moody's (stable outlook), A+ by Standard & Poor's (stable outlook) and AA- by Fitch (stable outlook).

Financial and Insurance risk

The Company is exposed to financial and insurance risk through its financial assets, financial liabilities, and customer liabilities. The financial risk factors affecting the Company include market risk, credit risk, insurance risk and liquidity risk. Further information on the financial and insurance risk management objectives and policies of the Company and the exposure of the Company to the related risk factors is given in note 28 (C) - (F).

A large part of the Company's profit is related to bonuses for customers declared on its with-profits products, which are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as the Company's expectations of future investment returns. Any adverse impact on the current and longer-term future asset returns may impact the current and future levels of with-profits bonuses and in turn impact the Company's profitability.

Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Customer investment return is determined by an Expected Growth Rate (EGR) which is declared each quarter. The shareholder transfer only crystallises at the point when a payout is made to the customer and is 1/9th of the difference between the customer payout and the premium(s) paid. Hedging is in place to partially mitigate and protect the value of such shareholder transfers.

(a) Market risk

Market risk is the risk of loss, or of adverse changes in the Company's financial situation resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities. Market risk includes but is not limited to equity risk, interest rate risk, inflation risk, currency risk, property risk, and alternative investments risk.

For the Company's shareholder business, the key sources of market risk are equity, property, interest rate and currency risks arising from shareholder transfers from the Company's with-profits fund and also on surplus funds held in the shareholder fund. Additional market risk exposure arises from interest rate risk on the non-profit annuity book, the 'no negative equity' guarantee on lifetime mortgage loans, the value of management charges on unit-linked business and the risk of additional deficit funding contributions to the defined benefit staff pension schemes as the Company is responsible for ensuring such schemes (which are closed to new members) remain adequately funded to meet their expected future liabilities.

The Company's with-profits fund is also exposed to market risk. The risk is largely borne by the with-profits fund itself, but can impact the shareholder by reducing the size of shareholder transfers and shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk. As stated, hedging is in place to partially mitigate and protect the value of such shareholder transfers.

See note 28 (C) for further details.

(b) Credit risk

Credit risk is the risk of loss or adverse change in the Company's financial situation, 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. downgrades or spread widening).

The Company is exposed to significant levels of credit risk which arises from the substantial volume of corporate bonds held in the asset portfolios backing the non-profit annuity business, on the surplus funds held in the shareholder fund and in relation to the shareholder transfers from the with-profits fund.

For the Company's with-profits fund, credit risk is also material. However, as with market risk, the risk is largely borne by the with-profits fund itself but can impact the shareholder by reducing the size of shareholder transfers and, in extremis, require shareholder support.

The Company is also exposed to counterparty risk arising from reinsurance and derivative counterparties, and from placing cash with counterparties.

Shareholder invested credit risk has been significantly reduced following the reinsurance of c.£12bn of UK shareholder annuity liabilities to Rothesay Life (measured as at 31 December 2019), with a consequent increase in counterparty risk exposure to Rothesay Life. The intention was for this reinsurance arrangement to be followed by a Part VII transfer, which would substantially eliminate this counterparty exposure. However, the Part VII application was rejected by the High Court. Rothesay Life and the Company have appealed this decision, with the appeal expected to be heard in 2020.

See note 28 (D) for further details.

(c) Insurance risk

Insurance risk is the risk of loss for the Company's business, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of a number of insurance risk drivers.

Insurance risk arises mainly from the annuity business in the form of longevity risk. The other insurance risks run by the Company are expense risk and persistency risk.

- Longevity risk: This is the risk that the Company's (current and deferred) annuity customers live longer than expected, and as a result, higher than expected payments are made to customers and future reserving and capital assumptions are changed.

The Company has materially reduced its shareholder exposure to longevity risk in recent years by entering into a number of reinsurance arrangements, including the aforementioned reinsurance arrangement in 2018 with Rothesay Life.

The Company's with-profits fund is also significantly exposed to longevity risk, arising from both non-profit and with-profits annuity business, with this exposure increasing by £1.1bn during 2019 due to the recapture of business previously reinsured to Prudential Hong Kong Limited.

- Expense risk: This is the risk of actual expenses exceeding the assumptions in pricing and reserving bases and is relevant to all lines of business. If actual expenses are significantly different than assumed in pricing and reserving, the Company's operating results could be adversely affected. However, this risk is expected to reduce as base costs are reduced and brought under better control as a result of the Company's transformation programme.

  For the with-profits fund, the material volumes of non-guaranteed PruFund new business anticipated to be written in future years mean that expense risk may become more significant in future, as expense charges are fixed and could be insufficient to cover actual expenses if expense inflation or lapses are higher than expected.

- Persistency risk: This is the risk that customer retention levels are different from the Company's expectations, which is relevant to all non-annuity business. This risk can materialise if a different number of customers opt for earlier termination than anticipated.

  The financial significance of this risk is expected to gradually increase in future years for the Company's shareholder-backed business as a result of the planned growth in PruFund sales, with the shareholder exposure arising in relation to transfers from the with-profits fund. An increase in customer exits reduces the value of these transfers.

See note 28 (E) for further details.

(d) Liquidity risk

Liquidity risk is the risk that the Company is unable to generate sufficient cash resources at a reasonable cost to meet financial obligations (e.g. claims, creditors) as they fall due.

The Company's liquidity risk exposure arises mainly from:

- higher than expected customer withdrawals or collateral requirements, and/or lower than expected market liquidity for assets in its with-profits and unit-linked funds;
- ineffective asset/liability matching or higher than expected credit defaults for non-profit annuity business, leading to a mismatch between cash received from the Company's investments and annuity payments to its customers; and
- higher than expected cash outflows from the shareholder business, e.g. due to tax or collateral requirements.

See note 28 (F) for further details.

Non-financial risk

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

(a) Business environment

Changing economic, political, environmental and market conditions, as well as changing customer needs and expectations, could adversely impact the Company's ability to deliver its business strategy and have implications for the profitability of its business model:

Economic factors: Changes in global economic conditions can impact the Company directly; for example by leading to poor returns on investments and increasing the cost of guarantees the Company has made to customers. They can also have an indirect impact. For example economic pressures could lead to decreased savings, reducing the propensity for people to buy the Company's products. Global economic conditions may also impact on regulatory risk for the Company by changing prevailing political attitudes towards regulation.

Political: In contrast to the parliamentary stasis in 2019, the result of the recent General Election provided the government with a strong mandate to progress its agenda and withdraw the UK from the EU. However, economic uncertainty will persist whilst the outcome of the UK/EU negotiations, notably the agreement or otherwise to a trade deal, remains unclear. There is a Brexit programme in place to identify and mitigate risks to the Company, including in the event of a no-deal outcome. We continue to focus on minimising the impact of Brexit on the service we provide to our customers. We are working with regulators and industry bodies to prepare for the end of the transition period. Furthermore, global political risks look set to remain heightened, affecting consumer and market confidence, and potentially increasing market volatility and the risk of a downturn in economic activity.

Competition: The markets in which the Company operates are highly competitive with several factors affecting its ability to sell its products and maintain its profitability. Key considerations include; price and yields offered; financial strength and ratings; investment performance and historic bonus levels; brand strength and name recognition; developing demographic trends and customers' appetite, expectations or need for certain savings products. Competition is expected to intensify in response to consumer demand, technological advances, the need for economies of scale and new market entrants. In particular, the emergence of advance technologies is providing an impetus for companies to rethink their existing operating models and how they interact with their customers.

Environmental, Social and Governance (ESG): Given the long term nature of the Company's investment horizons, it is potentially more exposed to the long term implications of climate change risks. In the short term, the Company's stakeholders increasingly expect responsible investment principles to be adopted to demonstrate that ESG considerations (including climate change) are effectively integrated into investment decisions and corporate values.

(b) Investment performance and risk

The investment objectives and risk profiles of products or funds are communicated to customers. A failure to deliver against these objectives (including sustained underperformance), maintain risk profiles that are consistent with customers' expectations, or ensure fund liquidity profiles are appropriate for expected redemptions may lead to poor customer outcomes and result in fund outflows and regulatory or reputational damage.

For investment risk, the Company has no appetite for risk profiles to be inconsistent on a persistent basis with the expectations communicated to customers. For investment performance risk, while accepting that in active management there inevitably will be periods where performance varies, the Company has no appetite for failure to deliver against the investment performance objective set for any of its funds over the investment horizon indicated to customers.

(c) Strategic risk/transformation execution

Strategic risk is the risk of loss to the business or failure to maximise opportunity resulting from ineffective, inefficient development or implementation of business strategy. Whilst the demerger from Prudential plc presents a significant opportunity for the Company to leverage scale, financial strength and complementary product and distribution capabilities as part of M&G plc, it also carries strategic risk.

In particular, there are a number of significant transformation programmes underway to deliver the strategy for growth, improve customer outcomes and strengthen resilience and the control environment. A failure to deliver these programmes within timelines, scope and cost may have a material impact on the Company's business model and ability to deliver the strategy.

(d) Operational risk

Operational risk is the risk of financial and non-financial impacts resulting from inadequate or failed internal processes, or from personnel and systems. Operational failures can also give rise to financial risk exposures, for example through process failures in the management of market and credit risk. The Company's primary exposure to operational risk arises from business processes (e.g. customer administration and sales), people capabilities, operation of systems and financial reporting activity.

Overall, the Company has no appetite for material impacts (direct or indirect), including non-financial impacts suffered as a result of failing to develop, implement and monitor appropriate controls to manage such risks. Where material impacts do arise, the Company seeks to mitigate these. A new integrated control framework, supported by governance, risk and compliance software, is being developed with the aim of delivering a single, consistent

framework with enhanced analytics. There is also significant investment in operational resilience (the Company's resilience to and recovery from operational disruption).

(e) Third party risk

The Company uses outsourcing and third party solution providers, both intra-group and external, to allow focus on its core business strengths, reduce costs and manage its delivery risks. The external providers provide various business operations, including a significant part of the UK back office and customer facing operations as well as a number of IT support functions and investment operations. During 2019, the Company continued to deepen its strategic outsourcing relationship with Diligenta Limited for the provision of legacy policy administration services and with Tata Consultancy Services for IT hosting and infrastructure management services, whilst also entering into a new agreement with HSBC for the provision of fund accounting, custody and regulatory reporting for the Company's life funds. As a consequence of the demerger, certain key services, including those relating to data centres, are also now provided via Prudential plc to the Group under the terms of a Transitional Services Agreement. Intra-group outsourcers provide various services including fund management and portfolio management services.

The Company recognises that the use of outsourcing and third party solution providers can impact its risk profile, for example, the service may fail, resulting in significant business interruptions, liability for losses and costs, reputational damage and regulatory breaches. The Company retains ultimate responsibility for any activity that is supplied or outsourced.

(f) Technology and security risk including data privacy

There is a high dependency on technology to operate effectively and to meet the growing digital needs of the Company and its customers. The sustained loss or unavailability of key hardware/software, inadequate information security arrangements and inappropriate deployment of digital solutions could result in an inability to meet requirements, leading to unfair customer outcomes, increased costs and/or regulator and reputational damage.

Cyber related risks, including attempts by external parties to disrupt, inappropriately access and obtain customer data and funds will remain an ongoing threat. As the Company increases its digital presence and profile, this risk will continue to be significant.

Significant work and investment are ongoing to maintain, test and upgrade the IT environment, processes and controls to maintain IT resilience and the Company's ability to prevent, detect and recover from security incidents.

(g) Proposition concentration

The key savings proposition, PruFund, accounts for a high proportion of the Company's total sales. Further, the Company is also heavily reliant on the intermediated channel for savings solutions sales. This makes PruFund's continuing success important to the Company.

The Company has launched a number of new products, including the PruFolio range of funds, to broaden the offering to customers and reduce concentration to PruFund. Work is ongoing to develop new propositions and expand into international markets to further reduce PruFund dependency over time, and to deliver a more diversified distribution strategy through digital transformation and growth in Prudential Financial Planning Limited, the Group's non-advised sales channel.

(h) People risk

The Company's success is dependent on, among other things, the ability to attract, retain and develop highly qualified professional people with the right mix of skills to support the business. As the Company continues to implement its transformation programme, the reputational impact of people risk is heightened in a number of areas including industrial relations (the Company's own and that of key third party providers), pay practices and people stretch.

Employee conduct also presents a challenge with the risk of employees deviating from expected behaviours requiring close management.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

(i) Reputational risk

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

The Company is facing an increasing range and severity of reputational events. Furthermore, past and current decisions could pose reputational threats in the future. A number of factors mean that such pressures are likely to increase, including the rising interest of customers, regulators or investors in ESG issues, or social media providing the means for opinions to be stated and shared instantaneously.

(j) Regulatory compliance

The Company operates in highly regulated markets and interacts with a number of regulators, in an environment where the nature and focus of regulation remain fluid. A number of national and international regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business (including fair customer outcomes and value for money requirements), data privacy and systemic risks. Changes in UK government policy, legislation (including tax), regulation or regulatory interpretation may adversely affect the Company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. Such risks are heightened in a post-Brexit world as the UK potentially seeks to diverge from current EU regulations. There are also a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way the Company is supervised.

The consequences of non-compliance can be wide-ranging and include customer detriment, reputational damage, costs to remediate, fines and restrictions on operations or products. Compliance with applicable regulations is therefore of utmost importance. Significant progress has been made in closing historic regulatory issues including those identified through the Legacy Review and the Thematic Review of Annuity Sales Practices. However, the legacy book remains an area of considerable management and regulatory scrutiny. Furthermore, as the Company expands its international presence, compliance with regulatory regimes beyond the UK will become more material.

(k) Group risk

Group risk is defined as the risk that the financial position of a firm may be adversely affected by its relationships, financial or non-financial, with other firms in the same group or by risks which may affect the financial position of the whole group.

Being a member of the wider M&G plc group can provide significant advantages for the Company in terms of diversification of risk, financial strength, technical expertise and management experience. It can also give rise to risks; for example, if a guarantee of financial support given by the parent were removed, or from particular transactions arising from an impaired affiliate within the Group. The governance arrangements, risk management policies and processes and internal control mechanisms within the Company ensure group risk is appropriately managed, including any potential conflicts of interest.

On behalf of the Board of directors.

J A Owens
Company Secretary

6 March 2020

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Incorporated and registered in England and Wales. Registered no. 15454

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

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 of the Companies Act 2006 (the Act).

Ultimate parent company

The Company is a wholly owned subsidiary of M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales.

M&G plc was previously named M&G Prudential Limited. It registered as a public limited company M&G Prudential plc on 24 July 2019 and changed its name to M&G plc on 16 September 2019.

Subsidiary, associate undertakings and branches

Refer to page 3-4 in the Strategic report for further details. Particulars of the Company's subsidiary undertakings at 31 December 2019 are shown in note 30.

Statement of corporate governance arrangements for large private companies

In accordance with The Companies (Miscellaneous Reporting) Regulations 2018 the Board sets out below the corporate governance arrangements which were in place within the Company during the year under review and which remain in place as at the date of this report.

Corporate Governance Code

The Company is deemed to be a material subsidiary (Material Subsidiary) of M&G plc under the Group's internal policies. The Company is therefore subject to the governance arrangements set out in the Group's Material Subsidiary Corporate Governance Manual (the Manual), which is based on the 2018 UK Corporate Governance Code issued by the FRC.

Application of the Corporate Governance Code

The Manual prescribes the following governance arrangements, and the paragraphs below show how the Company has applied these in the reporting year:

Composition of Board - comprised of an independent Non-executive Chairman, and a majority of independent Non-executive Directors, alongside executives who are employees of the Group. The operational management of the Company is delegated to the Chief Executive Officer (CEO) of the Company.

Audit and Risk Committees - the Board has established audit and risk committees, the members of which are independent Non-executive Directors.

Director Appointment - the Chairman is appointed with the approval of the Group Nomination Committee. Non-executive Directors are appointed with the approval of the Chairman in consultation with the Group. Executives are appointed by the CEO, in discussion with the Group Chair. A succession planning process is in place for all Non-executive Director positions overseen by the Group Nomination Committee.

Evaluation - Each year a formal performance evaluation is undertaken of the Board as a whole, its Committees and the directors. A summary of the findings are presented to the Board and an action plan agreed if required. The performance of the Chairman is evaluated by the other directors.

Company Secretary - The Company has appointed an appropriately qualified and experienced Company Secretary who is responsible for ensuring that the Manual and the principles and processes contained in it are adhered to.

Terms of Reference - The Board, Audit and Risk Committees have Terms of Reference (ToR) which are approved by the Group Nomination Committee and Group Audit and Risk Committees respectively. Any amendments to the ToR are required to be submitted to Group level for approval.

Remuneration - The Group Remuneration Committee is responsible for oversight of the Group-wide remuneration policy. The fees of the Independent Chair and Independent directors of the Company is a matter reserved for the Group Remuneration Committee. Remuneration for executive directors within the Company is also managed as required by the Group Remuneration Committee, depending on the executive's role in the Group.

Other Disclosures
There have been no material deviations from the Manual in the Company's practices.

In addition to the Manual, the Company works within the established system of internal controls and risk management, the overall risk appetite and tolerance set for the Company, the Group Risk Framework, and all relevant policies and limits.

Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders please see the Section 172 Statement on pages 7-9. Being a Material Subsidiary of M&G plc stakeholder engagement also takes place at a Group level.

With-profits governance

The Company produces an annual with-profits report, which is available on request and on the Company website at www.pru.co.uk, setting out how it has complied with its Principles and Practices of Financial Management (PPFM).

The Board has established a With-Profits Committee (WPC), made up of six members (each of whom is external and independent of the Company). The WPC provides the Board with an independent assessment of the way in which the Company manages its with-profits business, its compliance with the PPFM, and how the Company balances the rights and interests of policyholders and shareholders in relation to its with-profits funds. The WPC has the right, if it wishes, to make a statement to with-profits policyholders in addition to the Company's report described above.

The Company has a With-Profits Actuary who has the specific duty to advise the Board on the application of discretion in relation to with-profits business; and a Chief Actuary who provides the Board with certain actuarial advice, and fulfils various statutory duties under the regulatory reporting regime introduced on 1 January 2016. Both of these are Financial Conduct Authority and Prudential Regulation Authority approved roles.

Independent Governance Committee

The Company has an Independent Governance Committee (IGC), formed as part of the Government's initiative to improve outcomes for pension scheme members. As a large pension scheme provider, the Company is required to set up and support an IGC, whose findings are reported to the Board and the FCA. The IGC acts solely in the interests of scheme members, and to assess, raise concerns and report on the value for money of the Company's contract-based defined contribution workplace pension schemes on an ongoing basis, ensuring compliance with regulatory and legislative requirements.

Corporate responsibility

The Company is a wholly owned subsidiary within M&G plc 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. While the Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders, the Group approach is underpinned by four global CR themes:

- Serving its customers: The Group aims to provide fair and transparent products that meets the customers' needs;
- Valuing its people: The Group aspires to retain and develop highly engaged employees;
- Supporting local communities: The Group seeks to make a positive contribution to its communities through long-term partnerships with charitable organisations that make a real difference; and
- Protecting the environment: The Group takes responsibility for the environment in which it operates.

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

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

Post balance sheet events

On 26 February 2020 the Company announced the 2019 annual bonus rates for the with-profits fund. The Company also announced an additional bonus of 1.25% to enhance the unsmoothed value of plans for customers with traditional and accumulating policies. It may be necessary to take back the additional bonus in order to protect the interests of all customers and the strength of the fund at a future date, although this is not expected to happen. For PruFund customers, additional surplus has been shared by increasing the unit price by 0.9%.

On 4 March 2020 the Company approved an interim dividend of £410m to be paid to M&G plc. This is not recognised in the 2019 financial statements.

Financial Performance

The state of affairs of the Company at 31 December 2019 is shown in the balance sheet on pages 32 and 33. The profit and loss account appears on pages 28 and 29.

Financial instruments

The Company is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The financial risk factors affecting the Company include market risk, credit risk and liquidity 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 28. Further information on the use of derivatives by the Company is provided in note 28 (G).

Share Capital

There have been no changes in the Company's share capital during 2019 as shown in note 21.

Dividends

Total dividends for 2019 were £2,120m.

An interim cash dividend of £253m was declared on 6 June 2019. A second interim cash dividend of £1,170m was declared on 16 September 2019.

A non-cash dividend consisting of £537m of loan assets due from Prudential plc, the previous parent of the Company, was declared on 11 June 2019 ahead of the demerger.

Prudential Holborn Life Limited (PHL) is a wholly owned subsidiary of the Company. In June 2019, PHL completed the sale of its subsidiary Prudential Vietnam Finance Company and undertook a capital reduction to permit remittance of the £97m net disposal proceeds from the sale to the Company. The Company remitted the proceeds

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

up to M&G plc, the ultimate parent undertaking, which in turn remitted to Prudential plc (the previous ultimate parent undertaking).

Finally, on 30 November 2019, £63m of loans provided by the Company to Prudential Financial Services Limited, a fellow M&G plc group company, were cancelled and this has been accounted for as a deemed distribution.

The directors have not recommended a final dividend on the ordinary shares for 2019.

In 2018 there was an interim dividend of £282m and a second interim dividend of £231m. An additional interim dividend of £33m was paid in December following receipt of the proceeds from the sale of Hong Kong subsidiaries of the same amount. In addition, an amount of £9,417m was recognised within dividends; this represented a deemed distribution resulting from the difference between the fair value of Hong Kong Subsidiaries at the date of sale of £9,450m and the consideration received of £33m. The directors did not recommended a final dividend on the ordinary shares for 2018.

Directors

The present directors are shown on page 1. Mr P D Cooper was appointed on 16 September 2019 and Mr M T FitzPatrick resigned on 19 September 2019. There have been no further changes.

Disclosure to the auditor

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

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

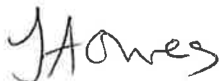
Auditor

KPMG LLP were reappointed as auditor of the Company by the members at the Annual General Meeting on 24 April 2017. It is the intention that KPMG LLP be reappointed under the deemed appointment rules of section 487 of the Companies Act 2006.

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 2019 and remain in force.

On behalf of the Board of directors.



J A Owens
Secretary
6 March 2020

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

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

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

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

Independent auditor's report

to the members of The Prudential Assurance Company Limited

1. Our opinion is unmodified

We have audited the financial statements of The Prudential Assurance Company Limited ("the Company") for the year ended 31 December 2019 which comprise the profit and loss account, statement of comprehensive income, statement of changes in equity, balance sheet and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 21 financial years ended 31 December 2019.

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

Overview		
Materiality:	£60m (2018: £85m)	
financial statements as a whole	0.99% (2018: 1.24%) of net assets	
Risks of material misstatement		vs 2018
Recurring risks	Valuation of technical provisions	◀▶
	Valuation of investments that require judgement	◀▶

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

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

In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Company's own preparation, the relative significance of this matter on our audit work, including in relation to the valuation of technical provisions and valuation of investments that require judgement, which remain key audit matters, has reduced. Accordingly, we no longer consider this a key audit matter.

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

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Valuation of technical provisions (2019: £143,030 million, 2018: £132,770 million) The risk is unchanged compared to the prior year. Refer to page 35 (accounting policy) and pages 64 to 70 (financial disclosures).	**Subjective valuation:** The Company has significant technical provisions representing 75 percent (2018: 75 percent) of the Company's total liabilities. This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of technical provisions. The valuation of technical provisions in relation to the annuity business requires significant judgement in the selection of key assumptions covering both operating and economic assumptions. The key operating assumptions are mortality, which is determined by reference to the Company's own experience and expected levels of future mortality, and the expected level of future expenses, which is based on the expected future costs for administering the underlying policies. The key economic assumption, which impacts the calculation of the discount rate that is applied to the annuity business, is credit risk that is based on the Company's view of expected future investment defaults. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of technical provisions has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 26 discloses the sensitivity estimated by the Company	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: – **Control design and operation:** We used our own IT specialists to assist us in performing our procedures in this area which include testing of the design, implementation and operating effectiveness of key controls over the valuation process including additional testing in relation to model evaluation as a result of identified weaknesses in the general IT control environment. Controls testing in respect of the valuation process included an assessment and approval of the methods and assumptions adopted over the calculation of policyholder liabilities as well as appropriate access and change management controls over the actuarial models. – **Methodology choice:** We have assessed the methodology for selecting assumptions and calculating the technical provisions. This included: – Assessing the methodology adopted for selecting the assumptions by applying our industry knowledge and experience and comparing the methodology used against standard industry actuarial practice; – Evaluating the analysis of the movements in technical provisions during the year, including consideration of whether the movements were in line with the impact of methodology and assumptions adopted; and – Comparing changes in methodology to our expectations derived from market experience.

2. Key audit matters: our assessment of risks of material misstatement (continued)

The risk	Our response
Calculation error and data capture The Company uses complex actuarial models to calculate technical provisions. There is the risk that the modelling does not appropriately reflect the model specifications and / or the product features due to incorrect or incomplete data input into the model and / or unauthorised or erroneous changes to the models.	— **Historical comparison:** — Evaluating the evidence used to prepare the mortality experience investigation by reference to actual mortality rate of the policyholders in order to assess whether this supports the year-end assumptions adopted. — Assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing current year unit costs, considering the expected future level of expense inflation and assessing the appropriateness of the likely impact of planned Company actions on future costs. – **Benchmarking assumptions and sector experience:** – Evaluating the analysis performed by the Company to compare expected against actual mortality experience of the policyholders in order to assess whether this supported the year end assumptions adopted. – Evaluating the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience. – Using the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality, credit risk and expense assumptions. – **Model evaluation:** – Evaluating the appropriateness of the calibration of the Continuous Mortality Investigation ('CMI') Model (the CMI Bureau releases industry wide mortality tables), adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience. – Using our own valuation models to perform an independent recalculation of a sample of technical provisions to confirm that the models have been calibrated in line with the Company's specifications. – Evaluating that changes made to the actuarial models over the year have been appropriately reviewed and approved; and evaluating the appropriateness of the financial impact of the changes made to the models during the year. – **Assessing transparency:** Considering whether the Company's disclosures in relation to the assumptions used in the calculation of technical provisions are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** – We found the valuation of technical provisions to be acceptable (2018 result: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (continued)

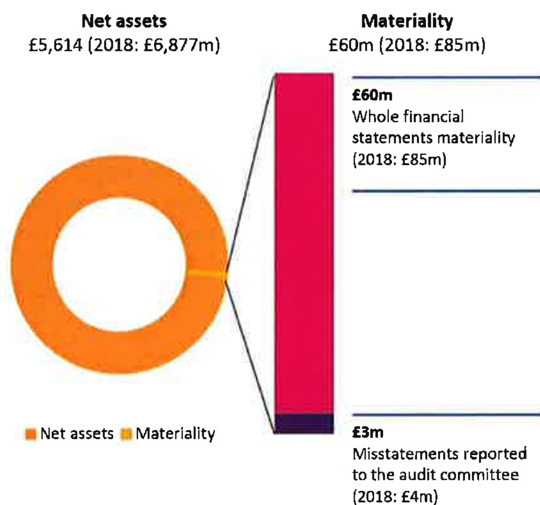
	The risk	Our response
Valuation of investments that require judgement 2019: £174,205 million (2018: £160,527 million), comprising investments of £159,778 million (2018: £145,981 million) and assets held to cover linked liabilities of £14,427 million (2018:14,546 million) The risk is unchanged compared to the prior year, however the definition has been revised to include valuation of investment properties and terminal value loans. Refer to page 38 (accounting policy) and pages 75 to 80 (financial disclosures).	**Subjective valuation:** The areas that involve significant audit effort and judgement are the valuation of illiquid positions within the financial investments portfolio representing 32 percent (2018: 35 percent) of the total investment assets. These include private placement loans, unlisted Net Asset Value ('NAV') funds, equity release mortgages, Fair Value Committee priced assets, terminal value loans and investment properties. For these positions a reliable third party price was not readily available and therefore the application of expert judgement in the valuations adopted is required. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments that require judgement has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	We used our own actuarial and valuation specialists to assist us in performing our procedures in this area. Our procedures included: — **Control design and observation:** Testing of the design and implementation of key controls over the valuation process for the investments, including review and approval of the estimates and assumptions used for the valuation and data input controls. — **Methodology choice:** Assessing the appropriateness of the pricing methodologies with reference to relevant accounting standards and the Company's own valuation guidelines as well as industry practice. — **Independent re-performance:** Producing our own valuations for certain investments and comparing the output to the Company's valuations. — **Benchmarking of assumptions and sector experience:** Agreeing the key inputs and assumptions used for the valuations and comparing these to our own market and industry benchmarks. — **Assessing valuers' credentials:** Assessing the competence and qualifications of external valuers and reconciling the valuations provided by them to the valuations recorded by the Company. — **Tests of detail:** — Independently obtaining the most recent NAV statements, investment manager and administrator control reports to assess the appropriateness of the fair value of the unlisted funds. — Performing a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time. — **Assessing transparency:** Assessing whether the Company's disclosures in relation to the valuation of investments that require judgement from management are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes. **Our results** — We found the valuation of investments that require judgement to be acceptable (2018 result: acceptable).

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

Materiality for the financial statements as a whole was set at £60m (2018: £85m), determined with reference to a benchmark of net assets (of which it represents 0.99% (2018: 1.2%) We consider net assets to be the most appropriate benchmark as we consider this to be the metric that is most relevant to the users of the financial statements.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3 million (2018: £4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's offices in the UK (London, Reading and Craigforth) and India (Mumbai).



4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were

- Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Company's investments, wider credit spreads and defaults and valuation of policyholder liabilities due to the impact of these market movements; and

- Adverse policyholder lapse or claims experience.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Company (such as banks and reinsurers) to meet commitments that could give rise to a negative impact on the Company's financial position, decreased illiquidity which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline and the impact of Brexit on the economic environment and the resulting impact on the Company's capital resources

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter

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

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

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

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 19, the Directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

Irregularities – ability to detect

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

The potential effect of these laws and regulations on the financial statements varies considerably.

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, customer conduct regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter and we have performed audit procedures over the provisions and reserves established by management.

Owing to inherent limitations of an audit, there is an unavoidable risk that we may not have detected some

material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

6 March 2020

Profit and Loss Account for the year ended 31 December 2019

Long-term Business Technical Account		2019 £m	2018 £m	Note
Gross premiums written		**11,063**	13,002	2
Outward reinsurance premiums		**(949)**	(13,117)	
Recaptured reinsurance premiums		**1,086**	—	17
Earned premiums, net of reinsurance		**11,200**	(115)	
Investment income		**8,454**	10,993	3
Unrealised gains (losses) on investments		**8,011**	(14,141)	
Claims paid				
	Gross amount	**(12,671)**	(12,163)	
	Reinsurers' share	**1,757**	1,435	
Claims paid, net of reinsurance		**(10,914)**	(10,728)	
Change in provision for claims				
	Gross amount	**(21)**	(34)	
	Reinsurers' share	**1**	—	
Claims incurred, net of reinsurance		**(10,934)**	(10,762)	
Change in long-term business provision				
	Gross amount	**(10,733)**	2,417	
	Reinsurers' share	**249**	9,074	
	Recaptured reinsurance	**(1,110)**	—	17
		(11,594)	11,491	
Change in technical provision for linked liabilities		**119**	3,721	
Change in other technical provisions, net of reinsurance		**(11,475)**	15,212	
Net operating expenses		**(767)**	(949)	5
Investment expenses and charges		**(435)**	(343)	6
Tax attributable to the long-term business		**(706)**	379	7
Transfer (to) from the fund for future appropriations		**(2,607)**	137	
Balance on the long-term business technical account		**741**	411	

The accounting policies on pages 34 to 42 along with the accompanying notes on pages 42 to 100 form an integral part of the financial statements.

Profit and Loss Account for the year ended 31 December 2019 (continued)

Non-Technical Account

	2019 £m	2018 £m	Note
Balance on the long-term business technical account	**741**	411	
Tax credit attributable to the balance on the long-term business technical account	**274**	74	7
Balance on the long-term business technical account before tax	**1,015**	485	
Investment income	**82**	9,691	3
Unrealised gains (losses) on investments	**12**	(8,823)	
Other income	**2**	19	
Other charges	**(64)**	(20)	
Total profit on other activities	**32**	867	
Profit on ordinary activities before tax	**1,047**	1,352	
Tax on profit on ordinary activities	**(190)**	(123)	7
Profit for the financial year	**857**	1,229	

The accounting policies on pages 34 to 42 along with the accompanying notes on pages 42 to 100 form an integral part of the financial statements.

Note: General Business Technical Account

The Company no longer underwrites new non-life insurance contracts directly and its run-off obligations have been reinsured (as explained further in note 2b). As such the non-life business is no longer material enough to require the presentation of a technical underwriting account and instead the relevant information is presented in note 2b.

Statement of Comprehensive Income for the year ended 31 December 2019

	2019	2018	Note
	£m	£m	
Profit for the financial year	**857**	1,229	
Other comprehensive income:			
Revaluation of group-occupied property	**(3)**	6	13
Reclassification of group-occupied property	**(79)**	—	
Actuarial (losses) gains on defined benefit pension schemes*	**(187)**	46	9
Deferred tax gain (charge)*	**32**	(8)	
Transfer from (to) the fund for future appropriations	**236**	(44)	
Exchange adjustments	**1**	—	
Total other comprehensive income for the financial year, net of income tax	**—**	—	
Total comprehensive income for the financial year	**857**	1,229	

*Included within other comprehensive income is £0.6m (2018: £nil) of actuarial losses on defined benefit pension schemes and a £0.1m (2018: £nil) deferred tax gain relating to the Shareholder fund which is not transferred to the fund for future appropriations.

The accounting policies on pages 34 to 42 along with the accompanying notes on pages 42 to 100 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 December 2019

	Share Capital	Other reserves*	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 January 2018	330	536	14,745	15,611
Profit for the financial year	—	—	1,229	1,229
Total comprehensive income for the financial year	—	—	1,229	1,229
Dividends	—	—	(9,963)	(9,963)
Total distribution to owners, recognised directly in equity	—	—	(9,963)	(9,963)
Balance as at 31 December 2018	**330**	**536**	**6,011**	**6,877**
Balance as at 1 January 2019	330	536	6,011	6,877
Profit for the financial year	—	—	857	857
Total comprehensive income for the financial year	—	—	857	857
Dividends	—	—	(2,120)	(2,120)
Total distribution to owners, recognised directly in equity	—	—	(2,120)	(2,120)
Balance as at 31 December 2019	**330**	**536**	**4,748**	**5,614**

*Other reserves are capital reserves relating to the acquisition of Scottish Amicable Life Assurance Society in 1997.

Balance sheet as at 31 December 2019

Assets	**2019**	2018	Note
	£m	£m	
Intangible assets			
Computer software	**—**	6	12
	—	6	
Investments			
Land and buildings	**8,418**	9,064	13
Investments in group undertakings and participating interests	**5,498**	5,155	14
Other financial investments	**145,862**	131,762	15
	159,778	145,981	
Assets held to cover linked liabilities	**14,427**	14,546	16
Reinsurers' share of technical provisions			
Long-term business provision	**10,117**	10,978	
Claims outstanding	**146**	142	
Technical provisions for linked liabilities	**7,304**	7,135	
	17,567	18,255	17
Debtors			
Debtors arising out of direct insurance operations			
Policyholders	**19**	20	
Intermediaries	**—**	1	
Debtors arising out of reinsurance operations	**8**	11	
Other debtors	**930**	1,487	18
	957	1,519	
Other assets			
Cash at bank and in hand	**3,332**	2,080	19
Finance lease assets	**33**	33	13
	3,365	2,113	
Prepayments and accrued income			
Accrued interest and rent	**690**	744	
Deferred acquisition costs: long-term business	**27**	40	
Accrued external dividends receivable	**80**	68	
Other prepayments and accrued income	**193**	142	
	990	994	
Total Assets (excluding pension asset)	**197,084**	183,414	
Pension asset	**28**	130	9
Total Assets (including pension asset)	**197,112**	183,544	

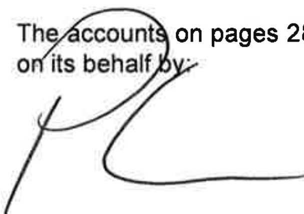
Balance sheet as at 31 December 2019 (continued)

Equity and Liabilities

	2019	2018	Note
	£m	£m	
Capital and reserves			
Share capital	**330**	330	21
Other reserves	**536**	536	
Profit and loss account	**4,748**	6,011	
Shareholders' funds – equity interests	**5,614**	6,877	2
Fund for future appropriations	**16,153**	13,487	26
Technical provisions			
Long-term business provision	**142,323**	132,084	26
Claims outstanding	**698**	674	8
Unearned revenue provision	**9**	12	
Total technical provisions	**143,030**	132,770	
Technical provisions for linked liabilities	**21,731**	21,681	
Provisions for other risks and charges			
Deferred taxation	**820**	711	7
Obligations under finance leases	**14**	17	13
Provision for pensions	**28**	—	9
Other provisions	**159**	401	22
	1,021	1,129	
Deposits received from reinsurers	**231**	1,172	
Creditors			
Creditors arising out of direct insurance operations	**86**	64	
Creditors arising out of reinsurance operations	**84**	78	
Other borrowings not owed to credit institutions	**92**	89	
Other creditors including taxation and social security	**8,895**	6,043	23
	9,157	6,274	
Accruals and deferred income	**175**	154	
Total Equity and Liabilities	**197,112**	183,544	

The accounting policies on pages 34 to 42 along with the accompanying notes on pages 42 to 100 form an integral part of the financial statements.

The accounts on pages 28 to 100 were approved by the Board of directors on 6 March 2020 and were signed on its behalf by:



P D Cooper
Director
6 March 2020

Notes on the financial statements

1. Accounting policies

A. Company Information

The Prudential Assurance Company 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 financial statements are prepared in accordance with Part 15 of the Companies Act 2006 (the Act) and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations). The financial statements are prepared in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and Financial Reporting Standard 103, Insurance Contracts (FRS 103), and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

As the Company is a wholly owned subsidiary undertaking of another company registered in England and Wales, group financial statements are not prepared. Accordingly, the financial statements present information about the Company as an individual undertaking and are not consolidated.

The Company's ultimate parent, M&G plc, includes the Company in its consolidated financial statements. Details of where to obtain copies of the consolidated accounts are disclosed in note 24. In these financial statements, the Company is considered to be a qualifying entity under FRS 102 and has applied the exemptions available in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cashflow Statement and related notes;
- Key Management Personnel Compensation; and
- Related party transactions with wholly owned subsidiary undertakings of the M&G plc group.

As the consolidated financial statements of M&G plc include the equivalent disclosures, the Company has also taken the exemptions available under FRS 102 in respect of certain disclosures required by FRS 102.26 *Share Based Payments* (FRS 102.26).

The financial statements are prepared in pounds sterling (£) which is the functional currency of the Company and rounded to the nearest million (£m).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 tables below set out the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

1 Accounting Policies (continued)

Critical accounting judgements

Financial statement area	Key judgement	Accounting policy
Classification of insurance and investment contracts	FRS 103 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Company transfer significant insurance risk.	C

Sources of estimation uncertainty

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Long-term business provision	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The areas where the assumptions could have a material impact when establishing policyholder contract liabilities for annuities are the assumed rates of policyholder mortality, the expected future costs for administering the underlying policies and the credit risk assumption based on the Company's view of expected future investment defaults.	C	26
Equity securities and pooled investment funds, Investment property and Loans	Determination of fair value of financial assets classified as level 3 in the fair value hierarchy are determined based on inputs which are not observable in the market requiring a high degree of estimation which could result in a significant change.	F	28
Defined benefit pension schemes asset/liability	The valuation of defined benefit pension scheme liability (resulting in either a surplus or deficit on the scheme) is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long-term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	K	9
Provisions relating to past conduct issues and pensions regulations	The determination of a provision relating to past conduct issues and pensions regulations requires the use of various assumptions which can impact the value of the provision.	O	22

1 Accounting Policies (continued)

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

- The Company is a subsidiary within the M&G plc group (the Group) and it and its ultimate parent company are continuing to trade profitably and there are no plans for liquidation. M&G plc and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by M&G plc. 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 capital surplus, generates positive cashflows and has very low debt-financing. It is supported by its inherited estate, which is surplus capital available on top of what is necessary to cover with-profits policyholders' reasonable expectations, and which has not yet been allocated to policyholders or shareholders. 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 on pages 2 to 14. The management of financial risk is set out in note 28, including the Company's exposure to credit risk and liquidity risk which it carefully manages through cashflow forecasting and fund management.

In assessing the going concern of the Company, the directors have assessed the Company's current and projected solvency position under Solvency II, and consider the Company to have an appropriate capital surplus in line with the Company's risk appetite.

C. Long-term Business

i. *Classification of insurance and investment contracts*

The measurement basis of long-term business contract liabilities is dependent upon the classification of the contracts under FRS 103 as either insurance contracts (if the level of insurance risk is significant), or investment contracts (if the risk is insignificant). A further distinction is made between investment contracts with and without discretionary participation features. Discretionary participation features (DPF) represent the contractual right to receive additional profit-sharing benefits as a supplement to guaranteed benefits. The Company's insurance contracts and investment contracts with DPF are primarily with-profits and other protection type or annuity policies. The investment contract without DPF classification applies primarily to certain unit-linked and similar contracts written by the Company.

Insurance contracts and investment contracts with DPF are accounted for under FRS 103. Investment contracts without DPF are accounted for as financial liabilities under FRS 102.11 *Basic Financial Instruments* and, where relevant, the provisions of FRS 102.23 *Revenue* in respect of the attaching investment management features of the contracts.

The provisions for investment contracts without DPF are included in Technical Provisions for Linked Liabilities in the balance sheet.

ii. *Technical account treatment*

Premiums for conventional with-profits policies, annuity business and other protection type life insurance are accounted for when due. For unit-linked business and unitised with-profits policies, premiums are accounted for when the liabilities arising from the premiums are recognised. Premiums exclude any taxes or duties based on premiums. Policy fees charged on unit-linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided. Pensions annuity contracts that vest during the year are included in claims incurred and premium income at the annuity purchase price.

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

1 Accounting Policies (continued)

Under FRS 102.11, the accounting treatment for investment contracts without DPF reflects the deposit nature of the arrangement with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet as a movement on the investors' liability with the long-term technical account reflecting fee income, expenses and taxation on these contracts. The fee income is recognised over time as the services are rendered.

The costs of acquiring new non-profit insurance contracts, by the Company's Polish branch prior to its transfer to PIA, principally related to commission and directly attributable costs associated with policy issue and underwriting. Where such costs were not matched by policy charges, they were capitalised and amortised against margins in future revenues on the related insurance contracts for non-profit business to the extent that the amounts were recoverable out of margins.

Bonus additions made to policies are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. Shareholder profits arising from traditional with-profits business are simply 1/9th of the annual and final bonus distributions. Under FRS 103, shareholders' transfers are recognised only on declaration. Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Policyholder return is determined by an Expected Growth Rate (EGR) which is declared each quarter. The shareholder transfer only crystallises at the point when a claim is paid to the policyholder and is 1/9th of the difference between the policyholder payout and the premium(s) paid.

The fund for future appropriations (FFA) is the unallocated surplus of the with-profits fund and represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. The FFA is recorded wholly as a liability with no allocation to equity. The annual excess (shortfall) of income over expenditure of the with-profits fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred (to) from the FFA each year through a (charge) credit to the income statement. The balance retained in the FFA represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

For non-profit and investment linked business, the profits are a modified form of cash flow profits on the basis of income less outgoings less movement in reserves. The accounting modifications are deferred acquisition costs and deferred income as appropriate, as described above.

iii. *Measurement of long-term business provisions*

The assumptions used to calculate the long-term business provisions are described in note 26.

The Company performs adequacy testing on its liabilities in respect of insurance contracts and investment contracts with discretionary participation features to ensure that the carrying amounts (net of related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the long-term technical account.

The Company applies FRS 103, which requires with-profits funds to use the realistic value of liabilities as the basis for the estimated value of the liabilities to be included in the financial statements.

Realistic reserves are established using best estimate assumptions, and taking into account the firm's regulatory duty to treat its customers fairly.

The realistic value of liabilities is calculated as:
(i) a with-profits benefits reserve (WPBR); plus
(ii) future policy related liabilities (FPRL); plus
(iii) the realistic current liabilities of the fund.

The WPBR is the main component of the product related liability, and is mainly determined using a retrospective asset share calculation.

Asset shares are calculated by rolling up the premiums paid (net of expenses and charges), using the actual investment returns earned on the with-profits fund. The assumptions used within the asset share calculations are consistent with those that are used to determine policyholders' bonuses. A number of adjustments are made to reflect future expected policyholder benefits and other outgoings.

1 Accounting Policies (continued)

For certain classes of business a prospective bonus reserve valuation is performed instead, valuing future claims and expenses using the expected future bonus rates.

The FPRL includes a market consistent valuation of the costs of guarantees, options and smoothing. This is determined using stochastic modelling. The FPRL also includes other liabilities such as tax on shareholder transfers and enhancements to policy benefits arising from the distribution of surplus from non-profit business written within the with-profits fund. For the Scottish Amicable Insurance Fund (SAIF), the realistic liability calculation requires that all of the surplus within the fund is distributed to policyholders and therefore the FPRL is increased up to the point where the fund has no working capital.

D. General Business

The Company no longer underwrites general business directly and its run-off obligations have been reinsured externally. Claims incurred comprise the settlement and handling costs of paid claims arising from events occurring in the year and adjustments to prior years' claims provisions. Outstanding claims comprise claims incurred up to but not paid at the end of the accounting period whether reported or not.

Transactions in respect of general business operations in run-off are presented in note 2b.

E. Reinsurance

In the normal course of business the Company seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. An asset or liability is recognised in the balance sheet representing payments due from or premiums due to reinsurers and the reinsurers' share of technical provisions. The measurement of reinsurers' share of technical provisions is consistent with the measurement of the underlying direct insurance contracts.

F. Investments

Investment income and realised and unrealised gains or losses in respect of long-term business are included in the long-term business technical account. Other investment income and realised and unrealised gains or losses are included in the non-technical account. Investment income comprises interest income, rental income, dividends and foreign exchange gains and losses. Interest income is recognised as it accrues on an effective interest basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

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

Investments in group undertakings and participating interests are carried at fair value through profit and loss. The Company's long-term business investments are taken to the technical account while the shareholder investments are taken to the non-technical account.

The Company has chosen to account for its financial instruments in accordance with FRS 102.11.2(b) which applies the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) with the disclosure requirements of FRS 102.11 and FRS 102.12 *Other Financial Instruments* (FRS 102.12). Upon initial recognition financial investments are recognised at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases:

(i) Financial investments at fair value through profit and loss - this comprises assets designated by management as fair value through profit and loss on inception and derivatives. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses is disclosed separately in note 3 and note 15. The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies

1 Accounting Policies (continued)

an appropriate valuation technique such as discounted cashflow analysis. Further information on valuation techniques is provided in note 28 (A).

(ii) Loans and receivables - these comprise investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are carried at amortised cost using the effective interest method and are subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cashflows discounted at the original effective interest rate. If, in subsequent periods, an impaired loan or receivable recovers in value (in part or in full), and this recovery can be objectively related to an event occurring after the impairment, then the previously recognised impairment loss is reversed through the income statement (in part or in full).

Mortgage loans of the Company have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis and these are included within loans in the balance sheet.

The Company policy on derecognition of financial assets is to only derecognise when it is deemed that substantially all the risks and rewards of ownership have been transferred.

Basic financial assets, including deposits with ceding undertakings, debtors arising out of direct insurance or reinsurance operations, other debtors and cash are initially recognised at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method and subject to impairment reviews where appropriate.

The Company uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In so doing, the Company obtains cost effective and efficient exposure to various markets to manage exposure to interest rate, currency, credit and other business risks. Derivatives are carried at fair value with movements in fair value being recorded in the long-term technical account or non-technical account. The Company has opted not to apply hedge accounting to derivatives.

Properties are carried at fair value, with changes in fair value included in the profit and loss account in accordance with FRS 102.16 *Investment Property* (FRS 102.16). Properties are valued annually, by a number of different professional external valuers using the Royal Institution of Chartered Surveyors valuation standards. No depreciation is provided on investment properties as the directors consider that to depreciate them would not give a true and fair view.

In accordance with the provisions of Schedule 3 of the regulations, there is a requirement to show the net book value of properties on a historical cost basis in a note to the accounts. For this purpose properties are depreciated over forty years. Leasehold properties are depreciated over forty years, or if the lease is less than forty years, over the length of the lease.

Leases of investment property where the Company has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Finance leases are subsequently measured at fair value.

Prior to demerger, there were group-occupied properties carried at fair value in the balance sheet and valued annually, by a number of different external valuers using the Royal Institution of Chartered Surveyors valuation standards. An increase in fair value was recognised in other comprehensive income, except to the extent that it was the reversal of a previous valuation decrease which was recognised in profit or loss. A decrease in fair value was recognised immediately in profit or loss, except to the extent that it reversed a previous revaluation surplus recognised in other comprehensive income. As from the date of demerger, these properties are no longer 'group-occupied' and are reflected as investment properties in line with the policy above.

G. Financial Liabilities

Financial liabilities are designated as either fair value through profit and loss, amortised cost or investment contracts with DPF accounted for under FRS 103.

1 Accounting Policies (continued)

The Company holds financial liabilities on the following bases:

(i) Financial liabilities at fair value through profit and loss - these comprise derivatives, investment contracts without DPF and certain creditors. Derivative liabilities and certain creditors are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses is disclosed separately in note 3 and note 15. The accounting policy for investment contracts without DPF is described in section C above.

(ii) Financial liabilities that are not valued at fair value through profit and loss and are not investment contracts with DPF are mainly creditors shown at settlement value.

(iii) Investment contracts with DPF. The accounting policy is covered in section C above.

The Company's policy on derecognition of financial liabilities is to derecognise only when the obligation specified in the contract is discharged, cancelled or has expired.

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 derecognised; 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 consolidated 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 on 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. The UK HM Revenue & Customs rules for taxing long-term business are significantly different to those applying to non-insurance companies and the different classes of business written by the Company are themselves subject to distinct rules.

Current tax is the expected tax payable on all taxable profits arising in the current year, using tax rates enacted or substantively enacted at the balance sheet date, plus any adjustment to tax payable in respect of previous years. Taxable profits have been calculated using accounting profit or loss as a starting point.

Deferred tax is provided on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Notes on the financial statements (continued)

1 Accounting Policies (continued)

J. Foreign Currency

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 profit and loss account.

K. Defined benefit pension schemes

The Company applies the requirements of FRS 102.28 *Employee Benefits* (FRS 102.28). The M&G plc group operates three defined benefit pension schemes. These include the Scottish Amicable Staff Pension Scheme (SASPS) and the Prudential Staff Pension Scheme (PSPS) for which a portion of these defined benefit pension schemes' surplus or deficit is attributed to the Company. Further details are disclosed in note 9.

The assets and liabilities of the defined benefit pension schemes of the M&G plc group are subject to a full triennial actuarial valuation using the projected unit credit method. Estimated future cashflows are discounted at a high quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine their present value. The difference between the fair value of the scheme assets and the actuarial value of the scheme liabilities is a surplus or deficit on the scheme. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The aggregate of the actuarially determined service cost of the currently employed personnel, gains and losses on settlements and curtailments, and the interest on the net defined benefit liability/asset are recognised in the profit and loss account.

The actuarial gains and losses which arise from changes in assumptions, the return on plan assets greater or less than the discount rate, and experience gains and losses on liabilities are recognised in the statement of comprehensive income. Actuarial gains and losses also include adjustment for unrecognised pension surplus.

L. Intangible Assets

Intangible assets are carried at cost less amortisation and any accumulated impairment losses.

Intangible assets included a policy administration system used by the Polish branch which was amortised over eight years. The policy administration system used by the Polish branch was among the assets transferred to PIA under the Part VII in 2019.

Impairment testing is conducted when there is an indication of impairment. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated.

Amortisation and impairment of intangible assets is charged to the long-term business technical account.

M. Dividend Policy

Interim and final dividends are recognised in the period in which they are declared to the extent that they are unconditional on any future events. Dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event.

N. Cash at bank and in hand

The Company applies the definitions of cash and cash equivalents as defined in FRS 102.7 *Statement of cashflows* (FRS 102.7) for amounts disclosed under cash at bank and in hand. This consists of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 day's maturity from the date of acquisition.

Notes on the financial statements (continued)

1 Accounting Policies (continued)

O. Provisions and contingencies

Provisions are recognised in the statement of financial position when the Company has a present legal or constructive obligation resulting from a past event, it is more probable than not that a loss will be made in settling obligation and the amounts can be estimated reliably.

Provisions are measured, based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

Contingent liabilities are possible obligations of the Company where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the statement of financial position. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

Contingent assets which are possible benefits to the Company are only disclosed if it is probable that the Company will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the statement of financial position as an asset.

2. Segmental Analysis

(a) Long-term business

Premiums and profit

	Gross premiums written		Balance on the technical account before tax	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
United Kingdom	**10,008**	12,088	**1,016**	490
Poland*	**20**	29	**—**	(3)
Europe**	**1,035**	885	**(1)**	(2)
	11,063	13,002	**1,015**	485

New business

	Regular premiums		Single premiums	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
United Kingdom	**150**	162	**10,581**	12,369
Poland*	**19**	15	**—**	—
Europe**	**—**	—	**974**	875
	169	177	**11,555**	13,244

*In 2019, Poland represents reinsurance business accepted from Prudential International Assurance plc (PIA), a subsidiary of the Company. For 2018, Poland business was direct business written by the Company. This is as a result of the Part VII transfer described in note 14 and 32.

** Europe business includes business underwritten by PIA.

New business amounts include business accounted for as investment contracts, as well as insurance contracts business included within gross premiums written in the income statement.

Notes on the financial statements (continued)

Analysis of premium income	2019 £m	2018 £m
Direct	**9,988**	12,117
Reinsurance accepted*	**1,075**	885
	11,063	13,002
Direct business is analysed as follows:		
Individual business	**9,393**	11,341
Group contracts	**595**	776
	9,988	12,117
Regular premiums	**681**	757
Single premiums	**9,307**	11,360
	9,988	12,117
Participating contracts	**9,022**	10,741
Non-participating contracts	**250**	282
Linked long-term contracts (excluding investment contracts without discretionary participation features)	**716**	1,094
	9,988	12,117
United Kingdom	**9,988**	12,088
Poland	**—**	29
	9,988	12,117

The geographical analyses of long-term premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different.

*Polish business forms reinsurance accepted in 2019 and is now underwritten in PIA, following the Part VII as described in notes 14 and 32.

Net reinsurance income

Net reinsurance income in respect of long-term business for the year ended 31 December 2019 was £1,203m (2018: £1,245m expense).

Notes on the financial statements (continued)

(b) General business

Analysis of technical account	Gross Claims Incurred		Reinsurance Balance	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Other*	**7**	1	**(7)**	(1)
	7	1	**(7)**	(1)

*Other business is primarily employers' liability and public liability insurance.

The general insurance business consists of operations in run-off comprising UK personal and commercial lines. All the business is fully reinsured externally and as such there is no profit or loss arising.

(c) Shareholders' funds

Shareholders' funds relate to the following countries:

	Shareholders' Funds	
	2019	2018
	£m	£m
United Kingdom	**5,614**	6,889
Poland	—	(12)
Total	**5,614**	6,877

3. Investment income

	Long-term business		Non-technical account	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Income from:				
Group undertakings	**340**	122	**53**	185
Other investments				
Land and buildings	**554**	466	—	—
Other investments	**4,651**	4,663	**65**	111
	5,545	5,251	**118**	296
(Losses) gains on loans and receivables	**(7)**	9	—	—
Gains on the realisation of investments at fair value through profit and loss other than derivatives	**3,290**	5,918	**69**	9,452
(Losses) on the realisation of derivatives – see note 28	**(200)**	(351)	**(105)**	(59)
(Decrease) increase in the value of subsidiaries	—	(19)	—	2
Exchange (losses) gains	**(212)**	144	—	—
Fees for policy administration and asset management services arising from unit-linked investment contracts	**38**	41	—	—
	8,454	10,993	**82**	9,691

Notes on the financial statements (continued)

Income of £5,545m (2018: £5,251m) is from assets measured at fair value with the exception of interest income on loans and receivables which was £182m for the year ended 31 December 2019 (2018: £89m).

All gains/(losses) above are from assets measured at fair value with the exception of gains/(losses) on loans and receivables and exchange (losses)/gains, which are on assets and liabilities measured at amortised cost.

4. Bonuses

Bonuses added during the year are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £2,685m (2018: £2,737m) analysed between the with-profits sub-fund and defined charge participating sub-fund of £2,431m (2018: £2,409m) and the Scottish Amicable Insurance Fund of £254m (2018: £328m).

5. Net operating expenses

	Long-term business	
	2019	2018
	£m	£m
Acquisition costs	**169**	183
Change in deferred acquisition costs	**6**	5
Administrative expenses	**592**	760
Amortisation of computer software & licence and distribution rights (note 12)	**—**	1
	767	949

Acquisition costs include commission receipts in respect of long-term direct insurance business acquisition of £2m (2018: payments of £11m). Administrative expenses include commission payments in respect of long-term direct insurance business renewal of £33m (2018: payments of £37m).

Administrative expenses are principally recharged from Prudential Distribution Limited, a service company within the M&G plc group.

No foreign exchange differences have been credited (charged) to administrative expenses.

On 30 September 2019 the FCA fined the Company £24m in respect of the Thematic Review of Annuities Sales Practices, which was fully settled during 2019 and included within other charges of £64m in the Non-technical account on page 29. Refer to note 22 for further details.

Refer to note 10 for Directors emoluments and note 11 for Auditor's remuneration.

Operating leases

The Company leases office space in London and Reading under non-cancellable operating leases. The London lease has run since 2002 and is due to expire in 2022; the Reading lease has run since 2013 and is due to expire in 2030, however there is a break option on that lease in 2025.

Total future minimum lease payments under non-cancellable operating leases are payable in the following periods:

	2019	2018
	£m	£m
Less than 1 year	**4**	3
1 to 5 years	**10**	13
Over 5 years	**1**	4
Total	**15**	20

The total operating lease expense in 2019 was £3m (2018: £4m).

6. Investment expenses and charges

	Long-term business	
	2019	2018
	£m	£m
Investment management expenses	**285**	330
Interest on bank borrowings	**38**	13
Investment return payable to reinsurer	**112**	—
	435	343

7. Tax

The Company is the lead litigant in a group action against HM Revenue and Customs (HMRC) concerning the correct historic tax treatment applying to dividends received from overseas portfolio investments of its with-profits funds.

In February 2018 the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in the Company's favour. The decision of the Supreme Court released in July 2018 upheld the main point in dispute in the Company's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle.

The Company has so far recognised a policyholder tax credit of £122m in respect of its claim against HMRC (2018: £150m). £39m of this amount has been paid by HMRC to the Company and the balance is held as an amount of tax due from HMRC. The Company and HMRC are working through the mechanics of implementing the Supreme Court decision and expects to receive full and final repayment from HMRC in 2020.The Company will be entitled to interest on the tax repaid.

Under the terms of the agreement governing the domestication of the Company's Hong Kong branch in 2014, its Hong Kong subsidiary was entitled to a proportionate share of any tax and interest ultimately paid to the Company. At the balance sheet date the Company is holding a provision of £12m (2018: £12m) in respect of this liability which is included within other creditors (see note 23).

Notes on the financial statements (continued)

a) Tax charged (credited)

	Long-term funds		Shareholders' Profits	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Current Tax				
UK corporation tax	**605**	183	**(44)**	30
Overseas tax	**67**	72	**—**	—
Adjustments in respect of prior years	**(131)**	2	**(16)**	14
Total current tax	**541**	257	**(60)**	44
Deferred tax				
Origination and reversal of timing differences	**162**	(631)	**(21)**	—
Total deferred tax	**162**	(631)	**(21)**	—
Shareholders' attributable tax in respect of the long-term business				
Current	**—**	—	**306**	109
Deferred	**—**	—	**(32)**	(35)
Total shareholders' attributable tax	**—**	—	**274**	74
Tax allocated from (to) non-technical account	**3**	(5)	**(3)**	5
Tax charge on profit on ordinary activities	**706**	(379)	**190**	123

The calculation of the tax charge includes a degree of estimation and judgement. Due to the complex nature of the company's business, the tax affairs remain open and subject to challenge by the tax authorities for a number of years. The adjustment in respect of prior periods primarily results from changes in assumptions made in relation to earlier period tax submissions.

b) Factors affecting tax charge for the period

	2019	2018
	£m	£m
Profit on ordinary activities before tax	**1,047**	1,352
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19 per cent (2018: effective rate of 19 per cent)	**199**	257
Permanent differences	**20**	10
Adjustment to current tax in respect of previous periods	**(11)**	—
Non-taxable income	**(5)**	(34)
Revaluation of subsidiaries	**(13)**	(110)
Total tax charge for the period	**190**	123

Notes on the financial statements (continued)

c) Balance Sheet

	Attributable to Long-term funds		Attributable to Shareholders' funds	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Provision for Deferred Tax				
Accelerated capital allowances	**17**	18	—	—
Short term timing differences	—	(1)	—	—
Unrealised gains	**782**	607	—	—
Deferred acquisition costs	**(53)**	(61)	—	—
Life transitional arrangements	**92**	126	—	—
Pension asset (liability)	**3**	22	**(3)**	—
Unutilised tax losses	—	—	**(18)**	—
Undiscounted provision for deferred tax liability	**841**	711	**(21)**	—
Deferred tax liability at start of the period	**711**	1,334	—	—
Deferred tax charge (credit) in technical/non-technical account for the period	**162**	(631)	**(21)**	—
Deferred tax (credit) charge from statement of comprehensive income	**(32)**	8	—	—
Deferred tax liability (asset) at end of the period	**841**	711	**(21)**	—

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

Deferred tax is provided at the rate applicable when the temporary differences are expected to reverse. The net reversal of the deferred tax balance expected to occur in the next twelve months is uncertain as this will relate mainly to the valuation of unrealised gains which cannot be reliably estimated.

At the end of the reporting period, the Company has unused tax losses of £542m (2018: £nil) for which no deferred tax asset is being recognised. The unused tax losses wholly relate to capital losses in the UK. These losses originally arose in different companies in the Prudential plc group. Some arose and were transferred to the Company during 2019. Others arose in a previous period but the Company did not have the economic benefits arising from the utilisation of the losses. Following the demerger from Prudential plc, any future economic benefit which arises from the future use of these losses will accrue to the Company. No deferred tax asset is recognised on the £542m of capital losses as it is considered not probable that future taxable UK capital gains will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely.

8. Incurred but not reported provision

A gross and ceded IBNR (Incurred but not Reported) provision of £102m (2018: £110m) has been recognised for the general insurance business operations in run off, primarily for industrial disease exposure, and is included within claims outstanding. This liability is reinsured externally and there is a corresponding asset held in reinsurance receivables.

9. Information on staff and pension costs

The average number of persons employed by the Company during the year was:

	2019	2018
United Kingdom	—	5
Poland	—	267
	—	272

During 2018, the employment contracts of the remaining UK employees of the Company were transferred to another company within the M&G plc group.

The majority of employees in the UK are employed by Prudential Distribution Limited, a service company within the M&G plc group.

Polish employees transferred to the new Polish branch of PIA with effect from 1 January 2019 following the Part VII. See note 14 and 32 for further details.

	2019	2018
	£m	£m
Wages and salaries	—	5
Social security and pension costs	—	1
	—	6

Defined Benefit Pension Schemes

The majority of staff employed by the M&G plc group in the UK are members of the M&G plc group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (PSPS). This scheme is primarily (based on total numbers in the scheme), a defined benefit scheme. This scheme was closed to new employees on 31 July 2003. Employees after this date are enrolled in the defined contribution section of the scheme. At 31 December 2019, the underlying PSPS liabilities account for 82% (2018: 82%) of the aggregate liabilities of the M&G plc group's defined benefit schemes. There are also two smaller defined benefit schemes, the Scottish Amicable Staff Pension Scheme (SASPS) as described below and M&G plc group Pension Scheme (M&GGPS). M&GGPS is not included within the Company's results.

Both PSPS and SASPS schemes are group pension schemes, whereby the costs associated with them are shared across different entities under common control.

The Company is the Principal employer of PSPS and Prudential Distribution Limited (a service company within the M&G plc group) is the Principal employer of SASPS. The contributions into both schemes are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The surplus (or deficit) in PSPS and SASPS are apportioned in accordance with FRS 102.28 Employee benefits, by way of stated policy:

- 70% of the surplus in PSPS is allocated to the with-profits fund of the Company. Until 30 June 2019, the remaining 30% was allocated to Prudential plc, the previous parent company. As from 30 June 2019, 30% is allocated to M&G Prudential Services Limited, a fellow subsidiary undertaking of the M&G plc group.
- 40% of the deficit and related costs of SASPS is allocated to the with-profits fund of the Company. Until 30 June 2019, the remaining 60% was allocated to Prudential Financial Services Limited, a fellow subsidiary undertaking of the M&G plc group. As from 30 June 2019, 60% is allocated to the shareholder fund of the Company.

For both schemes, the projected unit credit method was used for the most recent full actuarial valuations. Defined benefit schemes are subject to full actuarial valuation every three years to assess the appropriate level of funding

for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The last completed actuarial valuation of PSPS was as at 5 April 2017 and was finalised during 2018. This valuation demonstrated the scheme to be 105% funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. There was a small change to the ongoing contributions into the scheme, which are payable at the minimum level required under the scheme rules. Excluding expenses, the contributions are now payable at approximately £5m per annum (2018: £5m) for ongoing service of active members of the scheme. No deficit or other funding is required. Deficit funding for PSPS, where applicable, is apportioned in the ratio of 70/30 between the Company's with-profits fund and M&G Prudential Services Limited based on the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The last completed actuarial valuation of the SASPS was as at 31 March 2017 and was finalised in 2017. This valuation demonstrated the scheme to be 75% funded. Based on this valuation, it was agreed with the Trustees that the level of deficit funding is £26m per annum from 1 April 2017 to 31 March 2027, subject to review at subsequent valuations.

In January 2019, following consultation, the Company reached agreement that salary increases for defined benefit scheme members who earn in excess of £35,000 will no longer be pensionable after 30 September 2019. Pension benefits will still relate to how many years they have been active scheme members, as they do now, as long as they remain working for the Company. The impact of this is a past service credit of £66m in the with-profits fund and is reflected in the 2019 results within net operating expenses in the long-term business technical account.

Corporate Governance

The Company's UK pension schemes are regulated by The Pension Regulator in accordance with the Pensions Act 2004. Trustees have been appointed for each pension scheme and they have the ultimate responsibility to ensure that the scheme is managed in accordance with the Trust Deed & Rules. The Trustees are required by the Pension Regulator to be well conversant with the Trust Deed & Rules and to act in accordance with these Rules.

The Rules of the defined benefit section of PSPS, a final salary scheme, specify that, in exercising its investment powers, the Trustee's objective is to achieve the best overall investment return consistent with the security of the assets of the scheme. In doing this, consideration is given to the nature and duration of the scheme's liabilities. The Trustee sets the benchmark for the asset mix, following analysis of the liabilities by the Scheme's Actuary and, having taken advice from the Investment Managers, then selects benchmark indices for each asset type in order to measure investment performance against a benchmark return.

The Trustee reviews strategy, the asset mix benchmark and the Investment Managers' objectives every three years, to coincide with the Actuarial Valuation, or earlier if the Scheme Actuary recommends. Interim reviews are conducted annually based on changing economic circumstances and financial market levels.

The Trustee sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the Investment Managers. In carrying out this responsibility, the Investment Managers are required by The Occupational Pensions Schemes (Investment) Regulations 2005 - Investment by trustees, to have regard to the need for diversification and suitability of investments. Subject to a number of restrictions contained within the relevant asset management agreements, the Investment Managers are authorised to invest in any class of investment asset. However, the Investment Managers will not invest in any new class of investment asset without prior consultation with the Trustee.

Ultimate responsibility for the investment of the assets of the scheme lies with the Trustee.

The investment policies and strategies for the SASPS which is also a final salary scheme, follow similar principles, but have different target allocations reflecting the particular requirements of the scheme.

Notes on the financial statements (continued)

The key assumptions adopted for the valuations in PSPS and SASPS were:

	2019		2018	
	PSPS	**SASPS**	PSPS	SASPS
	%	**%**	%	%
Price inflation:				
Retail Price Index (RPI)	**3.1**	**3.0**	3.3	3.3
Consumer Price Index (CPI)	**2.1**	**2.0**	2.3	2.3
Rate of increase in salaries	**3.1**	**3.0**	3.3	3.3
Rate of increase of pensions in payment:				
PSPS				
Guaranteed - LPI (Max 5%)	**2.5**	**n/a**	2.5	n/a
Guaranteed - LPI (Max 2.5%)	**2.5**	**n/a**	2.5	n/a
Discretionary	**2.5**	**n/a**	2.5	n/a
SASPS	**n/a**	**3.0**	n/a	3.3
Rate used to discount scheme liabilities	**2.1**	**2.1**	2.8	2.8

The current mortality assumptions used as at 31 December 2019 were amended to be specific to each scheme, instead of being based upon the largest scheme (PSPS). The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2019, this allowance was based on the CMI 2017 mortality improvements model with improvement factors of 1.75% for males and 1.50% for females. As at 31 December 2018 this allowance was based on the CMI 2015 model with improvement factors of 1.75% for males and 1.50% for females.

The most recent full valuations have been updated to 31 December 2019 applying the principles prescribed by FRS 102.28.

The combined assets and liabilities of PSPS and SASPS were:

	31 December 2019		31 December 2018	
	£m	**%**	£m	%
Equities	**33**	**0**	212	3
Bonds	**7,531**	**91**	7,138	90
Properties	**211**	**3**	207	3
Other assets	**539**	**6**	324	4
Total value of assets	**8,314**	**100**	7,881	100
Present value of underlying scheme liabilities	**7,415**		7,052	
Underlying surplus in the schemes	**899**		829	

After derecognition of surplus under FRS 102, the following amounts have been attributed to the Company:

	2019	2018
	£m	£m
Attributable to the Company's with-profits fund	**17**	130
Attributable to the Company's shareholder fund	**(17)**	—
Total	**—**	130

None of the scheme assets included shares in or property occupied by the Company.

The total actual return on scheme assets for both PSPS and SASPS is a gain of £785m (2018: loss of £1m) of which a gain of £523m (2018: loss of £4m) relates to the amounts attributable to the Company's with-profits fund and a gain of £53m (2018: £nil) relates to amounts attributable to the Company's shareholder fund.

Notes on the financial statements (continued)

The pension asset recognised on the balance sheet of the Company and detailed in the table below is £28m as at 31 December 2019 (2018: £130m). The provision for pensions on the balance sheet of the Company and detailed in the table below is £28m as at 31 December 2019 (2018: £nil).

The surplus in the Prudential Staff Pension Scheme of £28m represents the amount which is recoverable through reduced future contributions that is attributable to the Company and is net of the apportionment to M&G Prudential Services Limited.

Underlying scheme assets and liabilities of PSPS and SASPS

The change in the present value of scheme liabilities and the change in the fair value of the scheme assets of PSPS and SASPS are as follows:

2019 £m	Assets	Liabilities	Net surplus	Effect of FRS 102 for derecognition of surplus	Total surplus (deficit)	PAC share of surplus (deficit)***
Net surplus (deficit) at start of year	7,881	(7,052)	829	(676)	153	130
Net surplus (deficit) transferred during the year***	—	—	—	—	—	(23)
Current service cost	—	(22)	(22)	—	(22)	(12)
Past service cost**	—	121	121	—	121	66
Net interest on net defined benefit	208	(186)	22	—	22	3
Administration expenses	(9)	—	(9)	—	(9)	(6)
Benefit payments	(395)	395	—	—	—	—
Company contributions*	42	—	42	—	42	29
Actuarial gains and losses	587	(671)	(84)	(251)	(335)	(187)
Net surplus (deficit) at end of year	8,314	(7,415)	899	(927)	(28)	—
PSPS net surplus (deficit) at end of year	7,447	(6,520)	927	(927)	—	28
SASPS net surplus (deficit) at end of year	867	(895)	(28)	—	(28)	(28)

* The contributions include deficit funding, ongoing service contributions and expenses.
** In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions (GMPs). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. In light of this Court ruling, at 31 December 2019, the Group has recognised an estimated allowance for GMP equalisation within the FRS 102.28 valuation for all the schemes of £32m for PSPS and £18m for SASPS. As at 31 December 2018 the Group (Prudential plc, the previous ultimate parent of the Company) recognised £31m for PSPS and £17m for SASPS. A portion of these costs are allocated to the Company in line with the apportionments described on page 49.
*** PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

Notes on the financial statements (continued)

2018 £m	Assets	Liabilities	Net surplus	Effect of FRS 102 for derecognition of surplus	Total surplus (deficit)	PAC share of surplus (deficit)
Net surplus (deficit) at start of year	8,296	(7,712)	584	(485)	99	110
Current service cost	—	(36)	(36)	—	(36)	(15)
Net interest on net defined benefit	201	(188)	13	(12)	2	3
Administration expenses	(8)	—	(8)	—	(8)	(5)
Benefit payments	(461)	461	—	—	—	—
Company contributions*	47	—	47	—	47	20
Actuarial gains and losses	(194)	471	277	(179)	98	46
Net surplus (deficit) at end of year	**7,881**	**(7,052)**	**829**	**(676)**	**154**	**130**
PSPS net surplus (deficit) at end of year	**7,075**	**(6,166)**	**909**	**(676)**	**232**	**162**
SASPS net surplus (deficit) at end of year	**806**	**(885)**	**(79)**	**—**	**(79)**	**(32)**

* The contributions include deficit funding, ongoing service contributions and expenses.

Per FRS 102.28.22, a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. The Company does not have an unconditional right of refund to any surplus of the scheme. The PSPS pension asset represents the present value of the economic benefit to the Company from the difference between future ongoing contributions to the scheme and estimated accrued cost of service.

The Company accounts for both PSPS and SASPS in accordance with FRS 102.28. The valuation information presented in accordance with FRS 102.28 equates to that which would be presented in accordance with IAS 19 *Employee benefits*, the equivalent IFRS standard applicable to the Group.

Pension charge and actuarial gains (losses) of PSPS and SASPS

The pension credit and actuarial gains (losses) relating to PSPS and SASPS attributable to the Company's with-profits fund are related to the surplus recognised on the balance sheet of the Company.

The amounts attributable to the Company's with-profits fund for both PSPS and SASPS are absorbed by the transfer to or from the FFA and therefore have no direct effect on shareholders' profit or shareholders' funds. In 2019, there was a pension debit of £55m (2018: credit of £46m).

From June 2019 the amount attributable to the Company's shareholders for SASPS has a direct effect on shareholders' profit and shareholders' funds. In 2019 there was a pension credit of £4m (2018: £nil).

In 2019, the actuarial gains included a debit of £50m (2018: credit of £178m) for the adjustment to the unrecognised portion of the PSPS surplus which has not been applied against the pension charge.

The actuarial loss for both PSPS and SASPS relating to the the Company's with-profits fund of £186m (2018: actuarial gain of £46m) is included in the statement of comprehensive income and reflected in the transfer to or from the FFA. The actuarial loss of SASPS relating to the Company's shareholder element of £1m (2018: £nil) is included in total other comprehensive income for the financial year.

Total employer contributions expected to be paid into PSPS and SASPS for the year ending 31 December 2019 amounts to £42m, reflecting the annual accrual cost, deficit funding (SASPS only), and expenses, of which £39m relates to the Company.

The table below shows the sensitivity of the underlying PSPS and SASPS liabilities at 31 December 2019 of £6,520m (2018: £6,167m) and £895m (2018: £885m) to changes in discount rates, inflation rates and mortality rate assumptions.

Notes on the financial statements (continued)

Assumption	Change in assumption	Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis
2019		
Discount rate	Decrease by 0.2%: PSPS from 2.1% to 1.9% SASPS from 2.1% to 1.9%	Increase scheme liabilities by: PSPS 3.3% SASPS 4.7%
Discount rate	Increase by 0.2%: PSPS from 2.1% to 2.3% SASPS from 2.1% to 2.3%	Decrease scheme liabilities by: PSPS 3.1% SASPS 4.4%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.1% to 2.9% SASPS from 3.0% to 2.8% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.5% SASPS 3.3%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 2.1% to 1.9% SASPS from 2.0% to 1.8% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.5% SASPS 3.3%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.7% SASPS 3.6%

Assumption	Change in assumption	Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis
2018		
Discount rate	Decrease by 0.2%: PSPS from 2.8% to 2.6% SASPS from 2.8% to 2.6%	Increase scheme liabilities by: PSPS 3.5% SASPS 5.1%
Discount rate	Increase by 0.2%: PSPS from 2.8% to 3.0% SASPS from 2.8% to 3.0%	Decrease scheme liabilities by: PSPS 3.3% SASPS 4.7%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.3% to 3.1% SASPS from 3.3% to 3.1% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.6% SASPS 3.8%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 2.5% to 2.3% SASPS from 2.5% to 2.3% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.6% SASPS 3.8%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.9% SASPS 3.7%

10. Directors' emoluments

	2019	2018
	£	£
Aggregate emoluments	**1,556,435**	2,140,520
Excess retirement benefits:		
Current directors	**73,384**	143,500
Past directors	**—**	—
	1,629,819	2,284,020
Highest Paid Director:		
Aggregate emoluments and amounts receivable (excluding shares) under long term incentive schemes	**477,838**	910,090

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. The directors' service and employment contracts are with other Group companies. During 2019, in preparation for and following the demerger of M&G plc from Prudential plc, the duties of the executive directors holding office for the Company have changed, and there have been changes in the membership of the Board. 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.

Contributions were made to a defined contribution pension scheme on behalf of three directors in 2019 (2018: none). No directors (2018: one) exercised share options during the year. Five directors (2018: three) were entitled to shares under M&G plc's main long-term incentive scheme and no directors (2018: two) were entitled to retirement funds under defined benefit schemes.Prudential plc shares previously awarded to the directors under the long-term incentive scheme were converted to M&G plc shares at the point of demerger.

The highest paid director in 2019 (and 2018) received shares under long-term incentive schemes and chose not to exercise any in either year.

11. Auditor's remuneration

During the year the Company procured the following services from KPMG LLP (KPMG):

	2019	2018
	£000's	£000's
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**2,663**	2,465
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	**435**	674
Audit of the Company's subsidiaries, pursuant to legislation	**161**	161
Other assurance services	**50**	50
Total fees payable	**3,309**	3,350

12. Intangible assets

	2019		2018	
	Computer Software	**Total**	Computer Software	Total
	£m	**£m**	£m	£m
Cost:				
At 1 January	**11**	**11**	12	12
Exchange differences	**—**	**—**	(1)	(1)
Transfer during the period	**(11)**	**(11)**	—	—
At 31 December	**—**	**—**	11	11
Amortisation:				
At 1 January	**5**	**5**	4	4
Recognised in the long-term business technical account	**—**	**—**	1	1
Transfer during the period	**(5)**	**(5)**	—	—
At 31 December	**—**	**—**	5	5
Net book value at 31 December	**—**	**—**	6	6

There have been no impairments during the year (2018: £nil).

All Computer Software related to the Company's Polish branch and was transferred to PIA on 1 January 2019 following the Part VII transfer of the business. Please refer to note 14 and 32 for further details.

13. Land and buildings

	2019	2018
	£m	£m
Current value		
Freeholds	**4,941**	5,105
Leaseholds with a term of over 50 years	**2,842**	3,275
Leaseholds with a term of less than 50 years	**635**	684
	8,418	9,064
Cost	**6,149**	6,039

If the revalued land and buildings were stated on the historical cost basis, the amounts would be:

	2019	2018
	£m	£m
At cost	**6,149**	6,039
Aggregate depreciation	**(3,765)**	(3,606)
Net book value based on historical cost	**2,384**	2,433

Notes on the financial statements (continued)

(a) Group-occupied property

	2019	2018
	£m	£m
Balance at 1 January	**144**	138
Additions	**3**	—
Revaluations	**(3)**	6
Transfers to Investment Property	**(144)**	—
Balance at 31 December	**—**	144

On 18 October, Group-occupied property was transferred to investment property following the de-merger from Prudential plc.

(b) Investment property

	2019	2018
	£m	£m
Balance at 1 January	**8,920**	8,699
Additions		
Resulting from acquisitions	**268**	268
Resulting from expenditure capitalised	**76**	83
Disposals	**(123)**	(105)
Net (loss) gain from fair value adjustments	**(864)**	2
Transfers from Group-occupied property	**144**	—
Other changes	**(3)**	(27)
Balance at 31 December	**8,418**	8,920

The 2019 profit and loss account includes rental income from investment properties of £554m (2018: £466m).

Leasehold properties included above are reported as finance lease assets. A reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value is shown below:

		2019			2018	
		£m			£m	
	Future minimum payments	**Future finance charges**	**PV of future minimum payments**	Future minimum payments	Future finance charges	PV of future minimum payments
Less than 1 year	**1**	**—**	**1**	1	—	1
1 to 5 years	**2**	**—**	**2**	4	(1)	3
Over 5 years	**104**	**(93)**	**11**	122	(108)	13
Total	**107**	**(93)**	**14**	127	(109)	17

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future value of a factor that changes other than with the passage of time. Contingent rent of £2m (2018: £1m) has been recognised as income with an expense charge of £6m (2018: £8m). There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. The contractual obligations to purchase or develop investment properties at 31 December 2019 were £1,199m (2018: £375m).

The Company's policy is to let investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Company's freehold investment properties are receivable in the following periods:

Notes on the financial statements (continued)

	2019	2018
	£m	£m
Less than 1 year	**254**	239
1 to 5 years	**978**	885
Over 5 years	**2,159**	1,981
Total	**3,391**	3,105

(c) Finance lease asset

A reconciliation between the total of future minimum lease payments recoverable by the Company at the balance sheet date, and their present value is shown below:

		2019			2018	
		£m			£m	
	Future minimum receivables	**Future finance credits**	**PV of future minimum receivables**	Future minimum receivables	Future finance credits	PV of future minimum receivables
Less than 1 year	**2**	**—**	**2**	2	—	2
1 to 5 years	**9**	**(2)**	**7**	9	(2)	7
Over 5 years	**367**	**(343)**	**24**	371	(347)	24
Total	**378**	**(345)**	**33**	382	(349)	33

14. Investments in group undertakings and participating interests

	Cost		**Current value**	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Long-term fund investments	**2,127**	1,566	**3,506**	2,921
Shareholder investments	**289**	1,203	**450**	578
Total	**2,416**	2,769	**3,956**	3,499
Interest in joint ventures and associate long-term fund investments	**344**	372	**487**	671
Debt securities issued by, and loans to group undertakings – long term funds	**1,055**	985	**1,055**	985
Total	**3,815**	4,126	**5,498**	5,155

In January 2019, in accordance with Part VII of the FSMA, the Company transferred all of its long-term European business (excluding the UK) into PIA, a subsidiary of the Company which is based in the Republic of Ireland. Both with-profits and shareholder-backed business transferred, however the with-profits business was reinsured back to the Company. The reinsurance arrangements were implemented in order to provide policyholders with continued access to the returns from the Company's with-profits funds, on the same basis as prior to the transfer. The shareholder-backed business has not been reinsured back to the Company following the Part VII transfer. In consideration for the value of the business transferred, PIA issued additional share capital to the Company resulting in an increase in the investment held. The cost of the additional share capital issued was immediately impaired to reflect the transfer of the shares issued by PIA in excess of the net assets transferred. Details are presented at note 32.

Prudential Holborn Life Limited (PHL) is a wholly owned subsidiary of the Company. In June 2019, PHL sold it's subsidiary Prudential Vietnam Finance Company and undertook a capital reduction to permit remittance of the £97m net disposal proceeds from the sale to the Company (and onwards to M&G plc, which in turn remitted to Prudential plc, the previous ultimate parent company). The remittance of £97m to the Company has been treated

Notes on the financial statements (continued)

as a return of capital of £59m, being the original cost of investment in PHL, and a dividend of £38m. As at 31 December 2019 the Company holds only a nominal investment in PHL of £1.

Prudential Retirement Income Limited (PRIL) was placed into liquidation in December 2017. In September 2019 PRIL was liquidated, resulting in a return of capital of £100m to the Company. The return of capital was settled through the cancellation of a £100m loan PRIL had granted to the Company. The transaction resulted in a significant decrease in the cost of shareholder investments in group undertakings.

On 29 November 2019 the Company purchased £7m additional shares in Prudential International Management Services Ltd (PIMS) to facilitate the purchase by PIMS of Prudential Polska Sp.z.o.o, a fellow Group undertaking. This transaction was undertaken in preparation for the UK's departure from the European Union.

Refer to note 30 for further information on the related undertakings of the Company.

15. Other financial investments

	Cost		**Carrying value**	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	**44,188**	41,249	**55,842**	48,192
Debt securities and other fixed income securities	**58,169**	60,265	**63,824**	63,999
Derivative assets	**1,094**	870	**3,641**	2,283
Participation in investment pools	**5,306**	4,215	**6,288**	5,046
Loans secured by mortgages	**2,531**	2,429	**2,697**	2,439
Amortised cost				
Loans to policyholders secured by insurance policies	**2**	3	**2**	3
Other loans	**1,047**	887	**1,027**	871
Deposits with credit institutions	**12,541**	8,929	**12,541**	8,929
	124,878	118,847	**145,862**	131,762

The change in carrying value of other financial investments included in the Profit and Loss account was a gain of £8,306m (2018: £12,293m loss) analysed between a gain of £8,541m (2018: £12,497m loss) included in the Long-term business technical account and a £235m loss (2018: £204m gain) included in the Non-technical account. The change in carrying value of £8,306m gain (2018: £12,293m loss) included a gain of £4,667m (2018: £7,316m loss) in respect of equity securities, gain of £1,860m (2018: £3,924m loss) in respect of debt securities, a gain of £1,495m (2018: £981m loss) in respect of derivatives and a gain of £284m (2018: £72m loss) in respect of other financial instruments.

	Carrying value	
	2019	2018
Amounts included in the above relating to listed investments:	**£m**	£m
Shares and other variable yield securities and units in unit trusts	**50,955**	43,912
Debt securities and other fixed income securities	**56,201**	56,061
	107,156	99,973

Notes on the financial statements (continued)

The table below analyses the derivative positions of the Company:

	2019 £m		2018 £m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	**2,406**	**509**	1,828	337
Cross currency swaps	**16**	**403**	2	484
Currency exchange forward contracts	**820**	**142**	104	771
Bond futures	**37**	**23**	46	44
Credit default swaps	**41**	**17**	34	1
Inflation swaps	**255**	**389**	210	295
Derivative financial instruments held to manage market risk and efficient investment management:				
Equity options	**36**	**321**	50	220
Equity futures	**30**	**8**	9	20
Total	**3,641**	**1,812**	2,283	2,172

The nature of the derivative financial instruments used by the Company in 2019, are similar to those used in 2018. These include the partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which was set up in 2013. This arrangement was extended each year since 2015. This is currently a liability of £321m (2018: liability of £220m). The derivative financial instruments also include hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund relating to 2018 and 2019 PruFund new business.

The use of derivatives is discussed further in note 28 (G).

Treatment of equity release mortgages transfer

On 1 January 2016 an equity release mortgage portfolio owned by the Company was restructured to meet the Solvency II matching adjustment requirements. The beneficial interest in the equity release mortgage portfolio was sold to Prudential Equity Release Mortgages Limited (PERM) in an arm's-length transaction. The consideration for the purchase was the issue of loan notes to PRIL, which were subsequently transferred to the Company, at the fair value of the mortgage book.

Under UK Generally Accepted Accounting Practice the asset does not qualify for de-recognition from the financial statements of the Company at the reporting date, as the Company retains all the risks and rewards of ownership and has substantially the same rights to the use of the asset as before the arrangement. Consequently, the mortgage portfolio is still recognised in the financial statements of the Company and not within PERM.

The effect of the above is that the assets and liabilities created by the restructure are recognised within the Company's financial statements, and are not recognised in the financial statements of PERM.

The fair value of this equity release mortgage portfolio at 31 December 2019 was £1,306m (2018: £1,210m).

16. Assets held to cover linked liabilities

	Cost		Carrying value	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Assets held to cover linked liabilities	**11,081**	11,683	**14,427**	14,546

17. Reinsurers' share of technical provisions

On 14 March 2018, Prudential plc (the previous ultimate parent undertaking) announced the reinsurance of £12bn (as at 31 December 2017) of the Company's shareholder-backed annuity portfolio (the Annuity Portfolio) to Rothesay Life plc (Rothesay Life) by way of a collateralised reinsurance arrangement followed by an insurance business transfer scheme (the Scheme) under Part VII of FSMA. The profit and loss impact of the transaction in 2018 was a loss of £0.5bn. The liabilities relating to the Company's total shareholder annuity portfolio as at 31 December 2019 were £29.5bn (2018: £30.0bn), of which £11.4bn (2018: £11.6bn) is reinsured by Rothesay Life.

On 17 May 2019, the independent expert, who was appointed to report to the High Court, concluded that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of the Company's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. The Company and Rothesay Life have been granted leave to appeal the judgement. The High Court's judgement has no direct impact on the reinsurance with Rothesay Life. An appeal was lodged with the Supreme Court on 27 September 2019, but the case is not expected to be heard before Spring 2020 at the earliest.

No new longevity reinsurance transactions were undertaken during 2019 (2018: Rothesay Life as described above).

At 31 December 2019, longevity swap reinsurance covered £6.2bn (2018: £6.3bn) of annuity liabilities in the non-profit sub fund, equivalent to 21% (2018: 21%) of total annuity liabilities. In addition, of the business reinsured to Rothesay Life, longevity swap reinsurance covered £6.3bn (2018 £6.8bn) of annuity liabilities, equivalent to 22% (2018: 23%) of total annuity liabilities.

Included in income and expense in the profit and loss account is £0.7bn reflecting the movement in the reinsurers' share of technical provision to £17.6bn at 31 December 2019 from £18.3bn at 31 December 2018.

The non-profit annuity business owned by the with-profits fund and previously reinsured to Prudential Hong Kong Limited was recaptured on 1 October 2019, in anticipation of the Group's demerger from Prudential plc. The recaptured reinsurance premium in the long-term technical account of £1.1bn was equal to the value of the recaptured business. A deposit-back liability of a similar value was extinguished. The transaction removes the reinsurance recoverable from the balance sheet with a corresponding charge to 'change in long-term business provision' in the long-term technical account. The net impact on the long-term technical account was a loss of £24m, arising from the difference between the recaptured reinsurance premium and the settlement of the reinsurance recoverable.

Notes on the financial statements (continued)

18. Other debtors

	2019	2018
	£m	£m
Amounts owed by ultimate parent company	**18**	534
Amounts owed by fellow subsidiaries	**197**	153
Amounts owed by subsidiary companies, associate and joint ventures	**181**	224
Tax recoverable	**368**	212
Other	**166**	364
	930	1,487

During 2018 a Settlement and Release agreement was signed with the Group's insurers, confirming that they will reimburse £166m of costs arising from the Company's review in connection with the Thematic Review of Annuity Sales Practices. Remaining amounts receivable of £71m (2018: £146m) have been recognised within other debtors in the 'other' category above.

The remaining balances relate to investment debtors that fluctuate on a year on year basis depending on the level of trading for a particular year.

Other debtors include £2m (2018: £5m) due after more than one year.

19. Bank current accounts

Under the terms of the Company's arrangements with the M&G plc 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.

20. Assets attributable to the long term business fund

Of the total amount of assets shown in the balance sheet on page 32, £196,154m (2018: £182,423m) is attributable to the long-term business fund.

21. Share capital

The Company's issued ordinary share capital is £329,517,064 comprising 1,318,068,254 ordinary shares of 25p each fully paid. There were no changes in the ordinary share capital of the Company during the year.

22. Other Provisions

	2019	2018
	£m	£m
At 1 January	**401**	408
Charged to income statement:		
Additional provisions	**33**	38
Unused amounts released	**(17)**	—
Used during the year	**(258)**	(45)
Total at 31 December	**159**	401

Regulatory Provisions - FCA Thematic Review of non-advised Annuity Sales Practices

Regulatory provisions include a provision for review of past annuity sales of £100m (2018: £324m). The Company has agreed with the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. In addition, the Company will be conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from the Company or another pension provider. A gross provision of £175m was established in 2016 to cover the costs of undertaking the review and any related redress and increased by £225m to £400m in 2017. No change was made to the provision in 2018 and a increase of £33m was made in 2019. The ultimate amount that will be expended by the Company on the review will remain uncertain until the project is completed. The key assumptions underlying the provision are average cost of redress per customer and operational cost of performing the review per customer. An increase in the average cost of redress per customer for outstanding cases of 10% would result in the provision recognised increasing by £7m. An increase in the total operational cost of performing the reviews of 20% would result in the provision recognised increasing by £7m.

In connection with the FCA findings that led to Prudential plc agreeing to conduct the TRASP past business review, on 30 September 2019 the FCA fined the Company £24m in respect of failures related to non-advised sales of annuities. This was fully settled during 2019, see note 5 for further details.

23. Other creditors including tax and social security

	2019	2018
	£m	£m
Amounts owed to fellow subsidiaries and ultimate holding company	**174**	151
Amounts owed to subsidiary companies, associate and joint ventures	**454**	645
Current tax payable	**296**	251
Derivative liability (see note 15)	**1,812**	2,172
Other creditors*	**6,159**	2,824
	8,895	6,043

*The majority of the increase in other creditors is in relation to reverse repurchase agreements that have traded but not settled at 31 December 2019.

24. Ultimate parent company

On 23 November 2018 the Company's legal ownership was transferred from its previous parent company Prudential plc to a new holding company M&G Prudential Limited, a subsidiary of Prudential plc. On 24 July 2019, M&G Prudential Limited was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, M&G Prudential plc changed its name to M&G plc. On 21 October 2019, M&G plc de-merged from Prudential plc and listed on the London Stock Exchange.

The ultimate parent of the Company is therefore M&G plc. Copies of its accounts can be obtained from the Company Secretary, 10 Fenchurch Avenue, London EC3M 5AG.

25. Related party transactions

The Company has taken advantage of the exemption under FRS 102.33 *Related Party Disclosures* (FRS 102.33) paragraph 1A from disclosing transactions with other wholly-owned subsidiary undertakings of the M&G plc group.

26. Long-term business provision

The Company's long-term products consist of life insurance, investment, pensions and pension annuities. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending upon the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

With-profits policies are supported by the with-profits sub-fund (WPSF) and can be single or regular premium. The return to shareholders on virtually all with-profits products is in the form of a statutory transfer to the Company's shareholders' funds which is analogous to a dividend from the Company's long-term fund and is dependent upon the level of bonuses credited or declared on policies in that year. There are two types of bonuses for traditional with-profits products – annual and final. Annual bonuses are declared once a year, and are determined as a prudent proportion of the long-term expected future investment return on the underlying assets. Once credited, annual bonuses are guaranteed in accordance with the terms of the particular product. In contrast, final bonuses are only guaranteed until the next bonus declaration, and are primarily determined on the actual investment return achieved, smoothed over the life of the policy. With-profits policyholders currently receive 90 per cent of the distribution from the WPSF as bonus additions to their policies and shareholders receive 10 per cent as a statutory transfer.

Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Policyholder return is determined by an Expected Growth Rate (EGR) which is declared each quarter. The shareholder transfer only crystallises at the point when a claim is paid to the policyholder and is equal to 1/9th of the difference between the policyholder payout and the premium(s) paid.

Notes on the financial statements (continued)

The Scottish Amicable Insurance Fund (SAIF) is a closed sub-fund that contains the bulk of the business originally written by the Scottish Amicable Life Assurance Society and acquired by the Company on 30 September 1997. Under the terms agreed at the time of the purchase, the SAIF inherited estate will be distributed to with-profits policyholders as an addition to the with-profits benefits arising in SAIF. The SAIF policyholders therefore receive 100 per cent of the distribution from the sub-fund as bonus additions to their policies.

The defined charge participating with-profits sub-fund (DCPSF) forms part of the Company's long-term fund and comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business reassured into the Company from both Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd and the with-profits annuity business transferred to the Company from the Equitable Life Assurance Society on 31 December 2007. All profits in this fund accrue to policyholders in the DCPSF.

There is a substantial volume of non-participating business in the with-profits sub-fund; profits from this business accrue to the with-profits sub-fund.

The Company also writes non-participating business, the profit on which accrues solely to shareholders.

Notes on the financial statements (continued)

i. Analysis of movements in insurance liabilities including FFA

	Technical Provisions		
	Technical Provisions £m	Linked liabilities £m	Total £m
At 1 January 2018			
Comprising			
Technical provisions	135,221	24,075	159,296
Fund for future appropriations	13,581	—	13,581
	148,802	24,075	172,877
Premiums	12,793	241	13,034
Surrenders	(4,769)	(593)	(5,362)
Maturities/Deaths	(5,447)	(1,609)	(7,056)
Shareholders' transfers post tax	(259)	—	(259)
Switches	(165)	165	—
Investment-related items and other movements	(4,210)	(601)	(4,811)
Foreign exchange translation differences	218	3	221
Assumption changes	(706)	—	(706)
As at 31 December 2018/1 January 2019	**146,257**	**21,681**	**167,938**
Comprising			
Technical provisions	132,770	21,681	154,451
Fund for future appropriations	13,487	—	13,487
	146,257	21,681	167,938
Premiums	11,778	339	12,117
Surrenders	(5,010)	(894)	(5,904)
Maturities/Deaths	(5,998)	(936)	(6,934)
Shareholders' transfers post tax	(263)	—	(263)
Switches	(156)	156	—
Investment-related items and other movements	12,983	1,388	14,371
Foreign exchange translation differences	(63)	—	(63)
Transfer of business	(50)	(3)	(53)
Assumption changes	(295)	—	(295)
As at 31 December 2019	**159,183**	**21,731**	**180,914**
Comprising			
Technical provisions	143,030	21,731	164,761
Fund for future appropriations	16,153	—	16,153
	159,183	**21,731**	**180,914**

The impact does not represent premiums, claims and investment movements as reported in the income statement. For example premiums shown above will exclude any deductions for fees/charges. Claims represent the policyholder liabilities provision released, rather than the claim amount paid to the policyholder. The amount for balance sheet reallocations for the year ended 31 December 2019 includes reclassifications between insurance contract liabilities and the unallocated surplus of the with-profits fund.

Durations of long-term business contracts on a discounted basis:

With the exception of annuity business, most unitised with-profits bonds and other whole-of-life contracts, the majority of the contracts of the Company have a contract term. However, in effect, the maturity term of contracts

reflects the earlier of death, maturity, or lapse of the contract. In addition, with-profits contracts include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of SAIF and the WPSF. Instead the Company uses cash flow projections of expected benefit payments. The following table shows the maturity profile of the cash flows used for insurance contracts i.e. those containing significant insurance risk, and investment contracts, which do not contain significant insurance risk:

2019	With-profits business			Policyholder Annuities	Shareholder Annuities	Other		
	Insurance contracts %	Investment contracts %	Total %	Insurance contracts %	Insurance contracts %	Insurance contracts %	Investment contracts %	Total %
0-5 years	35	38	37	34	27	45	30	35
5-10 years	24	26	26	26	23	24	24	24
10-15 years	16	16	16	17	19	15	19	17
15-20 years	11	9	9	10	14	8	13	12
20-25 years	6	5	5	6	9	4	7	6
Over 25 years	8	6	7	7	8	4	7	6

2018	With-profits business			Policyholder Annuities	Shareholder Annuities	Other		
	Insurance contracts %	Investment contracts %	Total %	Insurance contracts %	Insurance contracts %	Insurance contracts %	Investment contracts %	Total %
0-5 years	35	37	36	34	27	45	31	36
5-10 years	23	27	26	25	23	25	24	24
10-15 years	16	17	17	17	19	14	18	17
15-20 years	11	9	10	11	14	8	13	11
20-25 years	7	4	5	6	9	4	7	6
Over 25 years	8	6	6	7	8	4	7	6

Notes:

(i) The cash flow projections of expected benefit payments used in the maturity profile table above are from in-force business and exclude the value of future new business, including vesting of internal pension contracts.

(ii) Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

(iii) Investment contracts under 'Other' comprise unit-linked and similar contracts.

(iv) For business with no maturity term included within the contracts, for example with-profits investment bonds such as Prudence Bond, an assumption is made as to likely duration based on prior experience, or in the case of annuity business the expected payment pattern of annuity claims.

ii. Determining insurance liabilities

The principal valuation methods and bases adopted for the main relevant classes of business which are not reinsured are as follows:

A. Business in With-Profits Sub-Fund, SAIF and Defined Charge Participating Sub-Fund

The overarching principle in assumption setting is that realistic provisions are established using best estimate assumptions, taking into account the firm's regulatory duty to treat its customers fairly.

Assumptions are required in three areas, namely:

(i) Retrospective assumptions;
(ii) Prospective assumptions; and
(iii) Stochastic modelling assumptions relating to the economic asset model and management actions.

Retrospective assumptions

Retrospective assumptions are required for the accumulation of past asset shares up to the valuation date. These assumptions are determined by reference to actual past experience, primarily in relation to investment returns, expenses and miscellaneous surplus. The assumptions include past expense write-offs and enhancements to asset shares, and are as used when calculating asset shares for the purpose of bonus setting.

The 2019 year end Investment Return for asset shares is:

Return	With-Profits Sub Fund Main Asset Share Fund	High Reversionary Bonus fund (held within the With-Profits Sub-Fund)	PruFund Cautious Fund (held within the With-Profits Sub-Fund)	SAIF
Gross return	11.50%	11.50%	11.00%	11.70%
Net return	9.60%	9.50%	9.00%	9.70%

The High Reversionary Bonus and PruFund Cautious funds are contained within the with-profits sub-fund. Compared with the assets backing the main asset share fund, the High Reversionary Bonus and PruFund Cautious funds are both allocated a higher proportion of fixed interest securities and a lower proportion of equities.

Prospective assumptions

Prospective assumptions are required for the adjustments to asset shares where a prospective calculation gives a higher result and for the stochastic modelling of the cost of guarantees, options and smoothing.

For asset share adjustments, the economic assumptions used represent the best estimate assumptions allowing for prevailing market conditions at the valuation date.

Expense assumptions have been revised to reflect the Company's most recent experience, and expected expenditure over the business planning period.

The table below shows the mortality bases used for the valuation at 31 December 2019:

Product	Mortality Table (M/F)	Age Rating Years (M/F)	Multiplier % (M/F)
Prudence Bond	AMC00/AFC00	-1 / -1	90 / 90
PSA / PIB	AMC00/AFC00	-0.5 / -0.5	75 / 75
Personal Pensions	AMC00/AFC00	-1 / -1	80 / 80
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	85 / 85
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	100 / 100
Group Pension Deferred Annuities	PCMA00_CMI_2017 / PCFA00_CMI_2017	0 / 0	96.3 / 83.7
SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	55 / 55 Life & 35 / 35 Pensions
SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	45 / 45 Life & 40 / 40 Pensions

The persistency assumptions used to value the cost of options and guarantees for traditional with-profits products are reduced by a 10% margin to make an allowance for the impact of policyholders' group actions in extreme market scenarios.

Stochastic asset model economic calibration and management actions

The cost of options, guarantees and smoothing are assessed on a market consistent basis, so that the reserves held are equal to the theoretical cost of hedging the guarantees in the market. In the absence of a deep, liquid market these costs are assessed using a market consistent model, with a market consistent calibration.

In order to value the Company's guarantees and options, the stochastic asset/liability model projects the with-profits liabilities forward over the next 40 years for 5,000 separate economic scenarios.

Separate asset models are used for the risk free rate (assumed to be the UK swap rate), UK equities, overseas equities, corporate bonds, property and real interest rates. Where appropriate securities or derivatives are traded, it has been demonstrated that the model is able to closely reproduce these prices. Where this is not the case (for example for property and corporate bonds) expert judgement has been applied. Allowance has also been made for the correlation of investment returns between different asset classes.

The cost of guarantees, options and smoothing is very sensitive to the bonus, market value reduction and investment policies that the Company will employ under varying investment conditions. The stochastic modelling incorporates several management actions to protect the fund in adverse investment scenarios. These management actions are consistent with the PPFM and the obligation to treat customers fairly.

B. Other non-linked business

Provisions are predominantly calculated by the net premium valuation method. Discount rates are derived based on gilt yields of a duration consistent with that of the underlying business as these yields are representative of the returns that will be earned on the investments backing these liabilities, and also allow for inflation growth.

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, longevity remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Company's portfolio.

The slowdown in life expectancy improvements observed during 2018 in population data were considered as part of the judgement exercised in setting the 2019 mortality basis. New mortality projection models are released regularly by the Continuous Mortality Investigation (CMI). The CMI 2017 model was used to produce the 2019 results albeit with an uplift to the calibration such that additional liabilities are held to cover potential differences in experience between the portfolio and the England and Wales population underlying the CMI's model, with a long-term rate of 1.75% for males and 1.50% for females plus 0.5% constant increase to per annum improvement rates.

The CMI 2016 model was used to produce the 2018 results. The default calibration of CMI 2016 was adopted for 2018 to reflect the Company's view of future mortality improvements based on a range of possible outcomes, with an appropriate margin for prudence. The mortality improvement assumptions used were the default calibration of CMI 2016 with a long-term rate of 1.75% for males and 1.50% for females plus 0.5% constant increase to per annum improvement rates.

The following discount rates were used for annuity business:

	Interest Rate %
UK (excluding Scottish Amicable Insurance Fund)	
Ex-PAL Annuities (Fixed)	2.08
Ex-PAL Annuities (Linked)	2.04
NPSF Annuities (Fixed)	2.38
NPSF Annuities (Linked)	2.30
Other Shareholder Annuities (Fixed)	2.38
Other WPSF Annuities (Fixed)	2.75
Other WPSF Annuities (Linked)	4.37

Notes on the financial statements (continued)

The following discount and mortality bases were used for term assurances:

	Interest Rate %	Actuarial Mortality Table Reference*
UK (excluding Scottish Amicable Insurance Fund)		
Term assurances - life business	0.71	80% to 85% AMC00/AFC00+1
Term assurances - pensions business	0.89	65% AMC00/AFC00+1
Scottish Amicable Insurance Fund		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	1.38	65% AMC00/AFC00+1

*For assurances, provision for acquired immune deficiency syndrome (AIDS) is made either by increasing the underlying mortality rates or by holding an explicit additional provision. In both cases, the adjustment is one-third of the "R6A" tables.

C. Linked business in the Shareholder Fund and Scottish Amicable Insurance Fund

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases:

Discount Rate	0.89% Gross
Fund Growth	4.62% Gross
Mortality	AMC00/ AFC00 Ultimate+1 age adj 70%-100% depending upon product type
Administration Expenses	£73 to £136 depending on product type
Expense Inflation	Shareholder: 3.62%. SAIF: 4.62% for retained expenses, 3.12% for third party expenses

D. Linked business in the With-Profits Sub-Fund

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases:

Discount Rate	0.89% Gross
Fund Growth	4.62% Gross
Mortality	AMC00/ AFC00 Ultimate+1 age adj 75%-100% depending upon product type
Administration Expenses	£90 to £133 depending on product type
Expense Inflation	4.62% for retained expenses, 3.12% for third party expenses for SAA

E. Other long-term business provisions

Additional provisions have been established, the most significant being for the potential costs and expenses of compensating the Company's pension policyholders under the Financial Services Authority (FSA), the UK insurance regulator at the time, review of pension opt-outs and transfer cases and for the potential cost of meeting annuity rate guarantees at vesting. Refer to note 27.

iii. Effect of changes in assumptions used to measure with-profits assets and liabilities

For the with-profits sub-fund, the aggregate effect of assumption changes in 2019 was a net increase to the FFA of £219m (2018: net increase of £394m), relating to changes in mortality, expense, persistency and tax assumptions, where appropriate in the two periods.

27. Commitments, Contingencies and Related Obligations

Pension Mis-selling Review

The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling.

Whilst the Company believed it met the requirements of the FSA (the UK insurance regulator at the time) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged to ensure they have the opportunity to take part in the review.

At 31 December 2019, the pension mis-selling amount included within the long-term business provision was £420m (2018: £777m). The table below summarises the change for the year ended 31 December 2019.

	Year Ended 31 December 2019 £m	Year Ended 31 December 2018 £m
Balance at start of the period	**777**	505
Changes to actuarial assumptions and method of calculation	**(93)**	357
Release of provision in respect of closed cases	**(64)**	—
Redress paid to policyholders	**(182)**	(85)
Payment of administrative costs	**(18)**	—
Balance at end of the period	**420**	777

The pension mis-selling amount above at 31 December 2019 of £420m is stochastically determined on a discounted basis.

The key assumptions underlying the provisions are:

- Average cost of redress per customer.
- Proportion of provision (reserve rate) held for soft close cases (where all reasonable steps have been taken to contact the customer but the customer has not engaged with the review).

The changes to actuarial assumptions for 2019 of £93m principally relate to an increase in the proportion of cases that are considered to be soft closed.

Sensitivities to the value of the provision to change in assumptions are as follows:

Assumption	**Change in assumption**	**Change in provision (£m)**	
		31 December 2019	**31 December 2018**
Average cost of redress	+/- 10%	+/- 20	+/- 53
Reserve rate for soft closed cases	+/- 10%	+/- 30	+/- 12

Costs arising from this review are met by the excess assets of the with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. An assurance was given that these deductions from excess assets would not impact the Company's bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003.

This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, the assurance provides that support would be made available to the sub-fund from the Company's shareholder resources for as long as the situation continued, so as to ensure that the Company's policyholders were not disadvantaged.

The Company's comfort in its ability to make such support available was supported by related intra-group arrangements between Prudential plc (the previous ultimate parent) and the Company, which formalised the

circumstances in which capital support would be made available to the Company by Prudential plc. These intra-group arrangements terminated on 21 October 2019, following the demerger of M&G plc from Prudential plc, at which time intra-group arrangements formalising the circumstances in which M&G plc would make capital support available to the Company became effective.

Pensions Equalisation Review

The European Court of Justice ruled in 1990 that pension schemes should equalise retirement ages for males and females (Barber vs Guardian Royal Exchange). This affects certain defined benefit pension schemes previously administered by Scottish Amicable Life Assurance Society and wound up schemes formerly administered by the Company, where the Company issued the buy-out policy to members. Investigations are ongoing to determine the extent to which the Company was responsible or liable for any errors in members' benefit calculations and whether compensation or redress may be payable, and from which fund. Accordingly, as at 31 December 2019 an amount is held within the long-term business provision of £54m in respect of shareholder-backed business and £8m in respect of SAIF (2018: £99m and £13m respectively).

Guaranteed Minimum Pensions

From April 1987, pension schemes were able to 'contract out' of the State Earnings Related Pension Scheme, enabling companies and members to pay lower National Insurance Contributions, but their schemes had to provide a minimum level of benefit, the Guaranteed Minimum Pension (GMP). Recent court cases have confirmed that there is a requirement for GMPs to be equalised between male and female members/policyholders. The Company has included an amount within the long-term business provision for the expected costs of equalisation, however there is uncertainty as to the extent to which the judgements apply to schemes other than active defined benefit schemes and therefore the extent to which the Company may be responsible for achieving this across its product lines.

Guaranteed Annuities

The Company used to sell guaranteed annuity products in the UK and held a technical provision of £50m at 31 December 2019 (2018: £49m) within the main with-profits fund to honour guarantees on these products.

The Company's main exposure to guaranteed annuities in the UK is through SAIF and a technical provision of £385m was held in SAIF at 31 December 2019 (2018: £361m) to honour the guarantees.

The key assumptions underlying the provisions are:

- Take up rate: of 65% (2018: 65%) for SAIF business and 100% (2018:100%) for the with-profits fund.
- Interest rates: derived from weighted average bond yields of 1.24% (2018: 1.76%) for SAIF business and an average 20 year gilt yield of 1.43% (2018: 1.98%) for the with-profits fund.
- Annuitant mortality: as shown in the following tables:

SAIF Annuitant Mortality 2019:

Gender	Base Mortality Table	Mortality Improvements		Mortality Multipliers %
		CMI_Model	Calibration	
Male	PCMA00	CMI_2017	Bespoke calibration with long-term rate of 1.75%	92.0
Female	PCFA00	CMI_2017	Bespoke calibration with long-term rate of 1.50%	90.0

SAIF Annuitant Mortality 2018:

Gender	Base Mortality Table	Mortality Improvements		Mortality Multipliers %
		CMI_Model	Calibration	
Male	PCMA00	CMI_2016	Default calibration with long-term rate of 1.75%	88.7
Female	PCFA00	CMI_2016	Default calibration with long-term rate of 1.50%	86.6

Notes on the financial statements (continued)

With-profits fund Annuitant Mortality 2019 (2018: no change):

Gender	Base Mortality Table	Mortality Multipliers %
Male	PMA92	49.7
Female	PFA92	51.8

Guarantees and Commitments

Since 2012 the Company has agreed to guarantee the funding obligation at the date of the last triennial valuation that Prudential Distribution Limited (PDL), a service company within the M&G plc group and principal employer, and other participating employers have to the Scottish Amicable Staff Pension Scheme. The funding obligation arises from the deficit in this pension scheme as at 31 March 2019 (£79m). Payment under the guarantee would be exercised should PDL fail to meet its funding obligation. The guarantee expires on 31 March 2027.

The Company has undrawn commitments of £3.2bn (2018: £4.0bn) to private equity and infrastructure funds in which the Company is already an investor. These funds will be drawn down at the fund managers' discretion over a 3 to 5 year period.

The Company also provides, from time to time, other guarantees and commitments to other companies within the Group and third parties entered into in the normal course of business but the directors do not consider that the amounts involved are significant.

Support of Long-term Business Funds by Shareholders' Funds

As a proprietary insurance company, the Company is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Company's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1997, the business of Scottish Amicable Life Assurance Society, a mutual society, was transferred to the Company. In effecting the transfer, a separate sub-fund SAIF, was established within the Company's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund and the sub-fund is managed to ensure that all the invested assets are distributed to SAIF policyholders over the lifetime of the SAIF policies. With the exception of certain amounts in respect of the unitised with-profits life business, all future earnings arising in SAIF are retained for SAIF policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is offset by a change in the SAIF technical provisions (no FFA is shown for SAIF in 2019 because technical provisions are set to equal assets). Shareholders have no interest in the profits of SAIF but are entitled to the investment management fees paid on this business.

SAIF with-profits policies contain minimum levels of guaranteed benefit to policyholders. In addition, as mentioned earlier in this note, certain pensions products have guaranteed annuity rates at retirement. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the Company's shareholder fund would be liable to cover any such deficiency in the first instance.

The Company established a Polish branch, which became operational in March 2013. The Company's inherited estate is contributing to the costs of establishing the branch, and receives repayment through income from charges levied on the business. There is an obligation on the Company's shareholder funds to ensure the inherited estate will be repaid in full with interest and an amount is included in the longer term business provision for the estimated cost to the shareholder of any shortfall at end of the term of the agreement. This obligation to repay the inherited estate in full is not affected by the Part VII Transfer of the Company's Polish branch to its subsidiary PIA described in note 14 and 32.

Litigation

The Company is, and in the future may be, subject to legal actions and disputes in the ordinary course of its business.

While the outcome of such matters cannot be predicted with certainty, the directors believe that the ultimate outcome of current litigation will not have a material adverse effect on the Company's financial condition and results.

Intra-group Capital Support Arrangements

M&G plc and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by M&G plc (including in the scenarios referred to in Pension Mis-selling Review above). 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.

In 2016 the Company put in place an arrangement to formalise circumstances in which capital support would be made available to its subsidiary Prudential Pensions Limited (PPL). The drawdown of support would be triggered by a breach of pre-specified solvency conditions in PPL (105% of Solvency Capital Requirement or 105% of Economic Capital Requirement).

There is an obligation of the Company's shareholder funds to support Prudential Financial Planning Ltd, another group company, which became operational in 2013. Part of the acquisition costs incurred in the early years of operation are to be spread over five years, as from 1 January 2018, to reflect the period over which the benefit, in terms of sales, arises. Where the initial funding was provided by the Company's with-profits fund, it is subject to support from the shareholder funds that in the event of a closure during this period, the amortisation will be reversed and the shareholder will reimburse the consequent estate drain.

28. Financial assets and liabilities

A. Financial instruments - designation and fair values

All financial assets of the Company are designated as either fair value through profit and loss or loans and receivables. Financial liabilities are designated as either fair value through profit and loss, amortised cost or investment contracts with discretionary participation features accounted for under FRS 103 as described in the Accounting Policies section.

2019	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial Assets				
Deposits with credit institutions	—	12,541	12,541	12,541
Equity securities and portfolio holdings in unit trusts	55,842	—	55,842	55,842
Debt securities and other fixed income securities (note i)	63,824	—	63,824	63,824
Loans (note ii)	2,697	1,029	3,726	3,848
Participation in investment pools	6,288	—	6,288	6,288
Derivative assets	3,641	—	3,641	3,641
Assets held to cover linked liabilities	14,427	—	14,427	14,427
Debtors arising out of direct insurance operations	—	19	19	19
Debtors arising out of reinsurance operations	—	8	8	8
Accrued investment income	—	963	963	963
Other debtors	—	562	562	562
Cash at bank and in hand	—	3,332	3,332	3,332
Finance Lease asset (see note 13)	33	—	33	33
Total	**146,752**	**18,454**	**165,206**	**165,328**

	Fair value through profit and loss £m	Amortised cost £m	Investment contracts with DPF £m	Total carrying value £m	Fair value £m
Financial Liabilities					
Finance lease obligations (see note 13)	—	14	—	14	14
Other borrowings not owed to credit institutions (note iii)	—	92	—	92	92
Investment contracts with discretionary participation features (note iv)	—	—	78,022	78,022	—
Investment contracts without discretionary participation features	7,542	—	—	7,542	7,542
Creditors arising out of direct insurance operations	—	86	—	86	86
Creditors arising out of reinsurance operations	—	84	—	84	84
Deposits received from reinsurers	—	231	—	231	231
Other creditors	390	6,397	—	6,787	6,787
Derivative liabilities	1,812	—	—	1,812	1,812
Total (note v)	**9,744**	**6,904**	**78,022**	**94,670**	**16,648**

Notes on the financial statements (continued)

2018	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial Assets				
Deposits with credit institutions	—	8,929	8,929	8,929
Equity securities and portfolio holdings in unit trusts	48,192	—	48,192	48,192
Debt securities and other fixed income securities (note i)	63,999	—	63,999	63,999
Loans (note ii)	1,478	1,836	3,314	3,383
Participation in investment pools	5,046	—	5,046	5,046
Derivative assets	2,283	—	2,283	2,283
Assets held to cover linked liabilities	14,546	—	14,546	14,546
Debtors arising out of direct insurance operations	—	21	21	21
Debtors arising out of reinsurance operations	—	11	11	11
Accrued investment income	—	954	954	954
Other debtors	—	1,275	1,275	1,275
Cash at bank and in hand	—	2,080	2,080	2,080
Finance Lease asset (see note 13)	33	—	33	33
Total	**135,577**	**15,106**	**150,683**	**150,752**

	Fair value through profit and loss £m	Amortised cost £m	Investment contracts with DPF £m	Total carrying value £m	Fair value £m
Financial Liabilities					
Finance lease obligations (see note 13)	—	17	—	17	17
Other borrowings not owed to credit institutions (note iii)	—	89	—	89	89
Investment contracts with discretionary participation features (note iv)	—	—	67,018	67,018	—
Investment contracts without discretionary participation features	6,989	—	—	6,989	6,989
Creditors arising out of direct insurance operations	—	64	—	64	64
Creditors arising out of reinsurance operations	—	78	—	78	78
Deposits received from reinsurers	—	1,172	—	1,172	1,172
Other creditors	355	3,265	—	3,620	3,620
Derivative liabilities	2,172	—	—	2,172	2,172
Total (note v)	**9,516**	**4,685**	**67,018**	**81,219**	**14,201**

Notes

(i) As at 31 December 2019, £433m (2018: £355m) of convertible bonds were included in debt securities. There were no convertible bonds included in borrowings.

(ii) Loans and receivables are reported net of allowance for loan losses of £20m (2018: £17m losses).

(iii) As at 31 December 2019, £92m (2018: £89m) of loans repayable, contingent on regulatory surplus emerging, was included in Other borrowings not owed to credit institutions.

(iv) It is impractical to determine fair value of investment contracts with discretionary participation features due to the lack of a reliable basis to measure such features.

(v) For financial liabilities designated as fair value through profit and loss there was no material impact on profit from movements in credit risk during 2019 and 2018.

Determination of fair value

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

The fair values of the financial instruments which are held at fair value through profit and loss 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 disclosed value cannot be realised in immediate settlement of the financial instrument.

The investment properties of the Company are externally valued by professionally qualified external valuers using the Royal Institution of Chartered Surveyors valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenant and location. The variables used are compared to recent transactions with similar features to those of the Company's investment properties. As the comparisons are not with properties which are virtually identical to Company's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

The Company's shareholder investments in entities that undertake insurance business are valued at fair value. The Company's investments in other subsidiaries are valued based on net asset value where the directors consider that net asset value provides a close approximation to fair value.

Other than the loans which have been designated at fair value through profit or loss, the loans and receivables have been shown net of provisions for impairment. The discount rate is updated for the market risk rate of interest where applicable.

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 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 FRS 102.34 *Specialist Activities Financial Institutions* (FRS 102.34) paragraph 22 defined fair value hierarchy (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.

Following the demerger, the M&G plc group has implemented a new policy for classifying financial instruments within the fair value hierarchy, which has been applied by the Company. Compared with the policy previously applied, it is more granular and data-driven, with a more prescriptive definition of an active market. In addition, the extent to which inputs for internally valued assets are considered observable has been refined.

The policy has been applied consistently within these financial statements and accordingly the 2018 comparative table below has been restated. The principal impacts of restating the 2018 comparatives were:

- Reclassification of £7.0bn of government bonds, from level 1 to level 2.
- Reclassification of £0.1bn of collective investment schemes from level 1 to level 3.
- Reclassification of £2.8bn of corporate bonds, £0.6bn of government bonds and £0.2bn of collective schemes from level 2 to level 1.
- Reclassification of £9.4bn of corporate bonds, £1.1bn of loans, £1.0bn of collateralised securities, £0.7bn of government bonds, £0.3bn of alternative investments and £0.3bn of collective investment schemes from level 2 to level 3.

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 private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities and equity release mortgage loans which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that these have been based on observable market data. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as level 3.

Further details of internally valued level 3 assets are as follows:

- Debt securities which were either valued on a discounted cash flow method with an internally developed discount rate or using other valuation methodologies including enterprise valuation and estimated recovery (such as liquidators' reports). The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Notes on the financial statements (continued)

- Private equity and venture capital investments in both debt and equity securities which were valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
- Equity release mortgage loans which were valued internally using discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values. During 2019, there was a change to the deferment rate assumption which resulted in an increase in assumed property values at redemption.

Significant assumptions for equity release mortgage assets within the valuation of the no-negative-equity guarantee include the expected annual increase in house prices of 3.05% (2018: 3.05%) and the implied in house price volatility of 13% (2018: 13%).

	31 December 2019			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
With-profits*				
Investment properties	—	—	7,086	**7,086**
Equity securities and portfolio holdings in unit trusts	50,623	1,856	3,362	**55,841**
Debt securities	18,287	26,821	4,119	**49,227**
Loans	—	773	916	**1,689**
Other investments (including derivative assets)	67	3,876	5,586	**9,529**
Derivative liabilities	(31)	(646)	—	**(677)**
Total financial investments, net of derivative liabilities	**68,946**	**32,680**	**21,069**	**122,695**
Percentage of total	**56%**	**27%**	**17%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	6,750	—	435	**7,185**
Total investments net of derivative liabilities	6,750	—	435	**7,185**
Investment contract without discretionary participation features held at fair value	—	(7,542)	—	**(7,542)**
Total	**6,750**	**(7,542)**	**435**	**(357)**
Percentage of total	**N/A**	**N/A**	**N/A**	**100%**
Non-linked shareholder-backed**				
Investment properties	—	—	1,644	**1,644**
Equity securities and portfolio holdings in unit trusts	—	—	—	**—**
Debt securities	4,308	9,799	6,207	**20,314**
Loans	—	—	2,159	**2,159**
Other investments (including derivative assets)	—	603	1	**604**
Derivative liabilities	—	(1,135)	—	**(1,135)**
Total financial investments, net of derivative liabilities	**4,308**	**9,267**	**10,011**	**23,586**
Percentage of total	**18%**	**39%**	**42%**	**100%**
Company total				
Investment properties	—	—	8,730	**8,730**
Equity securities and portfolio holdings in unit trusts	50,623	1,856	3,363	**55,842**
Debt securities	22,595	36,620	10,326	**69,541**
Loans	—	773	3,075	**3,848**
Other investments (including derivative assets)	67	4,479	5,587	**10,133**
Assets held to cover linked liabilities	6,750	—	435	**7,185**
Derivative liabilities	(31)	(1,782)	—	**(1,813)**
Total financial investments, net of derivative liabilities	**80,004**	**41,946**	**31,516**	**153,466**
Investment contract without discretionary participation features held at fair value	—	**(7,542)**	—	**(7,542)**
Total	**80,004**	**34,404**	**31,516**	**145,924**
Percentage of total	**55%**	**24%**	**22%**	**100%**

* With-profits includes assets held to cover index-linked liabilities.

** Non unit-linked shareholder-backed includes assets held to cover index-linked liabilities.

Notes on the financial statements (continued)

	31 December 2018 restated			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits*				
Investment properties	—	—	7,577	**7,577**
Equity securities and portfolio holdings in unit trusts	44,502	333	3,357	**48,192**
Debt securities	4,926	38,479	5,329	**48,734**
Loans	—	537	891	**1,428**
Other investments (including derivative assets)	55	2,811	4,128	**6,994**
Derivative liabilities	(64)	(1,169)	—	**(1,233)**
Total financial investments, net of derivative liabilities	**49,419**	**40,991**	**21,282**	**111,692**
Percentage of total	**44%**	**38%**	**19%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	6,990	—	—	**6,990**
Total financial investments net of derivative liabilities	6,990	—	—	**6,990**
Investment contract without discretionary participation features held at fair value	—	(6,989)	—	**(6,989)**
Total	**6,990**	**(6,989)**	—	**1**
Percentage of total	**N/A**	**N/A**	**N/A**	**100%**
Non-linked shareholder-backed**				
Investment properties	—	—	1,660	**1,660**
Equity securities and portfolio holdings in unit trusts	—	—	—	—
Debt securities	856	14,409	6,304	**21,569**
Loans	—	—	1,986	**1,986**
Other investments (including derivative assets)	—	555	1	**556**
Derivative liabilities	—	(939)	—	**(939)**
Total financial investments, net of derivative liabilities	**856**	**14,025**	**9,951**	**24,832**
Percentage of total	**3%**	**56%**	**40%**	**100%**
Company total				
Investment properties	—	—	9,237	**9,237**
Equity securities and portfolio holdings in unit trusts	44,502	333	3,358	**48,193**
Debt securities	5,782	52,887	11,633	**70,302**
Loans	—	537	2,876	**3,413**
Other investments (including derivative assets)	55	3,366	4,128	**7,549**
Assets held to cover linked liabilities	6,990	—	—	**6,990**
Derivative liabilities	(64)	(2,108)	—	**(2,172)**
Total financial investments, net of derivative liabilities	**57,265**	**55,015**	**31,232**	**143,512**
Investment contract without discretionary participation features held at fair value	—	**(6,989)**	—	**(6,989)**
Total	57,265	48,026	31,232	136,523
Percentage of total	**42%**	**35%**	**23%**	**100%**

* With-profits includes assets held to cover index-linked liabilities.

** Non unit-linked shareholder-backed includes assets held to cover index-linked liabilities.

Assets held to cover unit-linked liabilities, shown in the table, only covers those assets which are required to be disclosed under the provisions of FRS 102.34 for the fair value hierarchy. There are a further £1,286m (2018: £989m) of assets which comprise the total assets held to cover unit-linked liabilities, which consist mainly of cash at bank, other debtors and property.

Interest expense

The interest expense on financial liabilities not at fair value through profit and loss was £5m for the year ended 31 December 2019 (2018: £6m).

B. 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 risk categories affecting the Company's financial instruments and insurance assets and 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 and liabilities.
Credit risk	The risk of loss or of adverse change in the Company's financial situation, 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 for the Company's business, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of a number of insurance risk drivers.
Liquidity risk	Treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in the financial situation, resulting from the Company's inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and planned dividends) as they fall due. Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

The financial assets and liabilities attaching to the Company's life assurance business are, to varying degrees, subject to the risks described above that may have a material effect on the profit or loss and shareholders' funds. This is discussed below by component of business.

With-profits business

With-profits sub-fund (WPSF) business

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is only sensitive to market and credit risk through the indirect effect on shareholder transfers from the WPSF.

The investment assets of the WPSF are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability, movements in its value do not affect shareholders' profit and funds, so the shareholder is not directly exposed to changes in the assets and liabilities within the WPSF.

The shareholder results of the WPSF are 1/9th of the cost of bonuses declared to with-profits policyholders. For certain with-profits contracts, such as those invested in the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the smoothed basis of bonus declaration, the sensitivity to short-term investment performance and other insurance risks is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, as are shareholder transfers expected to emerge from the 2018 and 2019 tranches of PruFund new business.

Defined Charge Participating sub-fund (DCPSF) business

For similar reasons to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges arising on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

Scottish Amicable Insurance Fund (SAIF) business

SAIF is a ring-fenced fund and shareholders have no entitlement to the profits of the fund. Accordingly, the Company's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities.

Unit-linked business

Unit-linked business represents a comparatively small proportion of the Company's in-force business. Due to customer liabilities moving in line with attaching asset value movements, the shareholder's exposure to the unit-linked business is not directly affected by market or credit risk.

Profits from unit-linked contracts primarily arise from the excess of charges to customers for management of assets, over expenses incurred. The charges incurred are most sensitive to the movement in funds under management due to investment performance, as well as lapse and timing of death. 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. Amounts under unit-linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

Annuity and other shareholder business

The Company's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with covering assets of an appropriate duration. Except to the extent of any asset/liability duration mismatch, the sensitivity to market risk arising from movements in the value of annuity liabilities net of covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk, as there are no offsetting liabilities. These assets are primarily debt securities.

The shareholder is directly exposed to credit risk (asset default, downgrade and spread widening) arising on the assets held within the shareholder-backed funds, and the corresponding impact on the measurement of the liabilities.

The shareholder-backed annuity results are particularly sensitive to changes in assumptions about future mortality improvements which impact the measurement of the liabilities, and also to the variance between actual and expected mortality experience each year. The results are also sensitive to changes in maintenance expense levels over the longer term.

Other shareholder business includes the lifetime mortgage business, which is sensitive to market, credit and insurance risks, but especially to property, interest rate and credit risks.

C. Market Risk

As described in Section B market risk is the risk of loss, or adverse change in the financial situation resulting directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

Market risk comprises six types of risk, namely:

- Interest rate risk: fluctuations in the level and 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.
- Equity risk: fluctuations in the level or volatility of equity investments.
- Property risk: fluctuations in the level or volatility of property investments.
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures.

Notes on the financial statements (continued)

- Alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above).

The primary market risks that the Company faces are equity risk, property risk, and interest rate risk because most assets are investments that are either equity type investments and subject to equity price risk, or bonds, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. The amount of risk borne by the Company's shareholders depends on the extent to which its customers share the investment risk through the structure of the products.

Interest rate risk and inflation risk

The majority of the Company's interest rate exposure arises from shareholder-backed annuities. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The level of matching from year to year can vary depending on management actions and economic factors and therefore it is possible for a degree of mismatching exposure to arise. In addition, the matching of assets of appropriate duration to the annuity liabilities is based on management of regulatory capital reporting requirements. The measurement of liabilities under regulatory capital reporting requirements and FRS 103 is not the same, with contingency reserves and some other margins for prudence not included for FRS 103 reporting purposes. As a result FRS 103 shareholders' funds are higher than regulatory capital and more sensitive to interest rate risk.

The assets held in excess of the liabilities, which back the capital requirements of the annuity business, also result in shareholder exposure to interest rate risk, as there are no offsetting liabilities.

The assets and liabilities for with-profits business are sensitive to interest rates, but the shareholder is not directly exposed to movements in these assets and liabilities. The liabilities for the unit-linked business component are sensitive to interest rates, but as these move in line with the underlying assets, there is no direct exposure to the shareholder.

The estimated sensitivity of the shareholder-backed business to a movement in interest rates of 1% and 2% as at 31 December 2019 and 2018 are as follows:

	2019				2018			
	Fall of 1%	**Rise of 1%**	**Fall of 2%**	**Rise of 2%**	Fall of 1%	Rise of 1%	Fall of 2%	Rise of 2%
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Carrying value of debt securities and derivatives	**3,150**	**(2,663)**	**7,027**	**(4,971)**	3,317	(2,792)	7,369	(5,193)
Long term business provision	**(2,155)**	**1,798**	**(4,765)**	**3,312**	(2,162)	1,801	(4,784)	3,317
Related tax effects	**(169)**	**147**	**(385)**	**282**	(199)	171	(446)	323
Net sensitivity of profit after tax and shareholders' funds	**826**	**(718)**	**1,877**	**(1,377)**	956	(820)	2,139	(1,553)

Equity and property risk

While the Company holds significant amounts of equity and property assets, these are primarily held to back with-profits and unit-linked business, where there is no direct exposure to the shareholder. The majority of the direct shareholder exposure to these risks arises in respect of property assets held in the annuity funds.

There is, however, some indirect exposure to the shareholder through the impact on shareholder transfers from with-profits business and charges levied on unit-linked business.

	2019		2018	
	Decrease of 20%	**Decrease of 10%**	Decrease of 20%	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**(329)**	**(164)**	(332)	(166)
Related deferred tax effects	**56**	**28**	56	28
Net sensitivity of profit after tax and shareholders' funds	**(273)**	**(136)**	(276)	(138)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

In the equity risk sensitivity analysis shown above the Company has considered the impact of an instantaneous 20% fall in equity markets. The Company believes a fall of greater than 20% would be expected to occur over a greater period of time rather than instantaneously, during which time the Company would be able to put mitigating management actions in place.

Currency Risk

The Company invests significant amounts of assets backing with-profits business in overseas assets as part of its investment strategy. However, the direct currency risk exposure to the shareholder from the with-profits and unit-linked business components is low, and currency risk exposure arising from overseas assets held by the shareholder-backed annuity is mitigated through the use of derivatives.

As at 31 December 2019 the Company held 41% and 3% (2018: 39% and 2%) of its financial assets and financial liabilities, respectively in currencies, mainly US Dollar and Euro, other than the functional currency of the relevant business unit.

The financial assets, of which 73% (2018: 80%) are held by the with-profits fund, allow the Company to obtain exposure to foreign equity and debt markets.

The financial liabilities, of which 89% (2018: 90%) are held by the with-profits fund, mainly relate to investment contracts with discretionary participation features.

The exchange risks inherent in these exposures are partially mitigated through the use of derivatives, mainly forward currency contracts.

D. Credit risk

The Company's exposure to credit risk primarily arises from the annuity funds which hold large amounts of investments on which a certain level of defaults and downgrades are expected.

While the with-profits and unit-linked funds have large holdings of assets subject to credit risk, the shareholder results of the Company are not directly exposed to credit defaults on assets held in these components. However, the shareholder is indirectly exposed to credit risk on these components through lower shareholder transfers in respect of the with-profits business and lower charges levied in respect of unit-linked business.

Debt Securities and Other Fixed Income Securities

The following table summarises by rating the securities held by the Company as at 31 December 2019 and 2018.

	2019 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
With-profits	**5,236**	**8,257**	**11,763**	**14,014**	**1,899**	**6,314**	**47,483**
Non-linked shareholder-backed	**2,041**	**4,350**	**3,349**	**1,609**	**62**	**4,930**	**16,341**
Total debt securities and other fixed income securities	**7,277**	**12,607**	**15,112**	**15,623**	**1,961**	**11,244**	**63,824**

	2018 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
With-profits	6,678	8,543	10,766	13,439	2,480	4,951	46,857
Non-linked shareholder-backed	2,495	4,795	3,745	1,287	134	4,686	17,142
Total debt securities and other fixed income securities	9,173	13,338	14,511	14,726	2,614	9,637	63,999

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In the table above S&P ratings have been used where available. For securities where S&P ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

Where no external ratings are available internal ratings produced by the M&G plc group's asset management operations, which are prepared on a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2019 which are not externally rated, £7,264m (2018: £6,345m) were internally rated AAA to A-, £2,534m (2018: £2,554m) were internally rated BBB+ to B- and £1,446m (2018: £738m) were internally rated as below B- or unrated. The majority of the unrated debt security investments were held by the Company's with-profits fund and relate to convertible debt and other investments which are not covered by rating analysts nor have an internal rating attributed to them.

As detailed in section B the primary sensitivity of profit or loss and shareholders' equity of the Company relates to non-linked shareholder-backed business.

Excluded from the table above is £5,716m (2018: £6,309m) of assets backing unit-linked and index-linked contracts which are included within assets held to cover linked liabilities. The policyholders of these contracts bear the credit risk arising from these assets.

The Company's exposure to the Eurozone sovereigns of Ireland, Italy, and Spain is £126m (2018: £111m) with £79m (2018: £75m) in the with-profits fund and £47m (2018: £36m) in the shareholder funds. The Company's exposure to banking operations in these Eurozone countries is £88m (2018: £61m) all within the with-profits fund.

Loans and receivables

In accordance with accounting policy, impairment reviews were performed for loans and receivables. During the year ended 31 December 2019, impairment losses of £5m (2018: £7m) and £22 million (2018: £5 million) reversal of impairment losses were recognised for loans and receivables.

Notes on the financial statements (continued)

Of the total loans and receivables held £1m (2018: £13m) are past their due date but have not been impaired. 100% (2018: 100%) of the loans and receivables that are past due but not impaired are less than one year past their due date for 2019. The Company expects full recovery of these loans and receivables.

Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions at 31 December 2019 of £17,567m (2018: £18,255m), 68% of the balance relates to companies outside of the Group (2018: 67% outside of the Prudential Group, the previous ultimate parent undertaking) and of this 98% (2018: 99%) of the balances were from reinsurers with S&P's rating of BBB and above.

Securities lending and reverse repurchase agreements

The Company has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements, depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Company's balance sheet; rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2019, the Company has £7,180m (2018: £8,245m) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements was £7,613m (2018: £8,662m).

At 31 December 2019, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £11,217m (2018: £8,481m).

During 2019 and 2018 the Company did not take possession of any other collateral held as security.

Collateral and pledges under derivative transactions

At 31 December 2019, the Company had pledged £760m (2018: £989m) for liabilities and held collateral of £2,511m (2018: £1,373m) 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 agreement.

Collateral Pledged and Received for Reinsurance Contracts

The Company has entered into several reinsurance agreements where the Reinsurer has agreed to reinsure the Company in respect of the reinsurance claims in consideration of the Company agreeing to pay to the Reinsurer the reinsurance premium and reinsurance fee. Exposure collateral calculations are performed on each agreement on either a quarterly or annual basis, with relevant collateral then being pledged or held by the Company. The calculations commenced in 2018. As at 31 December 2019, the Company had pledged collateral of £63m (2018: £4m), relating to these agreements.

Collateral Pledges for Equity Release mortgages

As at 31 December 2019 the Company had pledged collateral of £417m (2018: £369m) consisting of debt securities for the deferred purchase consideration for the mortgages purchased from Santander.

E. Insurance Risk

The Company is exposed to significant levels of insurance risk. This arises mainly from the annuity business in the form of longevity risk, which is the risk that the Company's (current and deferred) annuity customers live longer than expected and, as a result, annuity payments are higher and future reserving and capital assumptions are changed. If mortality improvement rates significantly exceed the improvement assumed, the Company's results could be adversely affected. Further to this, any major medical breakthrough (for example in the treatment of cancer or other life-threatening diseases) that would require the Company to strengthen its longevity assumptions would have an impact on its results.

Longevity risk has been predominantly managed through:

- annual reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus best estimate assumptions;
- longevity research;
- longevity risk transfer transactions, assessed against principles and guidance provided in the Reinsurance Appraisal Framework; and
- monthly monitoring of longevity exposure.

Other demographic risks such as persistency risk and non-annuitant mortality risk, and also expense risk are subject to regular reviews, with frequency and intensity proportionate to the materiality of the risk.

Shareholder fund
Profits from shareholder-backed annuity business are most sensitive to:

- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities;
- the variance between actual and expected mortality experience; and
- changes in renewal expense levels.

A decrease in assumed mortality rates of 1% would decrease pre-tax profits by approximately £40m (2018: £37m). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £98m (2018: £99m). A decrease in renewal expenses (excluding asset management expenses) of 5% would increase pre-tax profits by £25m (2018: £21m). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £68m (2018: £69m). This analyses has been determined by varying the relevant assumption as at the reporting date while holding all other assumptions constant.

For unit-linked business, 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.

With-profits sub-fund business
Mortality and other insurance risk are relatively minor factors in the determination of the bonus rates. Adverse persistency experience can affect the level of profitability from with-profits but in any given one year, the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect shareholder profits to the extent that likely lead to changes in future shareholder transfers.

F. Liquidity Risk

The Company is exposed to two types of 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 (e.g. claims, creditors and other corporate costs) as they fall due.
- fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

While the Company is not directly exposed to fund liquidity risk, it is exposed to indirect effects of this risk materialising, such as an impact on persistency and reputation.

The Company is exposed to treasury liquidity risk through for example:

- higher than expected customer withdrawals or collateral requirements, and/or lower than expected market liquidity for assets in its with-profits and unit-linked funds;
- ineffective asset/liability matching or higher than expected credit defaults for non-profit annuity business, leading to a mismatch between cash received from the Company's investments and annuity payments to its customers; and
- higher than expected cash outflows from the shareholder business, e.g. due to tax or collateral requirements.

Liquidity risk is managed through a robust Liquidity Risk Management Framework, including relevant governance and controls, which includes:

- liquidity risk policies, which set out the approach to the management of both treasury and fund liquidity risk. Compliance with the policies is the subject of an annual attestation process;
- a Liquidity Contingency Plan, which sets out the procedures to be followed if a material liquidity risk event arises or is expected to arise;
- asset and liability management programmes, including monitoring of projected liability cash flows to achieve close asset-liability matching;
- quarterly monitoring of exposures, under base and stress scenarios, against specific triggers and limits for the with-profits, annuity and unit linked funds for a range of time horizons; and
- additional monitoring and controls to satisfy Solvency II matching adjustment requirements, including an annual reverse stress test exercise, and an Eligible Collateral Coverage Ratio, reported quarterly, which captures the increased risk that collateral requirements cannot be met due to matching adjustment constraints.

In addition, to manage liquidity risk in unit-linked funds which are 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. For the Company's subsidiary, Prudential Pensions Limited (PPL), this clause was utilised on its UK Property fund in 2019 due to the fund manager (M&G Real Estate) receiving a large number of redemption requests. Fund liquidity continues to attract internal and external (including regulatory) focus for the Company, the Group and the industry more generally.

Liquidity Analysis

(i) Contractual maturities of financial liabilities

The following tables set out the contractual maturities and repricing dates for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts, which are separately presented. The financial liabilities are included in the column relating to the contractual maturities and repricing dates at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those at year end.

2019	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**Total un-discounted cashflows**	**Total carrying value**
Financial Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Amounts owed to credit institutions	**1**	**1**	**1**	**1**	**1**	**9**	**14**	**14**
Other borrowings not owed to credit institutions	**—**	**92**	**—**	**—**	**—**	**—**	**92**	**92**
	1	**93**	**1**	**1**	**1**	**9**	**106**	**106**

2018	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted cashflows	Total carrying value
Financial Liabilities	£m	£m	£m	£m	£m	£m	£m	£m
Amounts owed to credit institutions	1	1	1	1	1	13	18	18
Other borrowings not owed to credit institutions	—	89	—	—	—	—	89	89
	1	**90**	**1**	**1**	**1**	**13**	**107**	**107**

ii) Maturity analysis of derivatives and investment contracts

The following table provides a maturity analysis of derivative assets and liabilities:

2019	**Total carrying value**	**1 year or less**	**After 1 to 3 years**	**After 3 to 5 years**	**After 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net derivative position	**1,829**	**1,829**	**—**	**—**	**—**	**1,829**

2018	Total carrying value	1 year or less	After 1 to 3 years	After 3 to 5 years	After 5 years	Total
	£m	£m	£m	£m	£m	£m
Net derivative position	111	111	—	—	—	111

The net derivative positions as shown in the table above comprise the following derivative assets and liabilities:

	2019	2018
	£m	£m
Derivative assets (note 15)	**3,641**	2,283
Derivative liabilities (note 15)	**(1,812)**	(2,172)
Net derivative position	**1,829**	111

The derivative assets and liabilities have been included at fair value within the 1 year or less column representing the basis on which they are managed (i.e. to manage principally asset or liability value exposures). Contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments and in particular the Company has no cash flow hedges.

The table below shows the maturity profile for investment contracts on an undiscounted basis to the nearest billion. This maturity profile has been based on Real World projections.

	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted value	Total carrying value
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
2019								
Life assurance investment contracts	**10**	**33**	**31**	**21**	**12**	**16**	**123**	**86**
2018								
Life assurance investment contracts	8	29	28	20	12	16	113	74

This table has been prepared on an undiscounted basis and accordingly the amounts shown for life assurance investment contracts differ from those included in the balance sheet. Durations of long-term business contracts, covering both insurance and investment contracts, on a discounted basis are included in note 26.

G. Derivatives and Hedging

The Company uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In so doing, the Company obtains cost effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency, credit and other business risks. The Company also hedges against the equity risk affecting future shareholder transfers from the with-profits sub fund. The Company has opted not to apply hedge accounting to derivatives.

Notes on the financial statements (continued)

The Company uses various interest rate derivative instruments such as interest rate swaps and swaptions to reduce exposure to interest rate volatility.

The Company also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than sterling.

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and CSA (Credit Support Annex) in accordance with the regulatory requirements.

The Group has collateral agreements between the individual group entities, of which the Company is one, and relevant counterparties in place under each of these market master agreements. The Company has also entered into cleared derivative positions under the EMIR (European Market Infrastructure Regulation).

The total fair value balances of derivative assets and liabilities are shown in note 15.

There are hedging arrangements in place for the liabilities. In addition to some product/purpose specific arrangements, the main objective of the hedging arrangement is to broadly match a subset of the market consistent liabilities and hence protect the Solvency II position of the with-profits business against adverse market movements. A benchmark of a theoretical replicating portfolio (comprising of equity put options and interest rate exposures) representing the liabilities has been determined, based on characteristics of the with-profits liability. The actual and required hedging positions are monitored on a monthly basis and rebalanced if required.

During 2013 the Company entered into a partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which has been extended in 2019 and 2018. The effect in 2019 is an unrealised loss of £150m (2018: unrealised gain of £201m) and a realised loss of £100m (2018: realised loss of £48m) charged to the non-technical account.

During 2018 and 2019, the Company entered into hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, specifically with regard to the PruFund 2018 and 2019 new business, as arise over the contract period of 10 years. During 2019, the transaction resulted in £25m unrealised loss in the non-technical account (2018: £nil).

29. Capital Requirements and Management

The Company's estimated and unaudited shareholder Solvency II Surplus at 31 December 2019 is £3.1bn (2018: £3.7bn), after allowing for recalculation of transitional measures. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements. Own Funds is the Solvency II measure of assets less liabilities and certain other restrictions.

While the surplus position of the Company's with-profits funds remain strong on a Solvency II basis, it is ring-fenced from the shareholder balance sheet and is therefore excluded from the Company's shareholder Solvency II surplus results. The Solvency Capital Requirement (SCR) associated with the Company's with-profits funds is included in the Company's SCR and the Own Funds to cover this are included in the Company's Own Funds. The estimated and unaudited Solvency II capital position for the Company as at 31 December 2019 and December 2018 is shown below:

	2019	2018
	Unaudited	Unaudited
	£bn	£bn
Solvency II Own Funds	**12.8**	13.0
Solvency II Capital Requirement (SCR)	**9.7**	9.3
Solvency II Surplus	**3.1**	3.7
Solvency II Coverage ratio	**131%**	140%

Notes on the financial statements (continued)

The Solvency II Pillar I capital requirements at 31 December 2019 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.

Shareholder fund

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 significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the regulatory balance sheet resilient to stresses that affect the Company 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.

Projections are performed over three year time horizons to understand how the Own Funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the Own Funds position, including (but not limited to) changes to investment strategy, dividend policy and risk transfer.

Policyholder Fund

The Company manages its Own Funds to ensure that sufficient Own Funds are available on an ongoing basis to meet regulatory capital requirements. The risk appetite is the key tool for determining what level of Own Funds is needed to ensure that regulatory capital requirements continue to be met with a high degree of confidence.

Projections are performed over three year time horizons to understand how the Own Funds and capital position is expected to develop and how this might be affected by adverse events taking place, including assessment against risk appetite. Informed by the results of these projections there are a number of actions available to management to influence the development of the Own Funds position, including (but not limited to) changes to investment strategy, bonus policy, level and type of new business and risk transfer.

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

30. 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 2019.

(i) Direct subsidiary undertakings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Cardinal Distribution Park Management Limited	Ordinary Shares	66%	United Kingdom	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford General Partner Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Carraway Guildford Limited Partnership	Limited partnership interest	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
CJPT Real Estate Inc.	Ordinary Shares	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway JV Limited	Ordinary Shares	50%	United Kingdom	40 Broadway, London, SW1H 0BT, UK
Cribbs Mall Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Edger Investments Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Edinburgh Park (Management) Limited	Private company limited by guarantee	100%	Scotland	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, UK
EF IV Schoolhill GP Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Fort Kinnaird Limited Partnership	Limited Partnership Interest	50%	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	Ordinary Shares	50%	United Kingdom	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
The Greenpark (Reading) Limited Partnership	Limited Partnership Interest	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Manchester JV Limited	Ordinary Shares	50%	United Kingdom	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Minster Court Estate Management Limited	A Ordinary Shares and B Ordinary Shares	56%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	Ordinary Shares	99%	USA	7 St. Paul Street, Suit 820, Baltimore MD 21202, USA
Optimus Point Management Company Limited	Ordinary Shares	52%	United Kingdom	Barrat House Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPMC First Nominees Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Investment (Luxembourg) 2 S.à.r.l.	Ordinary shares	100%	Luxembourg	16 Boulevard Royal, L-2449, Luxembourg, Luxembourg
Prudential Loan Investments SCSp	Limited partnership interest	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282 Luxembourg
PAP Trustee Pty Limited	Unclassified Shares	100%	Australia	Level 17 Tower One, International Towers, Barangaroo, Sydney, NSW 2000, Australia
Prudential Real Estate Investments 1 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

PVM Partnerships Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Schoolhill Sarl	Ordinary Shares	100%	Luxembourg	20, rue de la Poste, Luxembourg
Smithfield Limited	Has both £1.00 Ordinary Shares and $1.00 Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Three Snowhill Birmingham S.a.r.l.	Ordinary Shares	100%	Luxembourg	5, rue Guilllaume Kroll, L-1882, Luxembourg
Two Snowhill Birmingham S.a.r.l.	Ordinary shares	100%	Luxembourg	5, rue Guilllaume Kroll, L-1882, Luxembourg
Vanquish Properties LP Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Wessex Gate Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Insurance

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential International Assurance plc	Ordinary Shares	100%	Ireland	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential Pensions Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Pension

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Corporate Pensions Trustee Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Holding company

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Holborn Life Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Mortgage lending

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Lifetime Mortgages Limited	Ordinary & Preference Shares	100%	United Kingdom	Craigforth, Stirling, FK9 4UE, UK

Notes on the financial statements (continued)

Financing

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Scottish Amicable Finance Limited	Ordinary Shares	100 %	United Kingdom	Craigforth, Stirling, FK9 4UE, UK

Service

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential International Management Services Limited	Ordinary Shares	100%	Ireland	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland

Dormant

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Scottish Amicable Life Assurance Society	No Share Capital	100 %	United Kingdom	Craigforth, Stirling, FK9 4UE, UK

In Liquidation

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Property Investments Limited	Ordinary Shares and Redeemable Preference Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

(ii) Other subsidiaries, associated undertakings, joint ventures and significant holdings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
ANRP II (AIV VI FC), L.P.	Limited Partnership Interest	43%	Cayman Islands	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
BWAT Retail Nominee (1) Limited	A Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	A Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford (Nominee A) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, Jersey, JE1 1ST
Carraway Guildford (Nominee B) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, Jersey, JE1 1ST
Carraway Guildford Investments Unit Trust	Ordinary Shares	100%	Jersey	13 Castle Street, St Helier, JE4 5UT, Jersey
Centaurus Retail LLP	Limited Partnership Interest	50%	United Kingdom	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	Limited partnership interest	46%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States

Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	Limited partnership interest	46%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	Limited partnership interest	45%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	Limited partnership interest	37%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	Limited partnership interest	33%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
CJPT Real Estate No. 1 Trust	Ordinary Shares	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	Ordinary Shares	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
LF Prudential European QIS Fund	Ordinary Shares	83%	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Japanese QIS Fund	Ordinary Shares	87%	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential North American QIS Fund	Ordinary Shares	91%	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Pacific Markets Trust Fund	Ordinary Shares	88%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
LF Prudential UK Growth QIS Fund	Ordinary Shares	93%	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
Cribbs Causeway Merchants Association Limited	Limited by Guarantee	20%	United Kingdom	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Eastspring Investments - Asian Local Bond Fund	Ordinary shares	97%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Smaller Companies Fund	Ordinary shares	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Total Return Bond Fund	Ordinary shares	94%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Developed and Emerging Asia Equity Fund	Ordinary shares	98%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Dynamic Fund	Ordinary shares	94%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Equity Income Fund	Ordinary shares	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Japan Equity Fund	Ordinary shares	87%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity FUND	Ordinary shares	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Customized Equity Fund	Ordinary Shares	99%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Japan Smaller Companies Fund	Ordinary Shares	60%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	Ordinary Shares	34%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg

Notes on the financial statements (continued)

Folios III Designated Activity Company	Ordinary Shares	49%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	Ordinary Shares	77%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	Ordinary Shares	50%	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
Infracapital Partners LP	Limited partnership interest	33%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II LP	Limited partnership interest	26%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
MCF S.r.l.	Ordinary shares	45%	Italy	Via Montenapoleone 29 CAP, 20121, Milan, Italy
M&G Asia Property Fund	A Class Shares	56%	Luxembourg	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Corporate Bond Fund	Ordinary shares	32%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Dividend Fund	Ordinary shares	54%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European Credit Investment Fund	Ordinary Shares	20%	Luxembourg	80, route d'Esch, L-1470, Luxembourg
M&G European High Yield Credit Investment Fund	Ordinary Shares	75%	Luxembourg	80, route d'Esch, L-1470, Luxembourg
M&G European Property Fund SICAV-FIS	Ordinary Shares	38%	Luxembourg	16 Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G European Select Fund	Ordinary Shares	38%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Gilt & Fixed Interest Income Fund	Ordinary shares	24%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global Convertibles Fund	Ordinary Shares	65%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Positive Impact Fund Total	Ordinary Shares	36%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Fund	Ordinary Shares	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Residential Property Fund	Limited Partnership Interest	58%	Luxembourg	34-38, avenue de la Liberté, L-1931, Luxembourg
M&G UK Companies Financing Fund II LP	Limited partnership interest	48%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	Ordinary Shares	24%	United Kingdom	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G European Loan Fund Ltd	Ordinary Shares	26%	Ireland	Block D, Iveagh Court, Harcourt Road, Dublin, 2 Ireland
M&G Pan European Select Smaller Companies Fund	Units	25%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Smaller Companies Fund	Ordinary Shares	42%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Sustainable Multi Asset Fund	Ordinary Shares	87%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Old Kingsway LP	Limited Partnership Interest	100%	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA

PPM America Private Equity Fund III LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	Limited Partnership Interest	40%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	Limited Partnership Interest	46%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM Funds - PPM Floating Rate Income Fund	Ordinary Shares	99%	USA	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM High Yield Core Fund	Ordinary Shares	99%	USA	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Small Cap Value Fund	Ordinary Shares	86%	USA	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
Property Partners (Two Rivers) Limited	Ordinary Shares	50%	United Kingdom	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Prudential Credit Opportunities SCSp	Ordinary shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Dynamic 20-55 Portfolio	Ordinary Shares	27%	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 40-80 Portfolio	Ordinary Shares	25%	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 0-30 Portfolio	Ordinary Shares	20%	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 60-100 Portfolio	Ordinary Shares	23%	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 0-30 Portfolio	Ordinary Shares	48%	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 20 - 55 Portfolio	Ordinary Shares	24%	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	Limited partnership interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential/M&G UK Companies Financing Fund LP	Limited partnership interest	34%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Prudential UK Real Estate General Partner Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Randolph Street LP	Limited Partnership Interest	100%	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Sectordate Limited	Ordinary Shares	33%	United Kingdom	1st Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	Limited Partnership Interest	100%	USA	251 Little Falls Drive, Wilmington, DE 19808, USA
St Edward Homes Limited	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
Silverfleet Capital 2004 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2005 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2006 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	Limited Partnership Interest	100%	Guernsey	1 Carter Lane, London, EC4V 5ER, UK
The Car Auction Unit Trust	Ordinary shares	50%	Guernsey	Dorey Court, Admiral Park, St. Peter Port, GY1 2HT, Guernsey
St Edward Homes Partnership	Limited Partnership Interest	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
The Project Hoxton LP	Limited Partnership Interest	100%	United Kingdom	12 Throgmorton Avenue, London, EC2N 2DL, UK
The Strand Property Unit Trust	Limited Partnership Interest	50%	Jersey	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	Ordinary shares	50%	Jersey	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Vanquish Properties GP Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee A Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 1 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 2 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 3 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey

Vanquish Properties GP Nominee 4 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties (UK) Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wynnefield Private Equity Partners II, L.P.	Limited Partnership Interest	99%	USA	1209 Orange Street, Wilmington, DE 19801, USA

Service

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Polska sp. z.o.o	Ordinary Shares	100%	Poland	02-670 Warszawa, Pulawska 182, Poland

In liquidation

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Fashion Square ECO LP (in liquidation)	Limited Partnership Interest	50%	USA	1209 Orange Street, Wilmington, DE 19801, USA

31. Acquisition and disposal of material subsidiaries and participating interests

Prudential Retirement Income Limited (PRIL) was transferred to the Company in accordance with Part VII of the FSMA in October 2016 and subsequently placed into liquidation in December 2017. In September 2019 PRIL was liquidated, resulting in a return of capital of £100m to the Company. The return of capital was settled through the cancellation of a £100m loan PRIL had granted to the Company.

On 14 December 2018, the beneficial interest in the Company's Hong Kong subsidiaries, Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited were sold to Prudential Corporation Asia Limited, with the legal ownership transferring on 19 December 2018. The Hong Kong companies offer both participating and non-participating term, whole life endowment and unit-linked policies. These were previously included as investments in group undertakings in the Company's financial statements.

The transfer resulted in a decrease of £9,450m to investments in group undertakings. The difference between the fair value of the Hong Kong subsidiaries of £9,450m at the date of transfer and the consideration received of £33m represented a deemed distribution.

Notes on the financial statements (continued)

32. Transfers of business

On 1 January 2019 the Company transferred its long-term non-UK European business to PIA, a subsidiary of the Company which is based in the Republic of Ireland. This was effected on 1 January 2019 via a Part VII transfer as sanctioned by the UK High Court of England and Wales. The terms and conditions of these policies did not change as a result of the transfer. PIA issued 36,037,717 ordinary shares of €1.27 each to the Company in consideration for the businesses transferred.

The assets and liabilities transferred from the Company on 1 January 2019 are as follows:

Assets	**£m**
Intangible assets	6
Assets held to cover linked liabilities	3
Reinsurers' share of technical provisions	47
Debtors	2
Cash at bank and in hand	15
Deferred acquisition costs: long-term business	7
Total Assets	**80**

Liabilities	
Technical provisions	50
Technical provisions for linked liabilities	3
Creditors	9
Accruals and deferred income	3
Total Liabilities	**65**
Net Assets transferred	**15**

33. Post balance sheet events

On 26 February 2020 the Company announced the 2019 annual bonus rates for the with-profits fund. The Company also announced an additional bonus of 1.25% to enhance the unsmoothed value of plans for customers with traditional and accumulating policies. It may be necessary to take back the additional bonus in order to protect the interests of all customers and the strength of the fund at a future date, although this is not expected to happen. For PruFund customers, additional surplus has been shared by increasing the unit price by 0.9%.

On 4 March 2020 the Company approved an interim dividend of £410m to be paid to M&G plc. This is not recognised in the 2019 financial statements.