Registered No: 15454

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Annual Report and Financial Statements for the Year Ended 31 December 2022

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

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

CONTENTS

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

Mr C P Adamson
Ms C J Bousfield
Mr R S Bowie (Chairman)
Mr P D Cooper (terminated 6 May 2022)
Mr J W Foley (terminated 14 September 2022)
Ms L Fowler
Mr S Horgan (appointed 15 August 2022)
Dr I Owen
Ms M Tannemaat
Mr D K Watson

Company Secretary

Mr I Bothamley (appointed 30 November 2022)
Ms J A Owens (resigned 30 November 2022)

Independent Auditors

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Principal activity

The principal activity of The Prudential Assurance Company Limited (the Company) in the course of 2022 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2023. Throughout 2022 the Company also owned insurance subsidiary undertakings Prudential Pensions Limited (PPL) and Prudential International Assurance plc (PIA). Both these companies transacted insurance business in the United Kingdom and PIA transacted business in Europe.

The Company's long-term products consist of life insurance, investment 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 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 2022 has been the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe. PIA also distributes savings and protection products in Poland through its Polish branch.

The Company's UK insurance subsidiary, PPL mainly sells unit-linked products.

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

As the Company is a wholly owned subsidiary undertaking of another company registered in England and Wales, consolidated 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.

Business review

The Company is the principal subsidiary within M&G's Retail & Savings business which includes M&G Wealth, Heritage business and Other Retail and Savings business (mainly PIA). M&G Wealth provides a range of retirement, savings and investment management solutions to its clients. Heritage business includes individual and corporate pensions, annuities, life, savings and investment products, the majority of which are closed to new clients but may accept further contributions from existing policyholders. The Company has a long history of developing innovative solutions for customers' changing needs, with a brand benefiting from a strong heritage spanning over 170 years. These strong roots and a continued focus on long-term thinking and financial strength are highly sought after by individual savers, investors and the financial advisers looking to manage and grow their savings.

The Company's goals include having the trust of our clients to meet their financial goals, ensuring that our clients find it easy to do business with us and are confident they can make informed decisions with the right solution for their needs.

Over the last few years, defined contribution pension plans have been replacing defined benefit schemes in the UK, switching the risk and responsibility for retirement provision away from the state and employers to individuals. Moreover, the introduction of pension freedoms in 2015 has given individuals more control over their own pensions, but the reforms have also introduced significant additional complexity.

To support customers in this changing environment, the Company's proposition has evolved by widening the range of products and services it offers, including advice and guidance, to mirror the flexibilities of the pensions freedom era.

Over 2022, M&G plc continued building its advisory capabilities to offer a better and more cost effective proposition to the UK, including the Company's clients. M&G aims to make financial advice more accessible and, In line with the growth strategy, it is transforming and simplifying operations, and investing in digital capabilities to become more efficient. Through multi-channel advice offering, the Company combines digital journeys with access to human-based advice. The Company also continues to make progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and further improve stability.

New business has shifted away from the annuity market, to 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 has £58.3 billion (2021: £58.4 billion) in assets and is one of the largest multi-asset investment propositions in the UK and Europe. Powered by the Company’s £129 billion (2021: £143 billion) With-Profits fund, it enables clients to access a unique blend of private and public investments (across 34 asset classes), and has delivered an average of 6.7% in smoothed annual returns for the past 18 years. PruFund spreads risk over a wide range of assets and pools money from all investors, giving customers greater buying power and access to opportunities that would not be attainable as an individual investor. The PruFund net client inflows for 2022 of £0.8 billion (2021: outflow of £1.3 billion) and other movements offset the negative market movements.

In 2022, other assets under management and administration, from individual and corporate pensions, annuities, life and saving products, decreased to £94 billion (2021: £118 billion). These books are closed to new customers and hence are expected to continue to see net outflows over time. Moreover, market related effects were negative in 2022, primarily reflecting the significant increases in interest rates.

The stability of the legacy book, mainly annuities and traditional with-profits policies, puts the Company and its ultimate parent M&G plc in a strong position to weather any short-term market volatility. The Company’s Heritage business brings together end-to-end responsibility for the proposition and customer servicing of all legacy books, some of which remain open to top-up investments. Over the year, the Company has continued to focus on improving the quality of customer service and customer outcomes, migrating clients to enhanced policy platforms, with a focus on digitisation. Overall service has improved across all areas of the Heritage business and client queries are now resolved more easily and quickly. As a result, the client Net Promotor Score has improved from +9 in December 2021 to +14 in January 2023.

Client research and engagement helps the Company better align with client needs, and informs the design of products, client journeys and communications. In the UK, structural changes within the UK defined benefit corporate pension fund market, following the fallout from the ‘mini’ budget in 2022, present opportunity as clients look to de-risk on the path to buyout or self-sufficiency.

Strategic Direction and Corporate Transactions

Sustainability

M&G plc and its subsidiary entities, including the Company, have put sustainability at the forefront of strategy, from the impact the Company has on the planet and communities, to the opportunity to influence others through leading by example. M&G plc has made company-wide commitments to both diversity and inclusion and climate change, including a pledge to reach carbon net zero as a corporate entity by 2030 and to achieve net zero carbon emissions on its total book of assets under management and administration by 2050 – in line with the Paris Agreement. As part of this, M&G plc has committed to phase out thermal coal from its public investment portfolios by 2030 for OECD and EU countries, and by 2040 for developing countries. As part of M&G plc group, the Company shares the same commitments for its investment portfolio, which are now informing the investment policy and asset allocation decisions of the Company for the With-Profits Fund and the pension savings and annuity books. In September 2022, M&G plc announced its first set of interim net zero targets, as part of its membership of the Net Zero Asset Owners Alliance.

Towards the end of 2020, the With-Profits Fund allocated £5bn to a new sustainability-oriented private assets strategy, managed by Catalyst, a global team within M&G which invests in innovative private companies working to create a more sustainable world. By the end of 2022, Catalyst has deployed over £1.6bn of capital, with further committed capital of £835m, including new investments in off-grid solar in Africa, low carbon energy efficient housing, medical diagnostics, and a new investment company supporting science and technology innovations developed at the Universities of Manchester, Leeds and Sheffield.

To keep customers informed about these developments, and also more generally how and where their money is put to work, the Company published its first annual With-profits Fund Stewardship report in April 2022, which is available online to all Prudential With-profits policyholders in the UK.

Investment Strategy

Over the course of 2022 the Company transitioned a further £11bn (2021: £21bn) of assets, principally equities, into Authorised Contractual Schemes ('ACS'), Luxembourg Fond commun de placement ('FCP') and UK OEIC funds. The transition is seeking to simplify the investment strategy, achieve lower costs by greater economies of scale, whilst protecting the interests of all groups of policyholders.

Capital contribution to subsidiary undertaking

On 15 March 2022, the Company contributed £25m of capital to PIA, one of its subsidiary undertakings, to provide PIA with increased capital flexibility.

Key Performance Indicators and measurement

Key Performance Indicators	**2022** **£m**	**2021** **£m**
Adjusted Operating Profit:		
With-profit shareholder transfer net of hedging	354	268
Annuities business	227	369
Unit-linked and other	(33)	4
Total adjusted operating profit before tax	**548**	**641**
Non-Operating Loss:		
Short-term fluctuations on investment returns	(2,375)	(548)
Transformation costs	(34)	(18)
Total non-operating loss before tax	**(2,409)**	**(566)**
(Loss)/profit on ordinary activities before tax	**(1,861)**	**75**
Estimated Solvency II capital surplus:		
Company	3,125	3,860
Shareholder	3,125	3,860
Policyholder	6,631	7,777
Estimated Solvency II coverage ratio:		
Company	150%	147%
Shareholder	183%	187%
Policyholder	362%	302%

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.

Adjusted operating profit before tax is the Company's non-GAAP alternative performance measure, which complements UK GAAP total profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to UK GAAP profit before tax, including adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Company-wide restructuring and transformation and profits or losses arising on corporate transactions. 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.

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. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers, and can be separated into cash flow hedges and capital hedges. Cash flow hedges are instruments that are held to mitigate volatility in the Company's UK GAAP results by being explicitly matched to the expected future shareholder transfers. Capital hedges are instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

The realised gains or losses on the cash flow hedges are allocated to adjusted operating profit before tax in line with the emergence of the corresponding shareholder transfer within UK GAAP profit. Any short-term temporary movements in the fair value of these instruments, not relating to the current year's shareholder transfer, are excluded from adjusted operating profit before tax. As the capital hedges do not explicitly hedge future UK GAAP profits, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

For the Company's shareholder annuity and non-linked products, adjusted operating profit before tax excludes the impact of short-term components of credit risk provisioning, the impact of credit risk experience variances over the period, and total fair value movements on surplus assets backing the shareholder annuity business, that are not reflective of the longer-term performance of the business.

Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to UK GAAP profit before tax. Adjustments are in respect of short-term fluctuations in investment returns or are considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Company, including profits or losses arising on corporate transactions.

Total adjusted operating profit before tax

The total adjusted operating profit of £548m (2021: £641m) consists of £354m (2021: £268m) relating to the shareholder transfer and associated hedges from the with-profits fund, £227m (2021: £369m) relating to the annuities business, and a loss of £33m (2021: £4m profit) on unit-linked and other business.

The with-profits shareholder transfer increased to £446m (2021: £366m), primarily as a result of strong returns on the with-profits funds and increased claims on the Company's Personal Pensions product. There were fair value losses of £102m (2021: £60m loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers in the year. In addition there was a release of a proportion of the 2021 expense overrun provision (see note 26) generating a £10m profit; in comparison 2021 reflected the establishment of the provision generating a £38m loss.

For the annuities business, assumption changes contributed £152m (2021: £135m) to adjusted operating profit, of which £198m related to changes in the longevity assumptions (2021: £125m), offset by £19m reduction (2021: £8m) relating to renewal expenses. Both current mortality rates and future improvements assumptions based on the Company's own calibration of the Continuous Mortality Investigation (CMI) 2020 model, have been updated during 2022.

The 2021 annuities result includes a profit of £31m in relation to the release of the regulatory provisions for the review of past annuity sales. The project was completed in 2021 and the credit in 2021 reflects the release of provision no longer required.

The expected return on assets and release of margins for annuities contributed £163m (2021: £172m). Asset trading and the impact of changes in interest rates contributed a loss of £86m (2021: £3m profit). Experience variance and other items contributed a loss of £2m (2021: profit of £28m), £10m of which was due to deaths being lower than expected.

Unit linked and other business contributed a loss of £33m (2021: £4m profit) mainly due to an increase in short term expense reserves to cover project costs and an increase in other expenses.

Non-Operating Profit

Market conditions have led to losses from short-term fluctuations in investment returns in 2022 predominantly due to losses from the surplus assets on annuities and also losses on derivatives held to protect the Solvency II capital position.
These losses primarily comprise a £1,301m loss (2021: £99m loss) from fair value movements on surplus assets in the annuity portfolio and a £989m loss (2021: £103m loss) on interest rate swaps purchased to

protect the Company's Solvency II capital position against falls in interest rates, both due to rising yields in the period.

In addition, there was a £104m gain (2021: £248m loss) as stock markets fell in the period on the equity hedges used to protect the value of future shareholder transfers from the With-Profits Fund on the Company's Solvency II balance sheet.

Profit on ordinary activities before tax

The results of the Company for the year as set out on pages 34 to 35 show a loss on ordinary activities before tax of £1,861m (2021: profit of £75m). This is made up of the total adjusted operating profit described above, together with the non-operating items as described in the table above.

Solvency II surplus and coverage ratio

The Company is regulated under Solvency II and supervised as an insurance company by the Prudential Regulation Authority. The Company has been granted approval by the Prudential Regulation Authority (PRA) to calculate its solvency capital requirement (SCR) based on its Internal Model, which reflects the key risks the Company is exposed to, the most significant of which are market risk (primarily credit risk and equity risk) and longevity risk.

The Solvency II surplus allows for the Transitional Measure on Technical Provisions (TMTP). The TMTP was formally recalculated for the Company, following approval from the regulator, at 30 June 2022 in line with expectations of recalculation every 24 months. However, the estimated and unaudited Solvency II capital position, as reported in the table above, is based on a recalculation at 31 December 2022, therefore will not be the same as the position disclosed in the formal regulatory Quantitative Reporting Templates and the Group's Solvency and Financial Condition Report.

The Company retains a shareholder capital surplus of £3.1bn (2021:£3.9bn). The Company's shareholder surplus has decreased over 2022, which predominately reflects the operational surplus generation over the period more than offset by the impact of the change in economic conditions over the year and the payment of the dividend to M&G plc (£0.5bn).

The Company retains a With-Profits capital surplus of £6.6bn (2021: £7.8bn). The Company's With-Profits surplus has decreased over 2022, which predominately reflects the c£1.5bn distribution of excess surplus from the With-Profits inherited estate, which reduced surplus by c£1bn.

The Company's available capital position is covered further in note 28.

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 applicable to the Company. 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 of the Company is delegated to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Directors review at each regular Board meeting: financial and operational performance; 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 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, and the stakeholder groups set out in M&G plc's Annual report. 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 18. 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. The Company believes that as well as being a more efficient and effective approach, this also helps it 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, environmental, social and governance matters and the outcomes of specific pieces of engagement. 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 the success of the Company.

Principal Decisions

The Board set out below the principal decisions they have made with regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duties, regard has been given to the factors applicable to Company, 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 the 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 £500m in dividends to M&G plc. £333m was declared on 3 March 2022 and the remaining £167m was declared on 14 September 2022.

The Directors noted that the payments were in accordance with detailed financial planning, which took into account the other ongoing financial obligations for the Company. The Directors gave particular consideration to the Company's solvency and liquidity position. These decisions also involved considering the likely consequences on the Company in the medium-term, as well as the long-term viability of the Group; the quality of capital and the sustainability of planned dividend payments; the ability of the Company to withstand stresses after payment of the dividend; the ongoing need for strategic investment in the Company's business; and the activities of the Company's subsidiaries.

Principal decision 2 – 2023 – 2025 Business Plan

The Board carries out a review of the Company's strategy on an annual basis. This includes approving the three-year rolling business plan. In 2022, the Board's strategic review of 2023 – 2025 Plan included a number of presentations from senior executives and detailed paper submissions. This covered the key drivers of financial performance over the Business Plan period and a wide range of Stress and Scenario Testing to illustrate the impact of these factors, in addition to summarising the impact of the Business Plan on some of the most significant stakeholder objectives, including objectives of shareholders, customers and conduct regulators, Prudential regulators, employees and wider society. The Board also received a supporting Risk Opinion from the Company's Chief Risk Officer. In making its decision to approve the 2023 – 2025 business plan and future strategy of the Company, the Board specifically considered the Company's solvency ratio,liquidity and plans for future dividend payments, to ensure the Company was well positioned for long-term success.

Principal decision 3 – Vitality – semi permanent deferral of Part VII transfer

The Board considered and approved on the 26 July the deferral of the Part VII transfer of the former PruProtect business indefinitely and until such time as either company triggered the transfer. The Board's decision was based on a number of factors designed to ensure that the interests of policyholders and stakeholders continued to be protected and also on a revised commercial agreement under which the Company would expect to receive fees from Vitality based on net premium income.

Principal Risks and Uncertainties

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

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

The Company's results and financial condition are exposed to both financial and non-financial risks from its core activities 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 has maintained the ratings from 2021, rated Aa3 by Moody's (negative 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, 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 27 (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 investment return on the assets held, including 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 investment 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, and Unit Price Adjustments (UPAs) which may be applied from time to time (when unit prices move outside specific limits as detailed in the policy conditions). The shareholder transfer only crystallises at the point when a payout is made to the customer and is up to 1/9th of the difference between the customer payout and the premium(s) paid.

The Company also derives significant profits from the shareholder-backed non-profit annuity business. Profits on this business are particularly sensitive to the assumptions made and their interaction with actual experience in relation to future mortality experience and level of expenses. This line of business is also exposed to changes in the value and credit standing of fixed income securities, impacting the value of assets held and the corresponding value of the liabilities.

In addition, the Company derives profits from the return on surplus assets held.

(a) Market risk

Market risk is the risk of loss, or of adverse changes in the Company's financial situation or the with-profits fund estate, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets, currencies, liabilities and financial instruments. 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 exposures arise in relation to shareholder transfers from the Company's with-profits fund as falls in the value of equities and property, lower interest rates and fluctuations in currencies can negatively impact on investment returns generated for with-profits policyholders, reducing the value of the shareholder transfers. Hedging is in place on the shareholder balance sheet to partially mitigate and protect the value of such transfers. Additional market risk exposure arises 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 predominately arising from the mismatch between the assets held and the guarantees embedded in the policyholder liabilities. Changes in market conditions may lead to an increase in the expected cost of these guarantees, with investment strategies and hedging in place to partially mitigate this 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.

Changes in market conditions that may impact the exposures described above include inflation which remains elevated in many developed economies with the risk of high inflation persisting and leading to a longer and deeper recession and a fall in equity and property asset prices. Interest rates have also risen sharply over 2022 in response to high inflation, further increasing the risk of recession, and could remain elevated until inflation returns to target levels.

In addition, ongoing geopolitical risks such as the war between Russia and Ukraine may continue to adversely impact economic and market conditions and will require on-going monitoring. The Company has procedures in place to respond to significant market events and disruptions, bringing together colleagues from across the business to provide an enhanced monitoring and decision-making capability.

See note 27 (C) for further details.

(b) Credit risk

Credit risk is the risk of loss or adverse change in the Company's financial situation, or that of its customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default, or other significant credit event (e.g. downgrades or spread widening).

The Company is exposed to credit risk relating to the substantial volume of public and private fixed income investments held in the asset portfolios backing the shareholder non-profit annuity business and the surplus funds held in the shareholder fund.

For the Company's with-profits fund, credit risk is also material. However, as with market risk, the risk on with-profits assets 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.

The pressure from high inflation on economic growth continues to drive uncertainty, with the potential for credit spread volatility and a deterioration in credit conditions as the risk of a sharp recession increases.

See note 27 (D) for further details.

(c) Insurance risk

Insurance risk is the risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from changes in the level, trend or volatility of a number of insurance risk drivers, primarily longevity, persistency and expenses.

Longevity Risk

Longevity risk is the risk of unexpected changes in the life expectancy (longevity) of policyholders and arises primarily in relation to the Company's non-profit annuity book. The Company's with-profits fund exposure to longevity risk primarily arises from both non-profit and with-profits annuity business.

The Covid-19 pandemic gave rise to a significant increase in mortality across both the UK population and PAC portfolio, particularly for older age groups. Whilst mortality rates have been more stable in 2022, there remains significant uncertainty around the impact of the pandemic in both the short-term and longer-term. There is uncertainty with regards to the direct impact of Covid-19 on mortality rates such as the longer term effectiveness of vaccines and the extent to which Covid-19 is endemic, as well as the potential health concerns for individuals suffering from long Covid which is a new and emerging condition. The potential indirect impacts of the pandemic are considered to include the impact on the healthcare system given government spending constraints and significant backlogs built up in the NHS.

Persistency Risk

Persistency risk is the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse policyholder rates of exit to those estimated within pricing and valuation. The shareholder exposure predominately arises in relation to transfers from the with-profits fund. An increase in the rate of policyholder exits increases shareholder transfers in the short term but reduces the overall value of these transfers over the longer term.

The with-profits fund is also exposed to persistency risk, with the impact generally depending on the level of investment guarantees included in the products. Reductions in policyholder exits will tend to increase the expected costs of meeting guarantee obligations to policyholders, due to an increase in the number of policies remaining in-force with the potential for a guarantee to apply. However, in recent years new business sales have been dominated by business without material guarantees, and consequently, the with-profits fund will become increasingly exposed to increases in policyholder exits.

In the current environment, higher than expected lapses may be experienced as a result of the cost of living crisis leading to customers accessing their savings sooner.

Further, the introduction of the new Consumer Duty regulations is expected to impact how the Company communicates with customers increasing the level of information which needs to be supplied to customers, which could impact policyholder behaviour going forward.

Expense risk

Expense risk is the risk that expenses (including future expense inflation) could be higher than anticipated with the shareholder exposure arising primarily in relation to the Company's non-profit annuity and unit-linked business. For the with-profits fund, expense risk arises where fixed expense charges may not be sufficient to cover the actual expenses for the non-guaranteed PruFund business.

While the management of expenses is a key element of the Company's change programme the current heightened levels of inflation, and the risk that these become entrenched, increases expense risk.

See note 27 (E) for further details.

(d) Treasury Liquidity risk

Treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (for example claims, creditors and other corporate costs) as they fall due.

The Company's treasury 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.

Political instability in the UK in 2022 led to a spike in market volatility, requiring central bank intervention, a significant increase in borrowing costs and a weakening of Sterling. To effectively manage the Company through this volatile period, colleagues from across the Group were brought together to provide an enhanced monitoring and decision-making capability. Actions were taken to reduce the risk of unexpected collateral calls and maintain strong liquidity buffers.

See note 27 (F) for further details.

(e) Investment performance and risk

The investment objectives and risk profiles of funds and segregated mandates are agreed with customers. A failure to deliver against these objectives (including sustained underperformance of funds), maintain risk profiles that are consistent with customers' expectations, or ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for larger funds or a range of funds then profitability, reputation and plans for growth may be impacted.

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

Strong investment performance underpins the success of the Company. Absolute performance was impacted by headwinds of rising interest rates, inflation and recessionary fears during 2022 with these set to continue in 2023. Sustainable strategies have also faced headwinds as they are underweight in energy and materials sectors which have performed well recently. Underperformance is expected to be recovered over the longer term as these trends are expected to be cyclical in nature.

Non-financial risk

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

(a) Operational risk

Operational Risk is the risk of financial and non-financial impact (for example, regulatory and reputational) resulting from inadequate or failed internal or outsourced processes, colleague errors, technology issues, or from external events. Operational failures can also give rise to financial risk exposures; for example, through process failures in the management of market and credit risk.

In particular, a material failure or operational disruption in the processes and controls supporting the Company's activities, that of third-party suppliers or of technology could result in poor customer outcomes, reputational damage, increased costs and regulatory censure. The Company has a high dependency on technology and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact the Company's ability to operate effectively. Additionally, serious failings in the delivery or persistent under performance of third-party supplier arrangements could impact the delivery of services to customers.

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

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

The Technology Key Control Framework which applies across the Group has been created in line with recognised best practice including the Information Security Forums Standard of Good Practice and COBIT Governance and Management Objectives.
Oversight and risk management of third parties has been enhanced across the Group, including its approach to selection, contracting and on-boarding, management and monitoring, and termination and exiting. Positive progress was made across the business during 2022 in building on the risk and control framework foundations previously put in place. The Company is focused on fully embedding the framework and reaching operational maturity.

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

(b) Business environment and market forces risk

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

The Company's key savings proposition, PruFund, accounts for a significant proportion of total sales and there is also a significant reliance on the intermediated channel for savings solutions sales. This heightens the exposure to changing economic conditions in relation to customer's ability to save and to customer preferences on product features, such as smoothing, with the Company's success dependent upon capacity to anticipate and respond appropriately to changes in such external influences.

To manage this risk, the Company conducts an annual strategic planning process, which is overseen by the Risk function and the Board, and results in an approved strategy. The process considers the potential impact of the wider business environment and economy. Throughout the year, the Company monitors and reports on the delivery of the plan. The new M&G plc Group Chief Executive Officer commenced in role during 2022, with changes to the organisational structure made shortly thereafter. This included the decentralisation and increased accountability for delivery of the Company plan to the Retail and Savings CEO.

Macroeconomic headwinds are expected to continue during 2023 including inflationary pressures, rising interest rates, UK political instability, heightened recessionary fears in Europe and US and geopolitical instability. These headwinds may have an impact on investment performance and strategy. The market continues to evolve with a convergence of asset management and wealth, and changes to the value chain. There continues to be competitive pressure on fees and an acceleration of pension de-risking. Prioritisation of investment and the successful delivery of initiatives is required to achieve the Company's business plan.

(c) Sustainability and ESG

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

The Company considers and acts upon a broad range of issues including those concerning greenwashing, climate impact, diversity and inclusion, and corporate governance. ESG Risk is considered in three broad dimensions: Inside out – how the Company impacts on the planet and society, as the Company seeks to create and drive value for customers; Outside in - the impact of ESG factors on the Company, ensuring that any "real time" response aligns to the Company's positioning on ESG; Reputation – the Company's ability to meet a range of key stakeholder expectations on sustainability and ESG issues, whilst reinforcing the Company's brand values of care and integrity.

Recognising the complex range of risks that sit under ESG, a specific ESG risk management framework has been developed to further enhance the approach to identification, assessment and management of ESG risks, based on the three lines of defence model. The framework is supported by the ESG Risk Policy, which articulates the Company's ESG risk appetite and sets out key business requirements. The ESG risk management framework consists of five core components: ESG risk culture; identifying and assessing ESG risk; managing and reporting effectively on ESG risk; embedding risk governance; and protecting reputation. Consideration of ESG Risk is built into the decision making processes and a requirement of key strategic board risk assessment papers and regular reporting.

Climate change risk is integrated into the Company's scenario analysis process with both top down and bottom up consideration over a range of time horizons.

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

As ESG continues to mature, enhanced scrutiny from various stakeholder groups, including customers, investors and regulators, is expected. Associated with increased scrutiny is the ability to manage greenwashing risk. Greenwashing has the potential for long-term impact upon reputational risk if expectations and deliverables are not met.

Sustainability disclosures, driven by regulatory reporting requirements, will continue to improve transparency, consistency and comparability. The Company will implement enhancements to reporting capabilities to meet developing reporting requirements.

(d) Change Risk

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

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

The Company's strategy is underpinned by a number of change activities which are expected to drive fund flows and efficiencies. As the Company simplifies the way it operates, change activities will strengthen critical capabilities to streamline how clients are served. Careful prioritisation of investment spend and delivery within expected timescales is required to achieve the Company's business plan.

(e) People risk

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

As part of a large and listed public financial services Group, and as the Company continues to re-focus its strategy, people risk and associated reputational impact is heightened in areas including pay practices, workloads and morale, the conduct of colleagues or groups of colleagues and industrial relations (internally and that of key third party providers).

The Company manages its people risk in line with the Group-wide HR Framework which is designed to align colleague objectives and remuneration to business strategy and culture.

The management and Board receive regular reporting on colleague issues and developments, for example, the succession plans for critical talent and culture. The Company conducts regular surveys to better understand colleagues' views on the Company's business and culture. Findings from these surveys drive actions to improve the colleagues experience.

Colleague responses to regular surveys reflected their belief that people are treated with respect and dignity in the Group, and that they feel it is safe to speak their mind.

Colleague surveys have also highlighted some uncertainty amongst colleagues, this being predominantly driven by the cost of living crisis. The 2023 annual salary review focused on giving a greater percentage increase to staff at the lower end of the salary scale and a cost of living support payment was also made to UK Colleagues during 2022 with a commitment for a further payment to be made in 2023. In addition, the Company's regulators remain focused on culture and work on the Group's culture programme continues with the core foundations of having a safe and respectful organisation.

(f) Regulatory compliance

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

Accountability for compliance with regulatory and legal requirements sits with senior management. The Compliance function provides guidance to, and oversight of, the Company in relation to regulatory compliance and conflicts of interest, and carries out routine monitoring and deep dive activities to assess compliance with regulations and legislation.

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

In December 2022, the Chancellor of the Exchequer announced a set of reforms to drive growth and competitiveness in the financial services sector. These 'Edinburgh Reforms' will increase the volume and pace of regulatory change that will be introduced in the coming years and are also likely to accelerate the UK's regulatory divergence from the EU. Aligned to the Company's strategic objectives, ESG will also be a key area of focus with activities underway to address this. The Company are engaged with the regulators on delivery in line with their expectations.

(g) Reputational risk

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

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

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

(h) Conduct risk

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

Observing the proper standards of conduct in all its forms is essential. Due to the broad nature of conduct risk, management of this risk is pervasive and reflected in policy and processes including Code of Conduct, Conflict of Interest, Market Abuse and Investment Communications Recording policies.

The FCA Consumer Duty regime which will come into effect on 31 July 2023 (for new and existing products and services) requires firms to deliver good customer outcomes with focus on four areas (products and services, price and value, consumer understanding and consumer support) and to consider the needs, characteristics and objectives of customers at every stage of the customer journey. The Company is undertaking a Consumer Duty programme.

On behalf of the Board of directors.

I Bothamley
Company Secretary
30 March 2023

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022.

Likely developments, business strategies and prospects

Likely future developments in the business of the Company are discussed in the strategic report in accordance with section 414C of the Companies Act 2006 (the Act).

Ultimate parent company

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

Subsidiary and associate undertakings

Particulars of the Company's subsidiary undertakings at 31 December 2022 are shown in note 29.

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. C Bousfield has been appointed Managing Director for Retail and Savings (the group segment which includes the Company); this includes the CEO role 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 process to appoint the Chairman is led by the Group Chairman and CEO and any appointment is approved by 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. The Group Nomination Committee oversees the composition of the Board and reviews all Non-executive Director appointments across the Group.

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 which are approved by the PAC Board.

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 6-7. 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 five 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). The IGC was established in 2015 and is part of the overall governance arrangements as set out in the Financial Conduct Authority's Conduct of Business Sourcebook. The objectives of the IGC are to assess whether the Company provides ongoing value for money for its contract-based defined contribution workplace pension scheme members ("IGC in-scope members") and to provide an independent consideration of the Company's policies on ESG Financial Considerations, Non-Financial Matters, Stewardship and where applicable Other Financial Consideration and Non-Financial Matters to the extent that they pose a particular and significant risk of financial harm to IGC in-scope members. The IGC will act solely in the interests of IGC in-scope members. The majority of IGC's members are independent.

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. The Group has a clearly defined overarching social purpose with flagship programmes (urban regeneration; economic empowerment; and skills and education) to support each pillar of the Group's strategy.

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

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

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

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

Post balance sheet events

On 23 February 2023, the Company announced the 2022 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 interest 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 0.90%.

On 7 March 2023 the Company approved a final dividend of £333m to be paid to M&G plc. This is not recognised in the 2022 financial statements.

Financial Performance

The state of affairs of the Company at 31 December 2022 is shown in the balance sheet on pages 38 and 39. The profit and loss account appears on pages 34 and 35.

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, interest rate 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 27. Further information on the use of derivatives by the Company is provided in note 27 (G).

Share Capital

There have been no changes in the Company's share capital during 2022 as shown in note 20.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

Dividends

Dividends totalling £500m were paid in 2022 (2021:£1,550m).

The board declared a final cash dividend in respect of 2021 of £333m on 3 March 2022; an interim cash dividend of £167m was declared on 14 September 2022.

Directors

The present directors are shown on page 1. Mr S Horgan was appointed on 15 August 2022. Mr P D Cooper and Mr J W Foley resigned on 6th May 2022 and 14th September 2022 respectively. There have been no further changes.

Disclosure to the independent auditors

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

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

Independent Auditors

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

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 and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2022 and remain in force.

Going concern

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

Streamlined energy and Carbon reporting

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

On behalf of the Board of directors.

I Bothamley
Secretary
30 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

Under company law, 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 the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors' report to the members of The Prudential Assurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, The Prudential Assurance Company Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Balance sheet as at 31 December 2022; Profit and loss account, Statement of comprehensive income and Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Context

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

Overview

Audit scope

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

Key audit matters

- Valuation of hard to value financial investments (level 3)
- Valuation of hard to value plan assets (level 3) and Valuation of defined benefit obligation
- Valuation of the long term business provision: Annuitant mortality (Longevity)
- Valuation of long term business provision: Credit default allowance
- Valuation of the long term business provision: Renewal expenses
- Valuation of investment in group undertakings and participating interests

Materiality

- Overall materiality: £52.5 million which is 8.5% of Adjusted operating profit before tax.
- Performance materiality: £34.0 million.

The scope of our audit

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation of hard to value financial investments (level 3)	
Refer to notes F, G, H,12,14,15 and 27 to the financial statements for disclosures of related accounting policies, valuation methodologies and balances. PAC's financial investments are held to back the long term business provision and linked liabilities within its Retail and Savings business, and to meet regulatory capital requirements. Most of the Company's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. The models vary in complexity depending on the nature of the investments. Investments that require the use of significant judgement and inputs that are not market observable are complex. These investments are classified as Level 3 in the fair value hierarchy and include: – Equity release mortgage loans; – Unlisted equity investments; – Private debt securities; and – Investment property. We focused on these complex investments because they are significant in size, the valuation is inherently uncertain and changes in estimates could result in material changes in their valuation. **Equity Release Mortgages (ERMs)** The valuation of the PAC's ERM portfolio is inherently subjective due to unobservable inputs relating to the No Negative Equity Guarantee and the future property value. The valuation uses an internal discounted cash flow model with assumptions on the current property value, net property growth rate and the discount rate (including spread assumptions to estimate an illiquidity premium above the risk free discount rate). **Unlisted Equity** Private equity investments are held through funds managed by internal and external fund managers. The investments are valued in line with the requirements of The International Private Equity and Venture Capital Valuation (IPEV) Guidelines. For internally managed funds, valuations are performed by internal valuation teams. For externally managed funds, valuations are performed by the external fund managers and included in quarterly statements provided to the Company. Management holds these investments at the most recent Net Asset Value provided by the external fund manager. **Unquoted Debt securities** The valuation of investments in Private Placement loans and unquoted corporate bonds are predominantly valued internally using discounted cash flow models with an internally developed discount rate. Management adopts a two stage approach to the valuation of these instruments. The first stage is to set a credit rating and the second is to translate those credit ratings into discount rates that reflect the credit rating of the security and an individual instrument level spread at each period end. Where there are no credit ratings from external credit rating agencies, internal credit ratings are set by internal credit analysts and used as an input in the asset valuation models.	We understood the nature of the investments, Management's approach to valuation, and made inquiries on the models and the source of the data used in the valuation to split the investments into categories by type. For each category, we: – Understood and assessed Management's process and controls over the valuations; – We assessed both the methodology and assumptions used by Management in the calculation of the year end values as well as understanding the governance controls in place to monitor these processes. For equity release mortgages, we: – Applied our industry knowledge and experience (using our actuarial specialists) to assess the appropriateness of the methodology, models and assumptions used against recognised actuarial practices; – Tested data inputs used in the valuation models to underlying documentation on a sample basis; – Evaluated the appropriateness of significant economic assumptions used within the valuation process, with reference to market data and industry benchmarks where available; – Assessed the appropriateness of discount rate adjustments including the spread applied above risk free rate. We also considered observable market inputs, such as external market transactions to the extent relevant; – Evaluated the appropriateness of the mortality, morbidity and voluntary redemptions assumptions used in the valuation, based on available experience data and industry data on expectations of future mortality improvements; and – Performed detailed audit testing of the model calculations or 'model baselining' as part of our first year audit. We used our own modelling tools to replicate the asset cash flows for a sample of policies in order to validate that the model calculations are operating as intended. For unlisted equity investments, we: – Considered the methodology adopted by Management for investments in private equity funds and assessed its appropriateness in the context of the International Private Equity and Venture Capital Valuation guidelines; – Agreed the valuations applied to the most recent NAV statements, and sample tested any adjustments made for subsequent capital movements; and – Performed look back testing on the NAV statements provided by each fund manager against the equivalent audited financial statements to ensure materially consistent. For unquoted debt securities, we: – Engaged our valuation experts to assess the appropriateness of Management's valuation methodology and internal credit rating methodology; – For a sample of internally credit rated investments, challenged the assumptions used in setting the internal credit rating and came up with an internal credit rating; – Independently assessed the valuation of a sample of investments, through the consideration of Management's methodology against our own independent judgements; – For the sample selected, recalculated the valuations using our independently selected internal credit ratings and our valuation assumptions;

Key audit matter	How our audit addressed the key audit matter
Investment Property PAC holds property (directly and indirectly) within the UK, Europe and Asia. The valuation of the property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. The wider challenges currently facing the real estate sector as a result of rising inflation and the impact of climate change further contributed to the subjectivity at 31 December 2022. Valuations are carried out by third party valuers engaged by the Group, who perform their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards or equivalent local standards. The valuations take into account the property-specific information including the current tenancy agreements and rental income, condition and location of the property, and future rental prospects, as well as prevailing market yields and market transactions.	– Assessed the impact of our findings on credit ratings and valuation on the portfolio of private placement loans; and – Tested a sample of significant inputs to Management's valuation calculations, specifically spread data, as well as contractual information about the securities. For Investment property in the UK, Europe, and Asia, we: – Engaged our valuation experts (who are qualified chartered surveyors) to assist us in our audit of the property valuations; – Assessed the expertise and objectivity of the third party valuers engaged by Management; – We obtained and read the external valuation reports and held separate meetings with the third party valuers to discuss the key assumptions; – To verify that the valuation approach was suitable for use in determining the carrying value for investment properties in the financial statements, we: I. Confirmed that the valuation approach was in accordance with RICS standards; II. Obtained valuation details of properties held by the PAC and set an expected range for yield and capital value movement, determined by reference to published benchmarks and using our experience and knowledge of the market; III. Compared the investment yields used by the third party valuers with our expected range of yields and the year on year capital movement to our expected range. Where assumptions were outside the expected range or otherwise appeared unusual, and/or valuations showed unexpected movements, we undertook further investigations; IV. Assessed the reasonableness of other assumptions that are not so readily comparable with published benchmarks; V. Challenged the third party valuers on the extent to which the valuations have taken into account the impact of climate change and related ESG considerations; VI. We also performed testing on the standing data in the PAC's information systems concerning the valuation process. We carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the third party valuers by Management; and, VII. For properties under developments valued using the residual valuation method, we obtained the development appraisal and assessed the reasonableness of the Valuers' key assumptions. This included comparing the yield to comparable market benchmarks, comparing the costs to complete estimates to development plans and contracts, and considering the reasonableness of other assumptions that are not so readily comparable with published benchmarks, such as estimated rental value and developers' profit. For all asset classes we assessed the adequacy of the disclosures in the financial statements. Based on the work performed and the evidence obtained, we consider the valuations for hard to value assets to be appropriate.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of hard to value plan assets (level 3) and Valuation of defined benefit obligation</td><td></td></tr>
<tr><td>Refer to note 9 to the consolidated financial statements for disclosures of related accounting policies and balances.

The Company has two key defined benefit schemes which are closed to new entrants. The schemes are run by Trustees on behalf of the beneficiaries. The defined benefit surplus presented is the net of the defined benefit obligation, the scheme plan assets and a restriction on the surplus. This is a key area of focus as the valuation of the defined benefit obligations and certain hard to value plan assets is complex and judgemental.

Valuation of the defined benefit obligations
The valuation of the defined benefit obligations (“DBO”) is performed by third party administrators with key assumptions initially set through the triennial valuation process and reassessed annually by Management.

The estimate of the DBO is dependent on a number of assumptions, including the discount rate, inflation rate and mortality rates. Small changes in these assumptions can have a material impact on the valuation due to the size and the duration of the pension obligations. Management performs a review of the valuation methodology and assumptions each year with the assistance of external experts. During the year there were no changes to mortality base tables. The longevity improvements updated based on data from the Company's annuity insurance contract liabilities.

Valuation of hard to value plan assets
The selection of the plan assets is the responsibility of the Trustee. The assets are predominantly assets which can be valued using quoted prices or with reference to market observable inputs. However there are also assets that are hard to value, such as the longevity swaps and the underlying investments in some of the pooled investment vehicles. The valuation of these assets require the use of significant judgement and inputs that are not market observable.

We have focused on the hard to value plan assets and the key assumptions that are used to estimate the DBO because of the significant size, the inherent uncertainty and judgement in the valuation. Also a focus on those changes in estimate that could result in a material change to the valuation.</td><td>We have performed the following procedures:

Valuation of the defined benefit obligations

– We understood and, evaluated the design effectiveness of key controls in place in respect of the DBO;
– We engaged our actuarial specialists to evaluate the judgements made by Management in determining the key financial and mortality assumptions used in the calculation of the liability;
– We assessed the reasonableness of the methodologies and assumptions adopted using our knowledge of market practice and industry developments, including use of benchmarks and external market data. We also used sensitivity analysis to determine the impact of alternative assumptions;
– We considered the objectivity and competence of Management’s actuarial expert;
– We reviewed management expert’s FRS 102 Section 28 report and challenged the methods adopted to determine the valuation of the obligations. We performed calculations of pension liabilities and compared these with the expert’s calculations; and

Valuation of hard to value plan assets

– We understood and assessed Management’s process and controls over the valuations;
– We assessed both the methodology and assumptions used by Management in the calculation of the year end values as well as understanding the governance controls in place to monitor these processes.;
– For the longevity swap, we engaged our actuarial specialists to evaluate the appropriateness of Management’s valuation methodology and have assessed the magnitude of the change in value of the longevity swap since the year end; and
– For pooled investment vehicles we agreed the valuations to third party confirmations received from the investment managers. We also considered whether there was additional evidence available to corroborate (or contradict) the confirmed value. This included a review of pricing of transactions close to the year end, performing a look back test on the unaudited statements provided by each investment manager (against the equivalent audited financial statements) to ensure materially consistent, and a review of control reports of the service organisation responsible for pricing the asset.

We read and assessed the disclosures made in the financial statements, including disclosure of the assumptions.

Based on the evidence obtained, we found the valuation of the Scheme’s defined benefit obligations and hard to value plan assets to be appropriate.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Valuation of the long term business provision: Annuitant mortality (Longevity)	
Refer to note C,25 and 27 to the financial statements for disclosures of related accounting policies and balances. Annuitant mortality assumptions are an area of significant Management judgement, due to the inherent uncertainty involved. We consider these assumptions underpinning gross long term business provision to be a key audit matter given the Company's exposure of annuity business. The annuitant mortality assumption has two main components as set out below and a margin for prudence is then applied to these components. – **Base mortality assumptions:** This component of the assumption is mainly driven by internal experience analyses. It requires expert judgement that includes determining the most appropriate granularity at which to carry out the analysis; the period used for historic experience (considering COVID-19 in recent periods); the choice of base table/rates; and adjustments made within the process of fitting rates to past experience using management's Prudential Retirement Mortality (PRM) model. – **Rate of future mortality improvements:** This component of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of internal experience data, with additional uncertainty around the longer term impact of COVID-19 on future mortality rates. The areas of judgement also include the selection of the mortality projection model and its calibration as well as re-expressing this in terms of the Continuous Mortality Investigation (CMI) Bureau industry standard model.	Using our actuarial specialists, we have performed the following procedures: – Understood and evaluated the design effectiveness of key controls in place in respect of the longevity assumptions to value the long term business provision; – Assessed the appropriateness of the methodology for analysing experience and setting assumptions for longevity with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; – Tested the tools used by Management in carrying out the experience analysis, including testing the accuracy of the PRM model; – Examined the results of Management's experience analysis and the resulting base mortality rates; – Assessed the appropriateness of areas of expert judgement used in the future mortality improvements and the consistency of them with observed experience from the Company's portfolio and market data; – Tested and challenged significant judgements in determining the longevity assumptions, including assessing the implications of COVID 19; – Examined Management's internal governance papers setting out the financial impacts of assumption changes and compared them to our own expectations; – Assessed the margin for prudence including benchmarking to peer companies, consistency over time and checking that this has been correctly applied to the assumptions; – Tested the re-expression of the projection basis in terms of CMI models and their parameterisation; – Compared the longevity assumptions selected by Management against those used by peers using our annual benchmarking survey of the market; and – Assessed the disclosure of the longevity assumptions and the commentary to support the impact from any changes for 2022 reporting in the financial statements. Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.
Valuation of long term business provision: Credit default allowance	
Refer to C,25 and 27 to the financial statements for disclosures of related accounting policies and balances. The valuation interest rate is the discount rate derived from the yield on the assets backing the annuity long term business provision and is used in calculating the present value of annuity benefit and other payments. The discount rate includes an explicit credit default allowance on the asset portfolio. The credit default assumptions involve complex and subjective judgements about future default and downgrade events which have a significant impact on the long term business provision, with small changes having a large financial impact, and hence this is a key audit matter. The credit default risk assumptions are set based on the credit rating of the assets backing the liabilities and consist of various components. The components include: – A relatively mechanical long-term allowances for expected defaults and downgrades (based on historical data); – A credit risk premium (or margin for prudence); and – A short-term overlay reflecting a prospective outlook on future potential experience.	Using our actuarial specialists we have performed the following procedures: – Understood and evaluated the design effectiveness of key controls in place in respect of the credit default assumptions to value the long term business provision; – Obtained an understanding and challenged Management over the analysis performed to assess internal credit ratings for illiquid assets. Tested the approach, the ratings ascribed and the resulting default allowances; – Assessed the methodology used to derive the credit default assumptions (including margin for prudence) with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience; – Tested to ensure that the inputs and calculations were in line with intended methodology and are appropriate; – Tested and challenged key Management judgements including the short-term overlay, referencing industry data and our industry knowledge. In particular, consideration has been given to the appropriateness of Management's proposals in the context of the current economic climate; – Assessed the appropriateness of the margin for prudence and its consistency over time; – Examined Management's calculation of the financial impact of changes to the credit default assumptions, to ensure that these are in line with our expectations;

Key audit matter	How our audit addressed the key audit matter
– Significant management judgement is required, in particular, to set the internal credit ratings for illiquid level 3 assets (such as Ground Rents and Lifetime Mortgages); and in selecting the short-term overlay to allow for risks not captured in the long-term credit default allowance.	– Assessed the disclosure of the credit default risk assumptions and the commentary to support the impact from any changes for 2022 reporting in the financial statements. Based on the work performed and the evidence obtained, we consider the assumptions used for credit default risk to be appropriate.
Valuation of the long term business provision: Renewal expenses Refer to note C,25 and 27 to the financial statements for disclosures of related accounting policies and balances. Future maintenance expenses and expense inflation assumptions (or collectively the renewal expenses assumptions) are used in the measurement of the long term business provision. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date, including an allowance for unavoidable project costs and a margin for prudence. Significant judgement is required to estimate the maintenance costs through the allocation of costs to cost centres within the allocation model; identification of non-attributable costs; removal of one-off costs; the allocation between fixed and variable costs; identification of any future costs and short term provisioning; and the allocation to products. Unit costs are then set by product, based on the maintenance costs and the current number of policies in force. In addition, when calculating the liabilities, an assumption is also needed for how the expenses will inflate in future. This is set with reference to industry and market data; Management's view of how their cost base will inflate in future; and includes a margin for prudence. This is a key input into the long term business provision. Due to the projection of these costs forward over the duration of the policies, small changes in unit costs can lead to significant changes in the estimated liabilities. Due to this, and the management judgement involved, we have noted this as a key audit matter.	We have performed the following procedures: • Understood and evaluated the design effectiveness of key controls in place in respect of the renewal expense assumptions in the valuation of long term business provision; • Tested the input data used in the cost allocation model, including the completeness and accuracy of the total cost base and allocation of expenses to the appropriate cost centres; • Using our actuarial specialists, assessed the methodology used by Management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience; • Assessed the appropriateness of significant judgements in application of the methodology, including excluded costs (for example, due to costs either not relating to the insurance business or being non-recurring in nature), the split of expenses between acquisition and maintenance costs and the allocation of costs to products; • Performed substantive testing to check that the calculation of the final expense assumptions is correct and in line with our expectation; • Assessed the appropriateness of the IFRS prudence margin and its consistency over time; • Tested the assumption derived for expense inflation by assessing the use of industry data and challenged the judgements used within the calculations to ensure that they are reasonable; and • Assessed the disclosure of the renewal expense assumptions and the commentary to support the impact from any changes for 2022 reporting in the financial statements. Based on the work performed and the evidence obtained, we consider the assumptions used for renewal expenses to be appropriate.
Valuation of investment in group undertakings and participating interests Refer to note F and 13 to the financial statements for disclosures of related accounting policies and balances. The Company's investment in group undertakings and participating interest consists of both investments in direct subsidiaries such as Prudential International Assurance and Prudential Pensions Limited as well as investments in funds. The investments in group undertakings and participating interests are held at fair value. Investments held in direct subsidiaries are complex to value as the entities held are unlisted therefore the methodology applied and the calibration of the valuation requires the use of significant judgement and assumptions or inputs that are not observable in the market.	We have performed the following audit procedures: For investments in underlying insurance companies we have considered whether the use of Solvency II Own Funds is an appropriate proxy for fair value considering the Group's policies for fair value of insurance business and the multiples observed in recent acquisition activity in the market by performing the following procedures: We have considered whether there are any material adjustments that would be expected to Solvency II Own Funds to provide a fair value considering the nature of the subsidiary undertakings and the business. In particular, we have assessed whether the Solvency II Risk Margin would represent a reasonable basis for the allowance for risk that would be required under a fair value and the consistency of this with the Group's fair value policies. We have considered the appropriateness of the 100% multiple used in the valuation of the investment in group undertakings balance. Based upon the results of our testing we are satisfied that the fair value of the investment in subsidiary balance materially meets the definition of fair value in accordance with Section 2 of FRS 102 Appendix 2.

How we tailored the audit scope

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

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

The impact of climate risk on our audit

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

Materiality

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

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

Overall company materiality	£52.5 million.
Materiality benchmark	8.5% of Adjusted operating profit before tax.
How we determined it	In determining our materiality we have considered financial metrics and benchmarks which we believe to be relevant to the primary users of the consolidated financial statements.Due to the disparate size of the Income Statement and Statement of Financial Position, the materiality amount was selected judgmentally by the PAC audit team having considered a range of relevant benchmarks including Adjusted Operating Profit, Profit before tax, Operational Capital Generation, Total assets, and Solvency II own funds. A materiality amount was selected judgementally and expressed as a percentage of Adjusted operating profit before tax, as an appropriate benchmark for materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 65% of overall materiality, amounting to £34.0 million for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.35 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtained the Directors' going concern assessment and challenged the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Group's business performance, review of regulatory correspondence and obtaining further corroborating evidence
- Agreed the PAC Solvency II information to the draft quantitative reporting templates prepared by Management

- Considered information obtained during the course of the audit and publicly available market information to identity any evidence that would contradict Management's assessment of going concern
- Reviewed the disclosures included in the financial statements in relation to going concern, including the Basis of Preparation

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

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

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

Profit and Loss Account for the year ended 2022

Long-term Business Technical Account		**2022 £m**	2021 £m	Note
Gross premiums written		**6,440**	4,717	2
Outward reinsurance premiums		**(455)**	(996)	
Earned premiums, net of reinsurance		**5,985**	3,721	
Investment income		**5,968**	13,485	3
Unrealised (losses) on investments		**(18,341)**	(2,435)	
Claims paid				
	Gross amount	**(12,033)**	(13,220)	
	Reinsurers' share	**481**	1,591	
Claims paid, net of reinsurance		**(11,552)**	(11,629)	
Change in provision for claims				
	Gross amount	**(85)**	(63)	
	Reinsurers' share	**(2)**	1	
Claims incurred, net of reinsurance		**(11,639)**	(11,691)	
Change in long-term business provision				
	Gross amount	**13,712**	8,614	
	Reinsurers' share	**(415)**	(8,610)	
		13,297	4	
Change in technical provision for linked liabilities		**3,230**	225	
Change in other technical provisions, net of reinsurance		**16,527**	229	
Net operating expenses		**(674)**	(647)	5
Investment expenses and charges		**(360)**	(328)	6
Tax attributable to the long-term business		**684**	(644)	7
Transfer from/(to) the fund for future appropriations		**1,999**	(1,196)	
Balance on the long-term business technical account		**149**	494	

The accounting policies on pages 40 to 49 along with the accompanying notes on pages 49 to 113 form an integral part of the financial statements.

Profit and Loss Account for the year ended 2022 (continued)

Non-Technical Account

	2022	2021	Note
	£m	£m	
Balance on the long-term business technical account	**149**	494	
Tax (charge)/credit attributable to the balance on the long-term business technical account	**(192)**	95	7
Balance on the long-term business technical account before tax	**(43)**	589	
Investment income	**(236)**	(27)	3
Unrealised losses on investments	**(1,570)**	(459)	
Other income	**10**	13	
Other charges	**(22)**	(41)	
Total loss on other activities	**(1,818)**	(514)	
(Loss)/profit on ordinary activities before tax	**(1,861)**	75	
Tax on (loss)/profit on ordinary activities	**448**	3	7
(Loss)/profit for the financial year	**(1,413)**	78	

The accounting policies on pages 40 to 49 along with the accompanying notes on pages 49 to 113 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 2022

	2022	2021	
	£m	£m	
(Loss)/Profit for the financial year	**(1,413)**	78	
Other comprehensive income/(expense):			
Actuarial gains on defined benefit pension schemes	**23**	23	9
Deferred tax loss	**(6)**	(5)	
Transfer from/(to) the fund for future appropriations	**1**	(2)	
Total other comprehensive income for the financial year, net of income tax	**18**	16	
Total comprehensive (loss)/income for the financial year	**(1,395)**	94	

The accounting policies on pages 40 to 49 along with the accompanying notes on pages 49 to 113 form an integral part of the financial statements.

Statement of changes in equity for the year ended 2022

	Share Capital	Other reserves*	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 January 2021	330	536	5,268	6,134
Profit for the financial year	—	—	78	78
Other comprehensive income for the financial year	—	—	16	16
Total comprehensive income for the financial year	—	—	94	94
Dividends	—	—	(1,550)	(1,550)
Total distribution to owners, recognised directly in equity	—	—	(1,550)	(1,550)
Balance as at 31 December 2021	**330**	**536**	**3,812**	**4,678**
Balance as at 1 January 2022	330	536	3,812	4,678
Loss for the financial year	—	—	(1,413)	(1,413)
Other comprehensive income for the financial year	—	—	18	18
Total comprehensive expense for the financial year	—	—	(1,395)	(1,395)
Dividends	—	—	(500)	(500)
Total distribution to owners, recognised directly in equity	—	—	(500)	(500)
Balance as at 31 December 2022	**330**	**536**	**1,917**	**2,783**

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

Balance sheet as at 31 December 2022

Assets	**2022**	2021	Note
	£m	£m	
Investments			
Land and buildings	**6,756**	7,840	12
Investments in group undertakings and participating interests	**6,181**	6,124	13
Other financial investments	**133,066**	147,069	14
	146,003	161,033	
Assets held to cover linked liabilities	**10,440**	13,670	15
Reinsurers' share of technical provisions			
Long-term business provision	**780**	1,195	
Claims outstanding	**122**	131	
Technical provisions for linked liabilities	**5,062**	5,898	
	5,964	7,224	16
Debtors			
Debtors arising out of direct insurance operations			
Policyholders	**20**	24	
Debtors arising out of reinsurance operations	**25**	59	
Deferred tax asset	**453**	—	7
Other debtors	**556**	793	17
	1,054	876	
Other assets			
Cash at bank and in hand	**875**	2,520	18
Finance lease assets	**42**	42	12
Pension asset	**23**	27	9
	940	2,589	
Prepayments and accrued income			
Accrued interest and rent	**510**	490	
Deferred acquisition costs: long-term business	**9**	14	
Accrued external dividends receivable	**11**	41	
Other prepayments and accrued income	**158**	190	
	688	735	
Total Assets	**165,089**	186,127	

Balance sheet as at 31 December 2022 (continued)

Equity and Liabilities	2022 £m	2021 £m	Note
Capital and reserves			
Share capital	**330**	330	20
Other reserves	**536**	536	
Profit and loss account	**1,917**	3,812	
Shareholders' funds – equity interests	**2,783**	4,678	2
Fund for future appropriations	**14,929**	16,871	25
Technical provisions			
Long-term business provision	**119,133**	133,403	25
Claims outstanding	**919**	841	8
Unearned revenue provision	**3**	5	
Total technical provisions	**120,055**	134,249	
Technical provisions for linked liabilities	**15,503**	19,568	25
Provisions for other risks and charges			
Deferred taxation	**465**	960	7
Obligations under finance leases	**10**	8	12
Provision for pensions	**—**	50	9
Other provisions	**27**	27	21
	502	1,045	
Deposits received from reinsurers	**146**	298	
Creditors			
Creditors arising out of direct insurance operations	**103**	68	
Creditors arising out of reinsurance operations	**51**	44	
Other creditors including taxation and social security	**10,874**	9,146	22
	11,028	9,258	
Accruals and deferred income	**143**	160	
Total Equity and Liabilities	**165,089**	186,127	

The accounting policies on pages 40 to 49 along with the accompanying notes on pages 49 to 113 form an integral part of the financial statements.

The accounts on pages 34 to 113 were approved by the Board of directors on 29 March 2023 and were signed on its behalf by:

S Horgan
Director
30 March 2023

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.

The Company has taken advantage of the exemption afforded by s400 of the Companies Act 2006 and not prepared consolidated accounts. This is on the basis the Company's ultimate parent undertaking, M&G plc includes the Company in its consolidated financial statements. Accordingly, the financial statements present information about the Company as an individual undertaking and are not consolidated.

Details of where to obtain copies of the consolidated accounts of M&G plc are disclosed in note 23. 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:

- 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 are 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.

Notes on the financial statements (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. Judgement is also required in the case of certain contracts, both investment and insurance, which provide an additional benefit in addition to a guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features.	C
Recognition of deferred tax asset	FRS 102 requires deferred tax asset to be recognised to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. Judgement is required to determine the extent to which future taxable profits emerge.	I

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 are the assumed rates of policyholder mortality, maintenance expenses and the valuation rate of interest used when establishing policyholder liabilities for annuities and also the assumptions used in determining the allowance for persistency and maintenance expenses within the policyholder liabilities other than annuities.	C	25
Equity securities and pooled investment funds, investment property and loans	The 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 to the valuation.	F	27
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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of approval of these financial statements and thus continue to adopt the going concern basis of accounting. 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 on an operating profit basis 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. The drawdown of support would be triggered by a breach of pre-specified solvency conditions in the Company. While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to the Company and its policyholders.

- The Company has a satisfactory capital surplus, generates positive liquidity from its core business, and has very low debt-financing. 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 16. The management of financial risk is set out in note 27, including the Company's exposure to credit risk and liquidity risk which it carefully manages through cash flow forecasting and fund management.

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

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

C. Long-term Business

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). Judgement is applied in assessing whether the features of a contract gives rise to the transfer of significant insurance risk. This assessment is based on a readily identifiable scenario which is used to determine if there would be a significant difference in the contract's cash outflows if the insured event occurs. This judgement is made at inception and is not revisited.

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 that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance.

The Company's insurance contracts include protection type and annuity contracts; protection type policies are non-profits and annuity contracts are both non-profits and with-profits.

Investment contracts with DPF including PruFund are all with-profits.

Investment contracts without DPF include certain unit-linked and similar contracts written by the Company and are all non-profits.

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.

Some contracts written by the Company allow policyholders to invest in both with-profits and unit-linked funds. The Company accounts for the components of these hybrid contracts as if they were separate contracts on the basis that the underlying investment options give different outcomes to the policyholder and place different obligations on the Company.

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 as 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.

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.

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 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 up to 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 relate to deferred income, as described above.

iii. *Measurement of long-term business provisions*

The assumptions used to calculate the long-term business provisions are described in note 25.

Valuation of the With-Profits Fund's liabilities

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) are sufficient to cover current estimates of future cash outflows. 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 Company'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).

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.

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. In line with FRS 27 requirements, the non-profit annuities business within the With-Profits Fund is valued on the statutory basis, i.e. including margins for adverse deviations (as set out in "Valuation of annuity contracts"). The with-profits liabilities are valued on a realistic basis and therefore allow for future enhancements to the policyholders. Following this approach unadjusted would lead to an inconsistency in the net assets, as such, the present value of future profits from the relevant non-profit annuities is applied as an adjustment to the with-profits liabilities. Annually, when the enhancements to asset shares are committed to, the value of the enhancements is transferred from the FFA of the With-Profits Fund to with-profits liabilities. For the former SAIF business, the realistic liability calculation includes the value of the liability for the Final Relevant Policies Enhancement (FRPE), which is a percentage uplift to SAIF with-profits policies, applied at point of claim. The FRPE was calculated at the point SAIF merged with the with-profits sub fund (WPSF), in order to fully distribute the remaining surplus assets in SAIF back to its with-profits policyholders.

Valuation of annuity contracts and other long-term business

The majority of the policyholder liabilities in the "annuities and other long-term business" component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The primary assumptions required are in respect of policyholder mortality, credit assumptions within the valuation interest rate, and future expense levels.

Valuation of unit-linked contracts

For unit-linked contracts, the attaching liability reflects the unit value obligation (using actuarial funding where relevant) and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, allowance for expense, persistency, and mortality risk. The latter component, calculated using a discounted cashflow approach (non-unit reserves), is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and including a margin for prudence in the mortality, persistency, and expense assumptions.

Investment contracts without discretionary participation features

Investment contracts without DPF, such as unit-linked savings and similar contracts, are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and recognised directly on the statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a fair value basis. For unit-linked contracts, the fair value of the liability is equal to the unit value obligation. The Company incurs various incremental, directly attributable acquisition costs relating to the investment management element of these contracts which are capitalised and amortised in line with the related revenue. If the contracts involve upfront charges, this income is also deferred and amortised through the income statement, as the service is provided in accordance with FRS102.

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.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

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 UK) 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 or 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 14. 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 an appropriate valuation technique such as discounted cashflow analysis. Further information on valuation techniques is provided in note 27 (A).

(ii) Loans and receivables - these comprise investments that have fixed or determinable payments and are not designated as fair value through profit or loss or available-for-sale. These investments include certain 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).

Lifetime mortgage loans of the Company have been designated at fair value through profit or 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 accounts for the equity release outstanding mortgage loans as financial assets designated at FVTPL on the statement of financial position and the value of the no negative equity guarantee (NNEG) is included in determining the overall fair value of the loans. The existence of the NNEG is not sufficient for the equity release mortgage loans to transfer significant insurance risk to the Group, and therefore the lifetime mortgages are not considered an insurance contract.

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. On disposal of an investment property, the difference between the net proceeds received and the carrying amount is recognised in the income statement. 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.

G. Financial Liabilities

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

The Company holds financial liabilities on the following bases:

(i) Financial liabilities at fair value through profit or 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 14. The accounting policy for investment contracts without DPF is described at section C above.

(ii) Financial liabilities that are not valued at fair value through profit or 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 at 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.

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); the entire deficit for SASPS is attributed to the Company and a portion of the PSPS surplus is attributed to the Company. Further details are disclosed in note 9.

The assets and liabilities of the defined benefit pension schemes 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. 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 post balance sheet event.

M. Cash at bank and in hand

The Company applies the definitions of cash and cash equivalents as provided 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.

N. 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 the 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.

Notes on the financial statements (continued)

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 is 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 long-term technical account before tax**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
United Kingdom	**5,760**	4,180	**(43)**	589
Europe*	**680**	537	**—**	—
	6,440	4,717	**(43)**	589

New business

	Regular premiums		**Single premiums**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
United Kingdom	**129**	114	**6,411**	4,896
Europe*	**10**	12	**739**	466
	139	126	**7,150**	5,362

* Europe business includes business underwritten by PIA and reinsured to the Company.

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	**2022** **£m**	2021 £m
Direct	**5,629**	4,180
Reinsurance accepted	**811**	537
	6,440	4,717
Direct business is analysed as follows:		
Individual business	**5,224**	3,879
Group contracts	**405**	301
	5,629	4,180
Regular premiums	**685**	590
Single premiums	**4,944**	3,590
	5,629	4,180
Participating contracts	**5,137**	3,795
Non-participating contracts	**115**	121
Linked long-term contracts (excluding investment contracts without discretionary participation features)	**377**	264
	5,629	4,180

Direct premiums were written solely in the United Kingdom. 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. Reinsurance accepted is mainly from PIA .

Net reinsurance income

Net reinsurance charge in respect of long-term business for the year ended 31 December 2022 was £1,472m (2021: £9,686m charge). The movement relates principally to the effect of the Part VII transfer of business to Rothesay Life Plc in 2021.

(b) General business

Analysis of technical account	**Gross Claims Incurred**		**Reinsurance Balance**	
	2022 **£m**	2021 £m	**2022** **£m**	2021 £m
Other*	**9**	9	**(9)**	(9)
	9	9	**(9)**	(9)

*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.

(c) Shareholders' funds

All shareholders' funds of £2,783m relate to the United Kingdom (2021: £4,678m).

Notes on the financial statements (continued)

3. Investment income

	Technical account		Non-technical account	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Income from:				
Group undertakings	**261**	147	**(3)**	(1)
Other investments				
Land and buildings	**408**	440	**—**	—
Other investments	**3,938**	3,952	**89**	55
	4,607	4,539	**86**	54
(Losses)/gains on loans and receivables	**(22)**	7	**—**	—
Gains on the realisation of investments at fair value through profit and loss other than derivatives	**3,031**	7,456	**15**	26
(Losses)/gains on the realisation of derivatives – see note 27	**(2,204)**	1,550	**(337)**	(109)
Exchange gains/(losses)	**525**	(101)	**—**	2
Fees for policy administration and asset management services arising from unit-linked investment contracts	**31**	34	**—**	—
	5,968	13,485	**(236)**	(27)

Income of £4,607m (2021: £4,539m) is from assets measured at fair value with the exception of interest income on loans and receivables which was £294m for the year ended 31 December 2022 (2021 (restated**): £128m).

**It was identified that the amounts related to interest income on loans and receivables impacting Investment Income were misstated in the footnote for the year ended 31 December 2021 as a result of the balance for intra-group interest receivable not being included. As a result the prior period note disclosure has been restated. The impact of the change is to alter the interest income from £75m to £128m. There is no impact on historic periods or primary statements.

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

4. Policyholder Bonuses

Bonuses added to with-profits customers' policies 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 £3,552m (2021: £2,962m).

5. Net operating expenses

	Long-term business	
	2022	2021
	£m	£m
Acquisition costs	**126**	124
Change in deferred acquisition costs	**5**	5
Administrative expenses	**543**	518
	674	647

Administrative expenses include commission payments in respect of long-term direct insurance business renewal of £26m (2021: £28m).

Notes on the financial statements (continued)

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.

Refer to note 10 for Directors emoluments and note 11 for Auditors' 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 ended in September 2022. The lease was set aside and a provision created for the dilapidation and decommissioning costs in 2020 (see note 21).

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. Part of the property was vacated in October 2022 and accordingly the corresponding value of the right of use (ROU) asset has been impaired and a provision created to cover the unavoidable costs attributable to the vacant portion of property.

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

	2022	2021
	£m	£m
Less than 1 year	**2**	3
1 to 5 years	**4**	6
Total	**6**	9

The total operating lease expense in 2022 was £3m (2021: £2m).

6. Investment expenses and charges

	Long-term business	
	2022	2021
	£m	£m
Investment management expenses	**353**	319
Interest on bank borrowings	**7**	9
	360	328

7. Tax

The Company is the lead litigant in a combined 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 Supreme Court issued its order giving effect to its decision in October 2019, stating any remaining issues of computation be remitted back to the High Court.

The Company and HMRC are working through the mechanics of implementing the Supreme Court decisions. To date, this work has led to a reduction in the estimate for policyholder tax credit recoverable, and the associated estimate of interest receivable. As at 31 December 2022, the company has recognised a total policyholder tax credit of £114m (2021: £114m) in respect of its claim against HMRC. Of this amount, £40m (2021: £40m) has been paid by HMRC leaving a tax recoverable balance of £74m (2021: £74m) recorded as

Notes on the financial statements (continued)

an amount of tax due from HMRC. The Company will be entitled to interest on the tax repaid. As a result of the COVID-19 pandemic the timing to finalise the issue has been further delayed. It is now expected to be finalised during 2023 at which point PAC should receive full and final payment.

Under the terms of the agreement governing the domestication of the Company's previous Hong Kong branch in 2014, its previous 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 (2021: £12m) in respect of this liability which is included within other creditors (see note 22).

a) Tax charged (credited)

	Long-term funds		Shareholders' Profits	
	2022	**2021**	**2022**	**2021**
	£m	**£m**	**£m**	**£m**
Current Tax				
UK corporation tax	**—**	336	**—**	(99)
Overseas tax	**36**	51	**—**	—
Adjustments in respect of prior years	**(24)**	(1)	**1**	4
Total current tax	**12**	386	**1**	(95)
Deferred tax				
Origination and reversal of timing differences	**(696)**	258	**(257)**	(3)
Total deferred tax	**(696)**	258	**(257)**	(3)
Shareholders' attributable tax in respect of the long-term business				
Current	**—**	—	**32**	138
Deferred	**—**	—	**(224)**	(43)
Total shareholders' attributable tax	**—**	—	**(192)**	95
Tax (credit)/charge on (loss)/profit on ordinary activities	**(684)**	644	**(448)**	(3)

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.

Notes on the financial statements (continued)

b) Factors affecting tax charge for the period

	2022	2021
	£m	£m
(Loss)/Profit on ordinary activities before tax	**(1,861)**	75
(Loss)/Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19 per cent (2021: effective rate of 19 per cent)	**(354)**	14
Permanent differences	**24**	2
Adjustment to current tax in respect of previous periods	**3**	3
Different tax bases of long-term insurance (current tax)	**(7)**	(3)
Impact of deferred tax recognised at 25% on current year movements	**(96)**	(3)
Non-taxable income	**(7)**	—
Tax losses not recognised for DT purposes	**(7)**	(16)
Revaluation of subsidiaries	**(4)**	—
Total tax credit for the period	**(448)**	(3)

c) Balance Sheet

	Attributable to Long-term funds		**Attributable to Shareholders' funds**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Provision for Deferred Tax				
Accelerated capital allowances	**—**	18	**—**	—
Short term timing differences	**(5)**	(1)	**—**	(1)
Unrealised gains	**522**	975	**—**	—
Deferred acquisition costs	**(37)**	(38)	**—**	—
Life transitional arrangements	**—**	25	**—**	—
Pension asset (liability)	**3**	2	**2**	(7)
Unutilised tax losses	**(199)**	—	**(274)**	(13)
Undiscounted provision for deferred tax liability (deferred tax asset)	**284**	981	**(272)**	(21)
Deferred tax liability (asset) at start of the period	**981**	722	**(21)**	(23)
Deferred tax (credit) charge in technical/non-technical account for the period	**(696)**	258	**(257)**	2
Deferred tax (credit) charge from statement of comprehensive income	**(1)**	1	**6**	—
Deferred tax liability (asset) at end of the period	**284**	981	**(272)**	(21)
Deferred tax asset	**(201)**	—	**(252)**	—
Deferred tax liability	**485**	—	**(20)**	—
As at 31 December 2022	**284**	—	**(272)**	—

The rate of UK corporation tax will increase from 19% to 25% with effect from 1 April 2023, as enacted into UK law. This has been reflected in the carrying values of deferred tax assets and liabilities of the Company and will be reflected in the effective tax rate from 2023 onwards.

Notes on the financial statements (continued)

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. The deferred tax liability has fully reversed at the end of 2022.

The Company's net deferred tax liability at 31 December 2022 of £12m changed significantly from the deferred tax liability at 31 December 2021 of £960m. The movement of £948m is predominantly due to a decrease in the deferred tax liability on unrealised gains on investment assets together with an increase in the deferred tax assets recognised on carry forward tax losses of £460m. £453m relates to tax losses arising in 2022 and £7m relates to a change in the recognition assumptions for deferred tax assets on capital losses.

The deferred tax asset on tax losses carried forward at 31 December 2022 of £473m (2021: £13m) comprises of £453m in relation to UK income tax losses (2021: £nil) and £20m in respect of UK capital losses (2021: £13m). The deferred tax asset on UK income tax losses has been recognised in full based upon sufficient future taxable profits arising from shareholder transfers from the with-profits business. These transfers are considered a reliable source of profit and are a consistent measure used in the Company's Business Plans and Solvency II calculations.

The deferred tax asset on UK capital losses has been partially recognised and is based upon expected reversal of the taxable temporary differences recognised on unrealised gains on investments, only a proportion of which are expected to be available for offset against the UK capital losses.

Modelling was undertaken to review the recovery period of the tax losses. Under current UK tax legislation there is no time limit on utilisation of the tax losses, however these tax losses can only be used against 50 percent of the taxable profits and gains in future periods. The value of the deferred tax asset in respect of income tax losses is expected to be fully recovered by 2034 in the base case forecast. An impaired scenario was also modelled which reflected a 10 percent reduction of forecast shareholder transfer in each period, this extended the recovery to 2035. The income tax losses arising in 2022 are expected to be a one-off and not continuous, and given the forecast of future profitability, in management's judgement it is probable that the value of the deferred tax asset on losses will be recovered by the Company while still operating as a going concern. The modelling of future capital gains arising on investments support that the recognised deferred tax asset on capital losses is expected to reverse by 2028.

It is possible that future tax law changes could materially affect the timing of recovery and the value of these losses ultimately realised by the Company.

At the end of the reporting period, the Company has unused tax losses of £448m (2021: £458m) for which no deferred tax asset is being recognised. The unused tax losses relate to capital losses in the UK. No deferred tax asset is recognised on the unused capital losses as it is considered not probable that future taxable UK capital gains or other appropriate profits will be available against which they can be utilised.

8. Incurred but not reported provision

A gross and ceded IBNR (Incurred but not Reported) provision of £102m (2021: £102m) 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 Company has no employees (2021 : Nil).

Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

For the services provided to the Company, the majority of employees in the UK are employed by Prudential Distribution Limited, a service company within the M&G plc group.

Defined Benefit Pension Schemes

Most UK staff employed by the M&G plc group are members of its open defined contribution scheme, the Prudential Staff Pension Scheme – Defined Contribution Section.

Notes on the financial statements (continued)

A minority are active members of the M&G plc group's defined benefit pension schemes, all of which closed to new employees on 31 July 2003.

The largest defined benefit scheme is the Prudential Staff Pension Scheme - Defined Benefit Section. At 31 December 2022, the underlying PSPS liabilities account for 82% (2021: 80%) of the aggregate liabilities of the M&G plc group's defined benefit schemes. The Company also has a smaller defined benefit scheme, the Scottish Amicable Staff Pension Scheme (SASPS), as described below.

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. The principal employer of SASPS is M&G Corporate Services Limited. PSPS contributions 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. SASPS contributions are payable in accordance with the current Schedule of Contributions, comprised of contributions for the ongoing cost of accrual, deficit contributions, and contributions in respect of non-investment expenses.

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; 30% is allocated to M&G Corporate 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 and 60% has been allocated to the shareholder fund of the Company.

For PSPS and SASPS, the current unit method and the projected unit credit method were used respectively 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 2020 and was finalised during 2021. This valuation demonstrated the scheme to be 108% funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. The ongoing contributions into the scheme, are payable at the minimum level required under the scheme rules. Excluding expenses, the contributions are now payable at approximately £3m per annum (2021: £3m) 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 Corporate 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 2020 and was finalised in 2021. This valuation demonstrated the scheme to be 85% funded. Based on this valuation, it was agreed with the Trustees that the level of deficit funding should continue at £26m per annum until 31 December 2025 (2021: £26m per annum), subject to review at subsequent valuations.

Corporate Governance

The Company's UK pension schemes are regulated by The Pension Regulator in accordance with the Pensions Act 2021. 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 its investment advisers, 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 or their investment advisers 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.

During 2020, PSPS entered into a longevity swap transaction with Pacific Life Re Limited. This arrangement provides long term protection for PSPS against costs that could result from unexpected increases in the life expectancy relating to the pensions that were in payment on 6 April 2019 (excluding any future discretionary increases). As at 31 December 2022, the longevity swap covered £2.0bn (2021: £2.8bn) of the total current pensioner scheme liabilities.

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.

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

	2022		2021	
	PSPS	**SASPS**	PSPS	SASPS
	%	**%**	%	%
Price inflation:				
Retail Price Index (RPI)	**3.3**	**3.2**	3.6	3.4
Consumer Price Index (CPI)	**3.0**	**3.0**	3.1	3.1
Rate of increase in salaries	**4.0**	**3.2**	3.6	3.4
Rate of increase of pensions in payment:				
PSPS				
Guaranteed - LPI (Max 5%)	**3.0**	**n/a**	3.1	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**	**3.2**	n/a	3.4
Rate used to discount scheme liabilities	**4.9**	**4.8**	1.8	1.8

The mortality assumptions are specific to each scheme, and are adjusted to make allowance for future improvements in longevity. The table below sets out the mortality tables and mortality improvement model used for the Company's schemes, along with the associated life expectancies.

Notes on the financial statements (continued)

				Expectation of life from retirement at aged 60			
As at	**Scheme**	**Mortality tables (with scaling factors applied to reflect experience, and allowances for future improvement)**	**Mortality improvements model**	**Male currently aged 60**	**Male currently aged 40**	**Female currently aged 60**	**Female currently aged 40**
31/12/2022	**PSPS**	**S3PMA/S3PFA for males/females**	**CMI 2020**	**26.7**	**29.1**	**28.4**	**30.6**
	SASPS	**S3PMA/S3PFA for males/females**	**CMI 2020**	**27.5**	**29.7**	**30.0**	**32.1**
31/12/2021	PSPS	S3PMA/S3PFA for males/females	CMI 2019	26.9	29.1	28.4	30.3
	SASPS	S3PMA/S3PFA for males/females	CMI 2019	27.9	30.0	30.1	31.9

The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2022, this allowance was based on the CMI 2020 mortality improvements model with improvement factors of 1.60% for males (Sk = 7.25,A parameter varies by age) and 1.60% for females (Sk = 7.75, A parameter varies by age) (2021: this allowance was based on the CMI 2019 model with improvement factors of 1.75% for males (Sk = 7.50, A =0.45%) and 1.50% for females (Sk = 8.00, A=0.45%)).

The most recent full valuations have been updated to 31 December 2022 applying the principles prescribed by FRS 102.28.

The combined assets and liabilities of PSPS and SASPS were:

	31 December 2022		31 December 2021	
	£m	**%**	£m	%
Equities	**126**	**2**	76	1
Bonds	**5,221**	**100**	7,732	92
Derivatives	**(720)**	**(14)**	49	1
Properties	**399**	**8**	288	3
Other assets	**197**	**4**	245	3
Total value of assets	**5,223**	**100**	8,390	100
Present value of underlying scheme liabilities	**4,616**		7,503	
Underlying surplus in the schemes	**607**		887	

Included within other assets is a £10m derivative liability in respect of the longevity swap transaction with Pacific Life Re Limited (2021: £11m).

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

	2022	2021
	£m	£m
Attributable to the Company's with-profits fund	**13**	7
Attributable to the Company's shareholder fund	**10**	(30)
Total	**23**	(23)

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

Notes on the financial statements (continued)

The total actual return on scheme assets for both PSPS and SASPS is a loss of £2,893m (2021: loss of £139m) of which a loss of £1,899m (2021: loss of £107m) relates to the amounts attributable to the Company's with-profits fund and a loss of £252m (2021: gain of £21m) relates to amounts attributable to the Company's shareholder fund.

The pension asset recognised on the balance sheet of the Company and detailed in the table below is £23m as at 31 December 2022 (2021: £27m). The provision for pensions on the balance sheet of the Company and detailed in the table below is £nil as at 31 December 2022 (2021: £50m).

The surplus in the Prudential Staff Pension Scheme of £7m 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 Corporate Services Limited (previously 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:

2022 £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	8,387	(7,503)	884	(896)	(12)	(23)
Current service cost	—	(13)	(13)	—	(13)	(9)
Past service cost**	—	—	—	—	—	—
Net interest on net defined benefit	150	(134)	16	(16)	—	—
Administration expenses	(7)	—	(7)	—	(7)	(6)
Benefit payments	(312)	312	—	—	—	—
Company contributions*	41	—	41	—	41	38
Actuarial gains and losses	(3,036)	2,722	(314)	331	17	23
Net surplus (deficit) at end of year	**5,223**	**(4,616)**	**607**	**(581)**	**26**	**23**
PSPS net surplus (deficit) at end of year	**4,641**	**(4,050)**	**591**	**(581)**	**10**	**7**
SASPS net surplus (deficit) at end of year	**582**	**(566)**	**16**	**—**	**16**	**16**

* 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. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2022 and 31 December 2021, the Company has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £31m for PSPS and £11m for SASPS as at 31 December 2022 (2021: £43m for PSPS and £20m for SASPS). A portion of these costs are allocated to the Company in line with the apportionments described on page 56.
*** PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

Notes on the financial statements (continued)

2021 £m	Assets	Liabilities	Net surplus	Effect of FRS 102 for derecognition of surplus (restated)	Total surplus (deficit) (restated)	PAC share of surplus (deficit) ***
Net surplus (deficit) at start of year	8,851	(8,182)	669	(717)	(48)	(66)
Current service cost	—	(17)	(17)	—	(17)	(10)
Past service cost**	—	—	—	—	—	—
Net interest on net defined benefit	107	(99)	8	(9)	(1)	—
Administration expenses	(8)	—	(8)	—	(8)	(7)
Benefit payments	(364)	364	—	—	—	—
Company contributions*	41	—	41	—	41	37
Actuarial gains and losses	(240)	431	191	(170)	21	23
Net surplus (deficit) at end of year	**8,387**	**(7,503)**	**884**	**(896)**	**(12)**	**(23)**
PSPS net surplus (deficit) at end of year	**7,394**	**(6,460)**	**934**	**(896)**	**38**	**27**
SASPS net surplus (deficit) at end of year	**993**	**(1,043)**	**(50)**	**—**	**(50)**	**(50)**

* 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 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. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2021 and 31 December 2020, the Company has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £43m for PSPS and £20m for SASPS as at 31 December 2021 (2020: £48m for PSPS and £21m for SASPS). A portion of these costs are allocated to the Company in line with the apportionments described on page 56.
*** PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

It was identified that the amounts relating to the effect of FRS 102 derecognition of surplus impacting Information on staff and pension costs were misstated in the table above for the year ended 31 December 2021 due to an error in the workings. As a result the prior period note disclosure has been restated. The impact of the change is to alter the closing derecognition of surplus from £706m to £896m. There is no impact on historic periods or the primary statements.

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 PSPS 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 2022, there was a pension debit of £2m (2021 (restated**): credit of £3m).

Notes on the financial statements (continued)

The amount attributable to the Company's shareholders for SASPS has a direct effect on shareholders' profit and shareholders' funds. In 2022 there was a pension credit of £25m (2021 (restated**): credit of £20m).

**It was identified that the amounts related to PSPS/SASPS for both the with-profits fund and the shareholder fund for information on staff and pension costs were misstated in the sentences above for the year ended 31 December 2021 as a result of the incorrect figure being used. As a result the prior period note disclosure has been restated. The impact of the change is to alter disclosure for the actuarial gains/(losses) from £6m debit to £3m credit and £17m credit to £20m credit. There is no impact on historic periods or the primary statements.

The actuarial loss for both PSPS and SASPS relating to the Company's with-profits fund of £2m (2021: actuarial gain of £3m) is included in the statement of comprehensive income and reflected in the transfer to or from the FFA. The actuarial gain of SASPS relating to the Company's shareholder element of £25m (2021: actuarial gain of £20m) 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 2022 amounts to £41m (2021: £41m), reflecting the annual accrual cost, deficit funding (SASPS only), and expenses, of which £38m (2021: £38m) relates to the Company.

The table below shows the sensitivity of the underlying PSPS and SASPS liabilities at 31 December 2022 of £4,050m (2021: £6,460m) and £566m (2021: £1,043m) to changes in discount rates, inflation rates and mortality rate assumptions.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the Company's comprehensive income due to the effect of restriction on surplus for PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the With-Profits Fund as described above. In addition, the sensitivities shown do not include the impact on assets, which for all schemes would significantly offset the impact of the discount rate and inflation sensitivities on the surplus or deficit. For the PSPS scheme, the mortality rate sensitivity impact would also be partially mitigated by the longevity swap asset held.

Assumption	**Change in assumption**	**Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis**
2022		
Discount rate	Decrease by 0.2%: PSPS from 4.9% to 4.7% SASPS from 4.8% to 4.6%	Increase scheme liabilities by: PSPS 2.4% SASPS 3.5%
Discount rate	Increase by 0.2%: PSPS from 4.9% to 5.1% SASPS from 4.8% to 5.0%	Decrease scheme liabilities by: PSPS 2.3% SASPS 3.3%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.3% to 3.1% SASPS from 3.2% to 3.0% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.8% SASPS 2.4%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 3.0% to 2.8% SASPS from 3.0% to 2.8% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.8% SASPS 2.4%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.5% SASPS 2.8%

Notes on the financial statements (continued)

Assumption	Change in assumption	Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis
2021		
Discount rate	Decrease by 0.2%: PSPS from 1.8% to 1.6% SASPS from 1.8% to 1.6%	Increase scheme liabilities by: PSPS 3.3% SASPS 4.7%
Discount rate	Increase by 0.2%: PSPS from 1.8% to 2.0% SASPS from 1.8% to 2.0%	Decrease scheme liabilities by: PSPS 3.1% SASPS 4.4%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.6% to 3.4% SASPS from 3.4% to 3.2% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 1.2% SASPS 3.1%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 3.1% to 2.9% SASPS from 3.1% to 2.9% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 1.2% SASPS 3.1%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.3% SASPS 3.7%

10. Directors' emoluments

	2022	2021 (Restated)*
	£	£
Aggregate emoluments	**1,522,286**	1,941,165
Excess retirement benefits:		
Current directors	**57,807**	77,161
	1,580,093	2,018,326
Highest Paid Director:		
Aggregate emoluments and amounts receivable (excluding shares) under long term incentive schemes	**380,871**	778,121

*It was identified that the amounts disclosed as Directors Emoluments above were incorrect for the year ended 31 December 2021 as a result of the figure for Long Term Incentive Plans being included erroneously. As a result the prior period note disclosure has been restated. The impact of the change is to alter the total emoluments from £2,282,465 to £2,018,327. There is no impact on historic periods or the primary statements.

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. An assessment was 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 one director in 2022 (2021: three). No directors (2021: none) exercised share options during the year. Three directors (2021: three) were entitled to shares under M&G plc's main long-term incentive scheme and two directors (2021: two) were entitled to retirement funds under defined benefit schemes.

The highest paid director in 2022 (and 2021) received shares under long-term incentive schemes and chose not to exercise any in either year.

Notes on the financial statements (continued)

11. Auditors remuneration

The following table shows the auditors remuneration. For the year ended 31 December 2022 total fees payable are in relation to those payable to PwC with the comparative period information relating to fees payable to KPMG.

	2022	2021
	£000's	£000's
Fees payable to the Company's auditors for the audit of the Company’s annual accounts	**3,107**	2,876
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	**908**	588
Audit of the Company's subsidiaries, pursuant to legislation	**1,190**	1,224
Other assurance services	**—**	32
Total fees payable	**5,205**	4,720

12. Land and buildings

	2022	2021
	£m	£m
Current value		
Freeholds	**4,350**	5,087
Leaseholds with a term of over 50 years	**1,570**	2,159
Leaseholds with a term of less than 50 years	**836**	594
	6,756	7,840
Cost	**5,664**	5,772

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

	2022	2021
	£m	£m
At cost	**5,664**	5,772
Aggregate depreciation*	**(2,535)**	(2,355)
Net book value based on historical cost	**3,129**	3,417

*It was identified that the amounts related to aggregate depreciation impacting Land and Buildings disclosed in the table above were incorrect for the year ended 31 December 2021 as a result of the calculations still depreciating buildings that had been fully depreciated. As a result the prior period note disclosure has been restated. The impact of the change is to alter the aggregate depreciation from £4,068m to £2,355m. There is no impact on historic periods or the primary statements.

(a) Investment property

	2022	2021
	£m	£m
Balance at 1 January	**7,840**	7,665
Additions		
Resulting from acquisitions	**197**	92
Resulting from expenditure capitalised	**129**	26
Disposals	**(432)**	(495)
Net (loss)/gain from fair value adjustments	**(983)**	556
Other changes	**5**	(4)
Balance at 31 December	**6,756**	7,840

Notes on the financial statements (continued)

The 2022 profit and loss account includes rental income from investment properties of £408m (2021: £440m).

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

	2022			2021		
	£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 to 5 years	**2**	**—**	**2**	2	—	2
Over 5 years	**64**	**(57)**	**7**	59	(53)	6
Total	**67**	**(57)**	**10**	61	(53)	8

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 £3m (2021: £2m) has been recognised as income with an expense charge of £6m (2021: £6m). 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 2022 were £201m (2021(restated**): £237m).

**The amounts related to contractual obligations impacting Land and Buildings as noted in the sentence above were restated for the year ended 31 December 2021 as a result of the figure picking up additional obligations not related to the Company. As a result the prior period note disclosure has been restated. The impact of the change is to alter the contractual obligations from £592m to £237m. There is no impact on historic periods or the primary statements.

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 and leasehold investment properties are receivable in the following periods:

	2022	2021
	£m	£m
Less than 1 year	**337**	343
1 to 5 years	**1,119**	1,156
Over 5 years	**1,572**	1,837
Total	**3,028**	3,336

(b) 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:

	2022			2021		
	£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	**8**	**(1)**	**7**	8	(1)	7
Over 5 years	**361**	**(328)**	**33**	363	(330)	33
Total	**371**	**(329)**	**42**	373	(331)	42

Notes on the financial statements (continued)

13. Investments in group undertakings and participating interests

	Cost		Current value	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Long-term fund investments	**2,895**	2,553	**4,395**	4,191
Shareholder investments	**354**	329	**524**	481
Total	**3,249**	2,882	**4,919**	4,672
Interest in joint ventures and associate long-term fund investments	**348**	347	**414**	469
Debt securities issued by, and loans to group undertakings – long term funds	**848**	984	**848**	983
Total	**4,445**	4,213	**6,181**	6,124

Refer to note 29 for further information on the related undertakings of the Company.

14. Other financial investments

	Cost		Carrying value	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	**55,025**	51,137	**57,283**	60,245
Debt securities and other fixed income securities	**44,596**	51,292	**40,218**	54,868
Derivative assets	**924**	1,841	**2,418**	2,909
Participation in investment pools	**9,721**	8,193	**12,062**	10,130
Loans secured by mortgages	**1,430**	1,450	**873**	1,622
Amortised cost				
Loans secured by mortgages*	**935**	1,147	**935**	1,145
Loans to policyholders secured by insurance policies	**2**	2	**2**	2
Other loans	**641**	787	**611**	771
Deposits with credit institutions	**18,664**	15,377	**18,664**	15,377
	131,938	131,226	**133,066**	147,069

*The amount related to loans secured by mortgages impacting Other financial investments were restated for the year ended 31 December 2021 as a result of incorrect classification between fair value through profit and loss and amortised cost. As a result the prior period note disclosure has been restated to correct this error. The impact of the change is to alter the split between categories in the table above. There is no impact on historic periods or the primary statements.

The change in carrying value of other financial investments included in the Profit and Loss account was a loss of £16,699m (2021: £3,853m loss) analysed between a loss of £15,111m (2021: £3,393m loss) included in the Long-term business technical account and a loss of £1,588m (2021: £459m loss) included in the Non-technical account.

The change in carrying value of £16,699m loss (2021: £3,853m loss) included a loss of £6,872m (2021: £156m loss) in respect of equity securities, loss of £7,954m (2021: £3,052m loss) in respect of debt securities, a loss of £1,564m (2021: £1,673m loss) in respect of derivatives and a loss of £309m (2021: £1,028m gain) in respect of other financial instruments.

Notes on the financial statements (continued)

	Carrying value	
	2022	2021 (Restated)
Amounts included in the above relating to listed investments:	**£m**	£m
Shares and other variable yield securities and units in unit trusts**	**22,825**	35,131
Debt securities and other fixed income securities	**35,113**	46,993
	57,938	82,124

**The amounts related to shares and other variable yield securities and units in unit trusts impacting Other financial investments reported in the table above have been restated for the year ended 31 December 2021 as a result of the TIM assets being excluded erroneously. As a result the prior period note disclosure has been restated to correct this error. The impact of the change is to alter the shares and other variable yield securities and units in unit trusts from £34,527m to £35,131m. There is no impact on historic periods or primary statements.

The table below analyses the derivative positions of the Company:

	2022 £m		2021 £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	**2,059**	**2,142**	2,229	843
Cross currency swaps	**8**	**420**	28	325
Currency exchange forward contracts	**116**	**648**	299	484
Bond futures	**33**	**16**	3	29
Credit default swaps	**2**	**46**	3	25
Inflation swaps	**110**	**372**	249	442
Derivative financial instruments held to manage market risk and efficient investment management:				
Equity options	**72**	**167**	37	178
Equity futures	**3**	**71**	55	7
Equity warrants	**15**	**—**	6	—
Total	**2,418**	**3,882**	2,909	2,333

The nature of the derivative financial instruments used by the Company in 2022, are similar to those used in 2021. 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 net liability of £204m (2021: liability of £339m). The derivative financial instruments also include hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund relating to 2019 and 2020 PruFund new business. These capital hedges are instruments that partially hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

The use of derivatives is discussed further in note 27 (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 Prudential Retirement Income Limited (PRIL), which were subsequently transferred to the Company, at the fair value of the mortgage book.

Notes on the financial statements (continued)

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.

A further tranche of equity release mortgages was purchased by the Company from its subsidiary Prudential Lifetime Mortgages Limited (PLML) in January 2020. The beneficial interest in the equity release mortgage portfolio was sold to PERM in an arm's-length transaction, for cash. As for the earlier transaction, 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 sale, and so continues to recognise the asset within the Company's financial statements.

The fair value of this equity release mortgage portfolio at 31 December 2022 was £764m (2021: £1,335m).

15. Assets held to cover linked liabilities

	Cost		Carrying value	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Assets held to cover linked liabilities	**10,137**	10,814	**10,440**	13,670

Assets held to cover linked liabilities of £10,440m (2021: £13,670m) plus reinsurers share of technical provisions for linked liabilities of £5,062m (2021 £5,898m) are equal to the technical provisions for linked liabilities of £15,503m (2021 £19,568m).

The main components of the assets held to cover linked liabilities are equities £5.4bn (2021: £6.5bn), debt securities £4.0bn (2021: £5.7bn), deposits £1.2bn (2021: £1.4bn) and other current liabilities £0.7bn (2021: £0.7bn).

16. Reinsurers' share of technical provisions

	2022	2021
	£m	£m
PPL	4,720	5,478
Hannover	261	417
Rothesay	663	1,051
Swiss Re	235	256
Other smaller companies	85	22
Total	5,964	7,224

The reduction over 2022 is driven by the same factors as the underlying liabilities, namely the rise in interest rates and weakening of the annuitant mortality basis.

For the comparative periods all reinsurance, including the liability on longevity swaps (now presented in note 22), was presented in Reinsurers' share of technical provisions.

Notes on the financial statements (continued)

17. Other debtors

	2022	2021
	£m	£m
Amounts owed by group undertakings	**77**	144
Amounts owed by undertakings in which the entity has a participating interest	**282**	240
Tax recoverable	**197**	337
Other debtors	**—**	72
	556	793

Other debtors include £nil (2021: £35m) due after more than one year.

18. 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.

19. Assets attributable to the long term business fund

Of the total amount of assets shown in the balance sheet on page 38, £163,868m (2021: £185,346m) is attributable to the long-term business fund.

20. Share capital

The Company's issued ordinary share capital is £330m 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.

21. Other Provisions

	2022	2021
	£m	£m
At 1 January	**27**	79
Charged/(credited) to income statement:		
Additional provisions	**1**	4
Unused amounts released	**(1)**	(41)
Used during the year	**—**	(15)
Total at 31 December	**27**	27

Other provisions included a £20m NNEG provision in respect of lifetime mortgages transferred from one of the Company's subsidiaries. The amount and timing of the outflows is dependent on future property prices.

Notes on the financial statements (continued)

22. Other creditors including taxation and social security

	2022	2021
	£m	£m
Other bank loans and overdrafts	**14**	0
Amounts owed to group undertakings	**202**	104
Amounts owed to undertakings in which the entity has a participating interest	**522**	558
Tax payable	**26**	193
Derivative liability (see note 14)	**3,882**	2,333
Unsettled reverse repurchase agreements	**3,827**	2,797
Other borrowings not owed to credit institutions	**1**	97
Liability on longevity swaps*	**126**	—
Other creditors**	**2,274**	3,064
	10,874	9,146

*For the comparative periods all reinsurance is presented in Reinsurers' share of technical provisions (note 16).

**Other creditors include £1,530m (2021: £844m) due after more than one year.

23. Ultimate parent company

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

24. 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. In the normal course of business the Company holds units in and transacts with investment vehicles which are managed by the Group. All transactions with these investment vehicles take place at arms length on the same basis as other investors. These transactions are not considered to be material to the operation of the Company.

25. Long-term business provision, technical provision for linked liabilities and fund for future appropriations

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 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 at least 9/10 of the distribution from the WPSF as bonus additions to their policies and shareholders receive up to 1/10 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 EGR which is declared each quarter, plus any Unit Price Adjustments

which may be applied in certain circumstances. The shareholder transfer only crystallises at the point when a claim is paid to the policyholder and is up to 1/9th of the difference between the policyholder payout and the premium(s) paid.
SAIF was a closed sub-fund that contained the bulk of the business originally written by the Scottish Amicable Life Assurance Society that merged with the Company's main WPSF and the assets and liabilities of SAIF were combined with the WPSF on 1 April 2021. Under the terms of the SALAS Scheme, the SAIF inherited estate was to be distributed fully to with-profits policyholders as an addition to the with-profits benefits arising in SAIF. At the date of the merger, to ensure the full value of assets was distributed to SAIF with-profits policyholders, this addition (known as the Final Relevant Policies Enhancement) was reassessed and fixed, based on market conditions at the time. The enhancement is being paid through the terminal bonus at point of claim. SAIF policies continue to participate in profits on a 100:0 basis with no shareholder profit transfers.

The Defined Charge Participating 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. For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders’ profit arises as the difference between charges and expenses.

There is a substantial volume of non-participating business in the with-profits sub-fund; profits from this business accrues 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**
As at 1 January 2021			
Comprising			
Technical provisions	142,974	21,466	164,440
Fund for future appropriations	15,672	—	15,672
	158,646	21,466	180,112
Premiums	4,612	149	4,761
Surrenders	(6,501)	(218)	(6,719)
Maturities/Deaths	(5,850)	(1,076)	(6,926)
Shareholders' transfers post tax	(297)	—	(297)
Switches	(31)	31	—
Investment-related items and other movements	10,528	(784)	9,744
Foreign exchange translation differences	(82)	—	(82)
Transfer of business	(9,558)	—	(9,558)
Assumption changes (ii)	(347)	—	(347)
As at 31 December 2021/1 January 2022	**151,120**	**19,568**	**170,688**
Comprising			
Technical provisions	134,249	19,568	153,817
Fund for future appropriations	16,871	—	16,871
	151,120	19,568	170,688
Premiums	6,358	93	6,451
Surrenders	(6,275)	(401)	(6,676)
Maturities/Deaths	(5,074)	(883)	(5,957)
Shareholders' transfers post tax	(361)	—	(361)
Switches	(44)	44	—
Investment-related items and other movements (iii)	(10,545)	(2,918)	(13,463)
Foreign exchange translation differences	80	—	80
Transfer of business	—	—	—
Assumption changes (ii)	(275)	—	(275)
As at 31 December 2022	**134,984**	**15,503**	**150,487**
Comprising			
Technical provisions	120,055	15,503	135,558
Fund for future appropriations	14,929	—	14,929
	134,984	**15,503**	**150,487**

i. 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.

ii. Assumption changes included for the shareholder-backed business include credit downgrade/default provisioning and annuitant mortality. The total decrease to policyholder liabilities was £275m for the year ended 31 December 2022 (2021: £347m decrease). For the With-Profits Fund, the impact of assumption changes for the year ended 31 December 2022 was a decrease in policyholder liabilities of £48m (2021: £50m increase), which was offset by a corresponding increase in the fund for future appropriations.

iii. Reduction over 2022 primarily reflects the impact of adverse market movements over the year, in particular the significant rise in interest rates.

The tables below set out the impact of assumption changes on gross policyholder liabilities over the current and previous reporting period.

	2022	2021
Assumption changes impact on shareholder-backed business	**£m**	£m
Longevity (i)	**(292)**	(320)
Expenses (including investment management expenses)	**17**	(8)
Other (ii)	**—**	(19)
Total	**(275)**	(347)
Assumption changes impact on With-Profits business		
Longevity (i)	**(278)**	(92)
Persistency	**99**	116
Expenses (including investment management expenses)	**210**	(66)
Other (ii)	**17**	(8)
Total	**48**	(50)

Notes

(i) The net of reinsurance impacts of longevity assumption changes, as set out in the strategic report are £198m (2021: £125m).

(ii) 'Other' category includes non-annuitant mortality, morbidity, and judgemental assumption changes in respect of the long-term view of credit risk. Any impact relating to changes in those components of the credit default allowance that are not subjective but are purely market-driven are allocated to 'investment-related items and other movements'.

The impact of longevity assumption updates over the reporting period reflects the weakening of the basis for shareholder and policyholder backed annuity business, including in respect of lower future improvements in mortality. Persistency assumptions were also updated for the year ended 31 December 2022 for a number of with-profits product lines in order to reflect emerging experience. The impact in respect of expense assumption changes predominately reflects the impact of higher salary and cost inflation. The 'other' category includes the impact of the increase in the long-term subjective (non-market driven) components of the credit default allowance.

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 the WPSF. 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 with and without dpf. The maturity profile is the expected benefit payments calculated using a cash flow projection model with best-estimate assumptions of future mortality, persistency and long-term investment returns.

Notes on the financial statements (continued)

2022	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	36	37	37	44	36	49	32	37
5-10 years	25	25	25	27	26	27	24	25
10-15 years	17	16	16	15	18	14	19	18
15-20 years	10	10	10	7	11	6	12	10
20-25 years	6	6	6	4	5	2	7	6
Over 25 years	6	6	6	3	4	2	6	4

2021	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	34	36	35	36	29	45	32	36
5-10 years	24	25	25	26	24	26	24	25
10-15 years	17	16	17	17	19	15	19	18
15-20 years	11	10	10	10	14	8	12	10
20-25 years	7	6	6	5	8	3	7	6
Over 25 years	7	7	7	6	6	3	6	5

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 WPSF and DCPSF

With-profits options and guarantees

Certain contracts written in the Company's With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if earlier. For most pensions products, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, guarantees apply at the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter.

The main types of options and guarantees offered for with-profits contracts are as follows:

- For conventional with-profits contracts, including endowment assurance contracts and whole of life assurance contracts, payouts are guaranteed at the sum assured together with any declared regular bonus.

Notes on the financial statements (continued)

- Conventional with-profits deferred annuity contracts have a basic annuity per annum to which bonuses are added. At maturity, the cash claim value will reflect the current cost of providing the deferred annuity. Regular bonuses when added to with-profits contracts usually increase the guaranteed amount.
- For unitised with-profits contracts and cash accumulation contracts the guaranteed payout is the initial investment (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses declared. If benefits are taken at a date other than when the guarantee applies, a market value reduction may be applied to reflect the difference between the accumulated value of the units and the market value of the underlying assets.
- For certain unitised with-profits contracts and cash accumulation contracts, policyholders have the option to defer their retirement date when they reach maturity, and the terminal bonus granted at that point is guaranteed.
- For with-profits annuity contracts, there is a guaranteed minimum annuity payment below which benefit payments cannot fall over the lifetime of the policies.
- Certain pensions products have guaranteed annuity options at retirement, where the policyholder has the option to take the benefit in the form of an annuity at a guaranteed conversion rate.

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 2022 year end Investment Return for asset shares is:

Return	**WPSF Main Asset Share Fund**	**High Reversionary Bonus fund (held within the WPSF)**	**PruFund Cautious Fund (held within the WPSF)**	**Ex-SAIF**
Gross return	-1.53%	-4.39%	-5.36%	-1.57%
Net return	-1.26%	-3.57%	-4.13%	-1.10%

The 2021 year end Investment Return for asset shares were:

Return	**WPSF Main Asset Share Fund**	**High Reversionary Bonus fund (held within the WPSF)**	**PruFund Cautious Fund (held within the WPSF)**	**Ex-SAIF**
Gross return	11.97%	9.08%	5.80%	10.91%
Net return	10.11%	7.67%	4.85%	9.22%

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.

Refer to note 27 (E) for sensitivity analysis.

The table below shows the mortality bases used for the valuation at 31 December 2022:

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	80 / 80
Personal Pensions	AMC00/AFC00	-1 / -1	95 / 95
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	100 / 100
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	95 / 95
Group Pension Deferred Annuities	PMA16_CMI20_M_LTR_1.60_Sk_7.25_A_PSA_pl50bp / PFA16_CMI20_F_LTR_1.60_Sk_7.75_A_PSA_pl50bp	+0/+0	90/84 (PAC) 91/89 (ex-PAL)
Ex-SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	70 / 70 Life & 50 / 50 Pensions
Ex-SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	50 / 50 Life & 55 / 55 Pensions

The table below shows the mortality bases used for the valuation at 31 December 2021:

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	80 / 80
Personal Pensions	AMC00/AFC00	-1 / -1	95 / 95
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	100 / 100
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	95 / 95
Group Pension Deferred Annuities	PMA00_CMI_2019_M_LTR_1.75_Sk_7.5_A_0.45_pl50bps / PFA00_CMI_2019_F_LTR_1.50_Sk_8_A_0.45_pl50bps	+0/+0	100/99 (PAC) 96/98 (ex-PAL)
Ex-SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	70 / 70 Life & 50 / 50 Pensions
Ex-SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	50 / 50 Life & 55 / 55 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.

Non-profit annuity business in the with-profits sub-fund

The non-profit annuities business within the With-Profits Fund is valued on the statutory basis, i.e. including margins for adverse deviations (as set out in 'Valuation of annuity contracts'). The with-profits liabilities are valued on a realistic basis and therefore allow for the future enhancements to the policyholders. Following this approach unadjusted would lead to an inconsistency in the net assets, as such, the present value of future profits from the relevant non-profit annuities is applied as an adjustment to the with-profit liabilities. Annually when the enhancements to asset shares are committed to, the value of the enhancements is transferred from the Unallocated surplus of the with-profits fund to with-profit liabilities.

B. Other non-linked business

The majority of the policyholder liabilities in other non-linked business relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The valuation methodology for the reinsurance is based on a deterministic cashflow model, in line with the underlying portfolio.

At 31 December 2022, longevity swap reinsurance covered £3.9bn (2021: £5.5bn) of annuity liabilities in the shareholder fund, equivalent to 31% (2021: 31%) of total annuity liabilities.

Mortality

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, annuitant mortality remains a significant assumption in determining policyholder liabilities.

The assumptions used reference recent England & Wales population mortality data consistent with the CMI mortality improvements model, with specific risk factors applied on a per policy basis to reflect the features of the Company's portfolio.

An increase in mortality rates was observed over 2020 and 2021 due to the COVID-19 pandemic. Higher mortality experience may be expected to continue to some extent over the short-term, with significant excess deaths observed in the population over 2022. However, there is significant uncertainty and the longer-term implications for mortality rates amongst the annuitant population are unknown at this stage. In line with broader industry approach, zero weight has been given to pandemic experience. This is an area that will continue to be monitored by the Company.

Notes on the financial statements (continued)

For current mortality, while no weight has been given to the most recent years of experience, the Company's longevity assumptions have been updated to reflect enhancements made to aspects of the underlying data and the corresponding modelling approach. This has resulted in a small weakening.

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2022. New mortality projection models are released annually by the Continuous Mortality Investigation (CMI). The CMI tables used are adjusted as appropriate each year to reflect anticipated mortality improvements, including an appropriate margin on an IFRS basis relative to the best estimate assumption used for Solvency II.

An external panel process with a range of experts from different disciplines (such as Public Health & Social Policy, General Practice and Oncology) was undertaken in 2022 which formed part of a review of the drivers of future mortality improvements. Enhancements were also made to the approach to determining how the Group's own portfolio experience could differ from the population as whole. Combining these resulted in more pessimism (i.e. lower levels of future improvements) than the previous year and resulted in a release of reserves. The 2022 basis is expressed in terms of CMI 2020 in comparison to the 2021 basis, which was expressed relative to CMI 2019. The mortality improvement assumptions used are summarised in the table below, with other assumptions reflecting the core CMI projection.

Period Ended	Model Version (i)	Long Term Improvement Rate (ii)	Smoothing Parameter (iii)
31 December 2022	CMI 2020	For males: 2.10% p.a. For females: 2.10% p.a.	For males: 7.25 For females: 7.75
31 December 2021	CMI 2019	For males: 2.25% p.a. For females: 2.00% p.a.	For males: 7.50 For females: 8.00

i An 'A' parameter in the model to reflect socio-economic differences between the portfolio and population experience is also used. This adjusts initial mortality improvement rates and was 0.45% at 31 December 2021. Under the revised methodology, this parameter varies by age and gender and is reduced at all ages relative to 31 December 2021.
ii As at 31 December 2022 and 31 December 2021, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates relative to the best estimate used under Solvency II as a margin for prudence.
iii The smoothing parameter controls the amount of smoothing by calendar year when determining the level of initial mortality improvements.
iv The tapering of improvements to zero is set to occur between ages 90–110 at 31 December 2022, which is a change from 85–110 at 31 December 2021.

The mortality assumptions for in-force vested annuities also cover annuities in deferment.

The sensitivity of FRS 102 profit before tax and of with-profits liabilities to changes in assumed mortality rates is shown in Note 27 (E).

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term overlay to reflect prospective outlook in respect of experience over the coming period, including any uncertainty in outlook. Following adverse downgrade experience over the latter half of 2022, and deteriorating future outlook for the UK economy, the short-term allowance has been increased for reporting as at 31 December 2022. The table below shows the credit allowance relative to the overall spread over swaps.

Period ended 31 December 2022	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit Default allowance	47bps	46bps
Overall valuation interest rate	5.48	5.32
Credit allowance as proportion of spreadover swaps	20.3	21.5
Net of reinsurance credit reserve (£m)	434	198

Notes on the financial statements (continued)

Period ended 31 December 2021	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit Default allowance	44 bps	40 bps
Overall valuation interest rate	2.23	2.03
Credit allowance as proportion of spreadover swaps	25	27.7
Net of reinsurance credit reserve (£m)	727	312

The decrease in net of reinsurance reserve is primarily due to the increase in yields since 31 December 2021. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities, and the sensitivity of FRS 102 profit after tax to changes in this assumption is shown in Note 27 (E).

Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment management expenses and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for prudence is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. These assumptions therefore take recent increases in inflation into account, and allow for the market-driven long-term view of future inflation. The sensitivity of FRS 102 profit after tax to changes in maintenance expense levels is shown in Note 27 (E).

Term assurance assumptions

The following discount and mortality bases were used for term assurances at 31 December 2022:

	Interest Rate %	**Actuarial Mortality Table Reference***
UK (excluding ex-Scottish Amicable Insurance Fund)		
Term assurances - life business	2.98	85% to 100% AMC00/AFC00+1
Term assurances - pensions business	3.73	80% to 90% AMC00/AFC00+1
Ex Scottish Amicable Insurance Fund		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	4.08	80% AMC00/AFC00+1

The following discount and mortality bases were used for term assurances at 31 December 2021:

	Interest Rate %	**Actuarial Mortality Table Reference***
UK (excluding ex-Scottish Amicable Insurance Fund)		
Term assurances - life business	0.78	85% to 100% AMC00/AFC00+1
Term assurances - pensions business	0.98	80% to 90% AMC00/AFC00+1
Ex-Scottish Amicable Insurance Fund		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	1.22	80% AMC00/AFC00+1

C. Linked business in the Shareholder Fund

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2022:

Discount Rate	3.73%
Fund Growth	4.59%
Mortality	80%-120% AMC00/ AFC00 Ultimate -3 or +1 age adj depending upon product type
Administration Expenses	£74 to £174 depending on product type
Expense Inflation	3.59% for retained expenses, 3.09% for third party expenses

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2021:

Discount Rate	0.98%
Fund Growth	4.79%
Mortality (restated**)	80%-120% AMC00/ AFC00 Ultimate -3 or +1 age adj depending upon product type
Administration Expenses	£70 to £164 depending on product type
Expense Inflation	3.79% for retained expenses, 3.29% for third party expenses

D. Linked business in the With-Profits Sub-Fund (including ex Scottish Amicable Insurance Fund)

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2022:

Discount Rate	3.73%
Fund Growth	4.59%
Mortality	80%-120% AMC00/ AFC00 Ultimate -3 or +1 age adj depending upon product type
Administration Expenses	Ex-SAIF: £76 to £178 depending on product type WPSF: £103 to £115 depending on product type
Expense Inflation	4.59% for retained expenses, 3.09% for third party expenses

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2021:

Discount Rate	0.98%
Fund Growth	4.79%
Mortality (restated**)	80%-120% AMC00/ AFC00 Ultimate -3 or +1 age adj depending upon product type
Administration Expenses	Ex-SAIF: £72 to £151 depending on product type WPSF: £94 to £111 depending on product type
Expense Inflation	4.79% for retained expenses, 3.29% for third party expenses

**The mortality bases for linked business have been restated for the year ended 31 December 2021 as a result of incorrect information being used in the note disclosure.

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 26.

26. 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. We continue efforts to re-engage these customers to ensure they have the opportunity to take part in the review.

At 31 December 2022, the pension mis-selling amount included within the long-term business provision was £226m (2021: £297m). The table below summarises the change for the year ended 31 December 2022.

	Year Ended 31 December 2022 £m	Year Ended 31 December 2021 £m
Balance at start of the period	**297**	304
Changes to actuarial assumptions and method of calculation	**(59)**	8
Release of provision in respect of closed cases	**(1)**	(7)
Redress paid to policyholders	**(7)**	(8)
Payment of administrative costs	**(4)**	—
Balance at end of the period	**226**	297

The pension mis-selling review provision as at 31 December 2022 is £226m for the remaining population.

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 £59m reduction in the provision for the Pension Mis-selling Review is mainly driven by the rise in interest rates which reduces the present value of future benefit payments and a refinement to the valuation model to address a known approximation which became more material with increasing inflation volatility.

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 is supported by related intra-group arrangements between M&G plc and the Company, which formalise the circumstances in which capital support would be made available to the Company by M&G plc. These intra-group arrangements commenced on 21 October 2019, following the demerger of M&G plc from Prudential plc (the previous ultimate parent company), at which time intra-group arrangements formalising the circumstances in which Prudential plc made capital support available to the Company terminated.

Notes on the financial statements (continued)

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 have been carried out over recent years 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 2022 an amount is held within the long-term business provision of £11m in respect of shareholder-backed business and £3m in respect of ex SAIF (2021: £11m and £3m 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 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. A provision of £39m was held at 31 December 2022 (£98m at 31 December 2021) to provide for equalisation of GMP benefits. This provision was set up following a high court ruling in 2018 relating to Lloyds Banking Group which resulted in pension schemes being legally required to remove any inequality of treatment between members for pensions benefits accrued after May 1990. Following a revised legal opinion obtained in 2022 a portion of the provision was released in respect of bought out or wound up schemes.

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, or otherwise not able to meet its obligations to treat the with-profits policyholders fairly, 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 line with the FCA regulations which ensures that new business written in the With-Profits Sub-Fund (WPSF) is financially self-supporting or, in the event charges are not sufficient to cover costs, shareholders will make an appropriate contribution to the WPSF. In 2021 a £38m loss arose due to the establishment of a provision (credited to the fund for future appropriations) as the lower sales volumes were not sufficient to generate charges to fully absorb the operational fixed costs. The final shortfall in respect of 2021 new business is lower and some of the provision was released in 2022, partially offset by the establishment of a provision in relation to 2022 new business volumes, resulting in an overall profit of £10m in 2022 (transferred from the fund for future appropriations).

The Company established a Polish branch which became operational in March 2013. The Company's With Profits inherited estate contributed 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 With Profits inherited estate will be repaid in full, with interest, and therefore an amount is recognised for the estimated cost to the shareholder of any shortfall at end of the term of the agreement. This obligation to repay the With Profit inherited estate in full was not affected by the Part VII Transfer of the Company's Polish branch to its subsidiary, PIA, in 2019. At 31 December 2022 £36m has been provided for by the Shareholder fund which has been credited to the fund for future appropriations with changes in the value recognised in transfer from/(to) the fund for future appropriations in the profit or loss account.

Notes on the financial statements (continued)

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.

Prutec Limited, a subsidiary of the Company, invests in partnerships, venture capital funds, private equity funds and private equity transactions. Prutec Limited's assets are predominantly fixed asset investments, and as a result the entity has net current liabilities. Accordingly, a letter of support provided by the Company to Prutec Limited provides the necessary support through a loan facility up to 30 September 2023.

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 on the Company's shareholder funds to support M&G Wealth Advice Limited (formerly Prudential Financial Planning Ltd), another group company, which became operational in 2013. Part of the acquisition costs incurred in the early years of the M&G Wealth Advice Limited operation were funded by the Company's with-profits fund and so were due to be repaid over five years as from 1 January 2018, reflecting the period over which the benefit, in terms of sales, would arise. During 2020, the arrangement was changed, to instead require M&G Wealth Advice Limited to deliver cost savings to the Company's with-profits funds. In the event of closure of M&G Wealth Advice Limited or M&G Wealth Advice Limited not delivering cost savings to the Company's with-profits funds, the shareholder will reimburse the consequent estate drain. The shareholder's liability will reduce each year by the cost saving realised in the WPSF. This is defined as the difference between the expenses charged to the WPSF in 2020 and the actual expenses charged each year from 2021.

Transformation costs associated with new business will be recovered in the pricing of future new business (subject to a shareholder underpin whereby the shareholder will compensate the WPSF if any of these costs are not fully recovered after a specified period, currently 10 years with an extension of 5 years to 2031).

If expected benefits do not materialise to the With-Profits fund from the Target Investment Model Programme, the Company shareholder fund will commit to compensate the Fund for any implementation costs borne which were not fully recouped. The assessment period proposed for the underpin arrangement will be capped at 5 years.

PruFund Risk Mitigation Agreement between Shareholder and With Profits Fund

There is a risk mitigation agreement between the shareholder fund and With Profits fund of PAC to provide protection to both funds in respect of PruFund new business for potential losses arising on the shareholder transfers. At 31 December 2022 the value of the derivative representing this agreement was £11m (2021: £3m) and is reflected in the fund for future appropriation.

27. 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 note 1 (Accounting Policies).

2022	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial Assets				
Deposits with credit institutions	—	18,664	18,664	18,664
Equity securities and portfolio holdings in unit trusts	57,283	—	57,283	57,283
Debt securities and other fixed income securities (note i)	40,218	—	40,218	40,218
Loans (note ii,vi)	873	1,548	2,421	2,330
Participation in investment pools	12,062	—	12,062	12,062
Derivative assets	2,418	—	2,418	2,418
Assets held to cover linked liabilities	9,610	830	10,440	10,440
Debtors arising out of direct insurance operations	—	20	20	20
Debtors arising out of reinsurance operations	—	25	25	25
Accrued investment income	—	679	679	679
Other debtors	—	359	359	359
Cash at bank and in hand	—	875	875	875
Finance Lease asset (see note 12)	42	—	42	42
Total	**122,506**	**23,000**	**145,506**	**145,415**

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m	Fair value £m
Financial Liabilities				
Finance lease obligations (see note 12)	—	10	10	10
Investment contracts without discretionary participation features	6,098	—	6,098	6,098
Creditors arising out of direct insurance operations	—	103	103	103
Creditors arising out of reinsurance operations	—	51	51	51
Deposits received from reinsurers	—	146	146	146
Other creditors	246	6,719	6,965	6,965
Derivative liabilities	3,882	—	3,882	3,882
Total (note iv)	**10,226**	**7,029**	**17,255**	**17,255**

Notes on the financial statements (continued)

2021	**Fair value through profit and loss £m**	**Loans and receivables £m**	**Total carrying value £m**	**Fair value £m**
Financial Assets				
Deposits with credit institutions	—	15,377	15,377	15,377
Equity securities and portfolio holdings in unit trusts	60,245	—	60,245	60,245
Debt securities and other fixed income securities (note i)	54,869	—	54,869	54,869
Loans (note ii,vi)	1,622	1,918	3,540	3,636
Participation in investment pools	10,129	—	10,129	10,129
Derivative assets	2,909	—	2,909	2,909
Assets held to cover linked liabilities (note v)	12,664	1,006	13,670	13,670
Debtors arising out of direct insurance operations	—	24	24	24
Debtors arising out of reinsurance operations	—	59	59	59
Accrued investment income	—	720	720	720
Other debtors	—	456	456	456
Cash at bank and in hand	—	2,520	2,520	2,520
Finance Lease asset (see note 12)	42	—	42	42
Total	**142,480**	**22,080**	**164,560**	**164,656**

	Fair value through profit and loss £m	**Amortised cost £m**	**Total carrying value £m**	**Fair value £m**
Financial Liabilities				
Finance lease obligations (see note 12)	—	8	8	8
Other borrowings not owed to credit institutions (note iii)	—	97	97	97
Investment contracts without discretionary participation features	7,116	—	7,116	7,116
Creditors arising out of direct insurance operations	—	68	68	68
Creditors arising out of reinsurance operations	—	44	44	44
Deposits received from reinsurers	—	298	298	298
Other creditors	409	6,114	6,523	6,523
Derivative liabilities	2,333	—	2,333	2,333
Total (note iv)	**9,858**	**6,629**	**16,487**	**16,487**

Notes

(i) As at 31 December 2022, £411m (2021: £425m) 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 £30m (2021: £16m losses).

(iii) As at 31 December 2022, £1m (2021: £97m) of loans repayable, contingent on regulatory surplus emerging, was included in other creditors.

(iv) For financial liabilities designated as fair value through profit and loss there was no material impact on profit from movements in credit risk during 2022 and 2021.

(v) Some of the amounts of assets held to cover linked liabilities have been restated in the table above for the year ended 31 December 2021 due to a misclass between fair value through profit and loss and loans and receivables. As a result the prior period note disclosure has been restated. The impact of the change is to reallocate £1,006m from fair value through profit and loss to loans and receivables. There is no impact on historic periods or the primary statements.

(vi) Some of the loans have been restated in the table above for the year ended 31 December 2021 due to a misclassification between fair value through profit and loss and loans and amortised cost. As a result the prior period note disclosure has been restated. The impact of the change is to reallocate £1,145m from fair value through profit and loss to loans and receivables. There is no impact on historic periods or the primary statements.

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 based on Solvency II Own Funds. The Company's investments in other subsidiaries are valued based on net asset value. The directors have concluded that Solvency II Own Funds and net asset value used as a basis for the valuation of insurance and non-insurance subsidiaries respectively 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.

Notes on the financial statements (continued)

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. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement. The Company's policy is to recognise transfers into and transfers out of levels at the end of each half year except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

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

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

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

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

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

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

Level 3 principally includes investments in 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.
- 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.

Notes on the financial statements (continued)

- Equity release mortgage loans are valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the discount rate (consisting of an observable risk free rate and an unobservable illiquidity premium of 2.07% (2021: 1.10%)), the current property value, the assumed future property growth of 2.65% (2021: 3.05%) and the assumed future annual property rental yields of 2.00% (2021: 2.00%). Significant assumptions for equity release mortgage assets within the valuation of the no-negative-equity guarantee (NNEG) include the expected annual increase in house prices as above and the implied in house price volatility of 13.00% (2021: 13.00%). The NNEG is based on a Black-Scholes option pricing valuation utilising a real world approach.

The table below provides the sensitivity of the most significant unobservable inputs for investment property, equity release mortgages, equity securities and portfolio holdings in unit trusts and debt securities, on their fair value, and the impact on FRS 102 profit after tax.

As at 31 December 2022	Fair Value £m	Held in Shareholder-backed fund £m	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on FRS 102 profit after tax £m
Investment property						
Property in use	6,557	873	Equivalent yield	Decrease by 50bps	777	76
				Increase by 50bps	(666)	(62)
			Estimated rental value	Decrease by 10%	(537)	(42)
				Increase by 10%	582	43
Property under development	317	—	Development cost	Increase by 10%	32	—
				Decrease by 10%	(32)	—
Equity release mortgages	901	901	Illiquidity premium	Increase by 50bps	(63)	(47)
				Decrease by 50bps	69	51
			Current property value	Increase by 10%	39	30
				Decrease by 10%	(48)	(36)
			Assumed annual property growth rate	Increase by 100bps	113	85
				Decrease by 100bps	(159)	(119)
			Assumed annual property rental yield	Increase by 100bps	(73)	(55)
				Decrease by 100bps	69	52
Equity securities and portfolio holdings in unit trusts	4,819	1	Net asset value	Increase by 10%	482	—
				Decrease by 10%	(482)	—
Debt securities						
Private placement loans	5,624	3,225	Discount rate	Increase by 40bps	(278)	(135)
				Decrease by 40bps	268	112
Retail income strips	236	199	Discount rate	Increase by 50bps	(15)	(13)
				Decrease by 50bps	17	15
Unquoted corporate bonds	1,575	931	Broker quotes	Increase by 10%	157	70
				Decrease by 10%	(157)	(70)
Other investments (including derivative assets)						
Derivative assets	26	26	Discount rate	Increase by 50bps	(1)	(1)
				Decrease by 50bps	1	1
Other investments	10,935	—	Net asset value	Increase by 10%	1,093	—
				Decrease by 10%	(1,093)	—

Notes on the financial statements (continued)

As at 31 December 2021	Fair Value £m	Held in Shareholder-backed fund £m	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on FRS 102 profit after tax £m
Investment property						
Property in use	7,734	1,057	Equivalent yield	Decrease by 50bps	966	109
				Increase by 50bps	(820)	(86)
			Estimated rental value	Decrease by 10%	(703)	(53)
				Increase by 10%	772	53
Property under development	361	0	Development cost	Increase by 10%	—	—
				Decrease by 10%	36	—
Equity release mortgages	1,650	1,650	Illiquidity premium	Increase by 50bps	(134)	(101)
				Decrease by 50bps	148	111
			Current property value	Increase by 10%	42	32
				Decrease by 10%	(51)	(38)
			Assumed annual property growth rate	Increase by 100bps	121	91
				Decrease by 100bps	(171)	(128)
			Assumed annual property rental yield	Increase by 100bps	(79)	(59)
				Decrease by 100bps	75	57
Equity securities and portfolio holdings in unit trusts	4,080	1	Net asset value	Increase by 10%	408	—
				Decrease by 10%	(408)	—
Debt securities						
Private placement loans	8,756	5,225	Discount rate	Increase by 40bps	(649)	(324)
				Decrease by 40bps	728	364
Retail income strips	391	331	Discount rate	Increase by 50bps	(41)	(36)
				Decrease by 50bps	52	46
Unquoted corporate bonds	2,233	1,388	Broker quotes	Increase by 10%	223	104
				Decrease by 10%	(223)	(104)
Other investments (including derivative assets)						
Derivative assets	58	58	Discount rate	Increase by 50bps	(2)	(2)
				Decrease by 50bps	2	2
Other investments	9,170	—	Net asset value	Increase by 10%	917	—
				Decrease by 10%	(917)	—

Notes on the financial statements (continued)

	31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
With-profits*				
Investment properties	—	—	6,001	**6,001**
Equity securities and portfolio holdings in unit trusts	49,389	3,075	4,818	**57,282**
Debt securities	6,393	22,311	3,269	**31,973**
Loans****	—	—	—	**—**
Other investments (including derivative assets)***	287	3,083	10,935	**14,305**
Derivative liabilities	(87)	(2,049)	—	**(2,136)**
Total financial investments, net of derivative liabilities	**55,982**	**26,420**	**25,023**	**107,425**
Percentage of total	**52%**	**25%**	**23%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	5,446	(2)	—	**5,444**
Total investments net of derivative liabilities	5,446	(2)	—	**5,444**
Investment contract without discretionary participation features held at fair value	—	(6,098)	—	**(6,098)**
Total	**5,446**	**(6,100)**	**—**	**(654)**
Percentage of total	**N/A**	**N/A**	**N/A**	**100%**
Non-linked shareholder-backed**				
Investment properties	—	—	873	**873**
Equity securities and portfolio holdings in unit trusts	—	—	1	**1**
Debt securities	1,455	6,612	4,166	**12,233**
Loans****	—	—	901	**901**
Other investments (including derivative assets)***	—	265	26	**291**
Derivative liabilities	—	(1,738)	(9)	**(1,747)**
Total financial investments, net of derivative liabilities	**1,455**	**5,139**	**5,958**	**12,552**
Percentage of total	**12%**	**41%**	**47%**	**100%**
Company total				
Investment properties	—	—	6,874	**6,874**
Equity securities and portfolio holdings in unit trusts	49,389	3,075	4,819	**57,283**
Debt securities	7,848	28,923	7,435	**44,206**
Loans****	—	—	901	**901**
Other investments (including derivative assets)***	287	3,348	10,961	**14,596**
Assets held to cover linked liabilities	5,446	(2)	—	**5,444**
Derivative liabilities	(87)	(3,786)	(9)	**(3,882)**
Total financial investments, net of derivative liabilities	**62,883**	**31,558**	**30,981**	**125,422**
Investment contract without discretionary participation features held at fair value	**—**	**(6,098)**	**—**	**(6,098)**
Total	**62,883**	**25,460**	**30,981**	**119,324**
Percentage of total	**53%**	**21%**	**26%**	**100%**

* With-profits includes assets held to cover index-linked liabilities.
** Non unit-linked shareholder-backed includes assets held to cover index-linked liabilities.
*** Included in other investments are derivatives, financial investment funds, hedge funds and private equity funds
****Loans held at amortised cost have been removed from the table above

Notes on the financial statements (continued)

	31 December 2021			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits*				
Investment properties	—	—	7,039	**7,039**
Equity securities and portfolio holdings in unit trusts	53,569	2,596	4,080	**60,245**
Debt securities	24,823	12,898	4,707	**42,428**
Loans****	—	—	—	**—**
Other investments (including derivative assets)***	343	3,177	9,168	**12,688**
Derivative liabilities	(36)	(1,170)	—	**(1,206)**
Total financial investments, net of derivative liabilities	**78,699**	**17,501**	**24,994**	**121,194**
Percentage of total	**65%**	**14%**	**21%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	6,546	—	—	**6,546**
Total financial investments net of derivative liabilities	6,546	—	—	**6,546**
Investment contract without discretionary participation features held at fair value	—	(7,116)	—	**(7,116)**
Total	**6,546**	**(7,116)**	**—**	**(570)**
Percentage of total	**N/A**	**N/A**	**N/A**	**100%**
Non-linked shareholder-backed**				
Investment properties	—	—	1,057	**1,057**
Equity securities and portfolio holdings in unit trusts	—	—	1	**1**
Debt securities	4,889	6,553	6,673	**18,115**
Loans****	—	—	1,650	**1,650**
Other investments (including derivative assets)***	—	560	60	**620**
Derivative liabilities	—	(1,123)	(4)	**(1,127)**
Total financial investments, net of derivative liabilities	**4,889**	**5,990**	**9,437**	**20,316**
Percentage of total	**23%**	**29%**	**48%**	**100%**
Company total				
Investment properties	—	—	8,096	**8,096**
Equity securities and portfolio holdings in unit trusts	53,569	2,596	4,080	**60,245**
Debt securities	29,712	19,451	11,380	**60,543**
Loans****	—	—	1,650	**1,650**
Other investments (including derivative assets)***	343	3,737	9,228	**13,308**
Assets held to cover linked liabilities	6,546	—	—	**6,546**
Derivative liabilities	(36)	(2,293)	(4)	**(2,333)**
Total financial investments, net of derivative liabilities	**90,134**	**23,491**	**34,430**	**148,055**
Investment contract without discretionary participation features held at fair value	**—**	**(7,116)**	**—**	**(7,116)**
Total	**90,134**	**16,375**	**34,430**	**140,939**
Percentage of total	**64%**	**12%**	**24%**	**100%**

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

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

*** Included in other investments are derivatives, financial investment funds, hedge funds and private equity funds

**** Amounts related to loans held at amortised cost impacting Financial Instruments have been restated in the table above for the year ended 31 December 2021 as a result of the figure incorrectly including those held at amortised cost. As a result the prior period note disclosure has been restated. The impact of the change is to alter the total loans from £3,636m to £1,650m. There is no impact on historic periods or the primary statements.

Notes on the financial statements (continued)

Assets held to cover unit-linked liabilities, shown in the tables, 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 £649m (2021 (restated): £664m) of assets and current liabilities which comprise the total assets held to cover unit-linked liabilities, which consist mainly of cash at bank, other debtors and creditors.

It was identified that the amounts relating to the further assets and liabilities held to cover unit-linked liabilities impacting financial assets and liabilities were misstated in the sentence above for the year ended 31 December 2021 due to an oversight. As a result the prior period note disclosure has been restated. The impact of the change is to alter the balance from £1,150m to £664m. There is no impact on historic periods or the primary statements.

Interest expense

The interest expense on financial liabilities not at fair value through profit and loss was £7m for the year ended 31 December 2022 (2021: £5m).

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 assets, financial liabilities and customer liabilities are set out below:

Risk Type:	Definition:
Market risk	The risk of loss or adverse change in the financial situation of the business or that of the Company's clients 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, or that of its customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Insurance risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from changes in the level, trend or volatility of mortality; longevity; morbidity; persistency; expense and margin pricing experience.
Treasury Liquidity risk	Treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (for example claims, creditors and other corporate costs as they fall due).

The financial assets, financial liabilities and customer liabilities attaching to the Company's life assurance business are, to varying degrees, subject to the risks described above which 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) primarily arises through the effect that market, credit and insurance risks have 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 not attributable to either policyholders or shareholders, in the normal course of events movements in its value would not be expected to affect shareholders' profit and equity.

The shareholder receives up to 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 amount the shareholder receives. 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 on the shareholder balance sheet.

The Company manages the assets and liabilities of the WPSF so as to ensure that there is sufficient liquidity within the asset portfolios to enable liabilities to policyholders to be met as they fall due.

Defined Charge Participating Sub-Fund (DCPSF) business

The shareholders' exposure to DCPSF business primarily arises from the effect that market, credit and insurance risks have on the charges taken in respect of the business and the expenses incurred. The charges taken are dependent on the value of the funds under management and are therefore dependent on the market price of assets and policyholder rates of exit. For similar reasons to the WPSF, shareholder funds are not in the normal course of events exposed to the movements in the assets and liabilities of the DCPSF.

Unit-linked business

Unit-linked business represents a comparatively small proportion of the Company's in-force business, with the shareholder exposure primarily arising from the effect that market, credit and insurance risks have on the charges levied on the business and the expenses incurred. While customer liabilities are exposed to market movements these are matched by corresponding movements in asset values and therefore have minimal impact on shareholder funds.

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 sensitive to changes in the value of funds under management and are therefore dependent on the market price of assets and policyholder rates of exit. 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 assets of an appropriate duration. As a result, the sensitivity to market risk arising from movements in the value of these annuity liabilities and the corresponding matching assets is low. However, market risk can arise on any asset/liability duration mismatch and on assets held in excess of the liabilities which back the capital requirements of the annuity business. These excess assets are primarily debt securities.

The shareholder is also 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 expense levels over the longer term.

Other shareholder business includes the lifetime mortgage business, which is sensitive to market (property and interest rate risk in particular), credit and insurance risks.

C. Market Risk

As described in Section B market risk is the risk of loss, or of adverse change in the Company's financial situation, or the with-profits fund estate, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets, currencies, liabilities and financial instruments.

Within the Company's risk taxonomy, market risk is broken down into six risk types, namely:

- Interest rate risk: fluctuations in the level or volatility of interest rates or the shape or curvature of the yield curve or spread relationships.
- Inflation risk: fluctuations in actual or implied inflation rates.
- 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.
- 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, interest rate risk and currency risk. Most of the assets the Company holds are investments that are either equity type investments and subject to equity price risk, property type investments and subject to property price risk or fixed income type investments, 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. Each asset type may give rise to currency risk, where assets are held in overseas currencies. The amount of risk borne by the Company's shareholders depends on the extent to which its customers share the risk through the structure of the products.

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

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

Interest rate risk and inflation risk

The majority of the Company's interest rate exposure arises from shareholder-backed annuity business. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The matching of assets of appropriate duration to the annuity liabilities is based on the management of regulatory capital reporting requirements. The assets held in excess of the liabilities, which back the capital requirements of the annuity business, result is an exposure to interest rate risk.

The assets and liabilities for the with-profits and unit-linked components of business are sensitive to interest rates, but the shareholder is not directly exposed to changes in the value of these assets and liabilities. The shareholder is indirectly exposed to interest rate risk through the value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business.

The Company manages its exposure to interest rate risk within tight constraints.

The estimated sensitivity of the shareholder-backed business to a movement in interest rates of 1% and 2% as at 31 December 2022 and 2021 are as follows:

Notes on the financial statements (continued)

	2022				2021			
	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	**1,409**	**(1,234)**	**3,049**	**(2,330)**	3,317	(2,774)	6,478	(5,193)
Long term business provision	**(1,023)**	**886**	**(2,212)**	**1,658**	(1,887)	1,586	(4,154)	2,931
Related tax effects	**(97)**	**87**	**(209)**	**168**	(357)	297	(581)	558
Net sensitivity of profit after tax and shareholders' funds	**289**	**(261)**	**628**	**(504)**	1,073	(891)	1,743	(1,704)

Equity and property risk

While the Company holds significant amounts of equity and property assets to back with-profits and equities to back unit-linked business movements in the value of these assets would not, in the normal course of events, be expected to directly impact the value of shareholder funds. The Company's exposure to equity and property risk primarily arises from the impact that equity and property movements have on the value of shareholder transfers from the with-profits business, charges taken in respect of unit-linked business and through the property assets held in the shareholder-backed annuity funds.

	2022		2021 (Restated)	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
	£m	£m	£m	£m
Pre-tax profit	**(175)**	**(87)**	(211)	(106)
Related deferred tax effects**	**44**	**22**	53	26
Net sensitivity of profit after tax and shareholders' funds	**(131)**	**(65)**	(158)	(80)

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.

The analysis above excludes the indirect exposure of ongoing profit to equity and property risk through the impact on policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business. For with-profits business, the impact of market risk is reduced due to the "smoothed" basis of bonus declaration, so the sensitivity to short-term investment performance is relatively low. However, long-term investment performance may affect future shareholder transfers. The Company has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The impact of these equity hedges is not allowed for in the above sensitivities, as the offsetting impact from the shareholder transfers occurs over the longer term. This presentation of the equity/property sensitivity is the view which management believes gives the most appropriate representation of the Company's risk exposure.

The impact of the sensitivities allowing for the equity hedges is shown below.

Notes on the financial statements (continued)

	2022		2021 (Restated)	
	Decrease of 20%	**Decrease of 10%**	Decrease of 20%	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**95**	**54**	111	58
Related deferred tax effects**	**(24)**	**(13)**	(28)	(14)
Net sensitivity of profit after tax and shareholders' funds	**71**	**41**	83	44

**The deferred tax effects impacting equity and property risk sensitivities have been restated in the note above for the year ended 31 December 2021 as a result of the incorrect tax rate being applied. As a result the prior period note disclosure has been restated. The impact of the change is to alter the related deferred tax effects from £40m and £20m to £53m and £26m, and allowing for equity hedges from £40m to £28m and £21m to £14m. There is no impact on historic periods or the primary statements.

Currency Risk

The Company's exposure to currency risk primarily arises from the impact that currency movements have on the value of shareholder transfers. As part of the investment strategy for the with-profits business the Company invests significant amounts in overseas assets (particularly US Dollar and Euro assets). This exposure is partially mitigated through the use of derivatives, mainly forward currency contracts. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity funds is fully hedged through the use of derivatives. The currency risk exposure arising from unit-linked business is low.

As at 31 December 2022 the Company held 33% and 3% (2021: 30% 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 84% (2021: 81%) are held by the with-profits fund, allow the Company to obtain exposure to foreign equity and debt markets.

The financial liabilities, of which 47% (2021 (restated): 41%) are held by the with-profits fund, mainly relate to investment contracts without discretionary participation features, creditors and derivative liabilities. The amounts related to financial liabilities held by with-profit fund impacting Financial Assets and Liabilities have been restated in the previous sentence for the year ended 31 December 2021 as a result of the figure for total liabilities being used erroneously instead of just the financial liabilities. As a result the prior period note disclosure has been restated. The impact of the change is to alter the percentage from 90% to 41%. There is no impact on historic periods or the primary statements.

D. Credit risk

The Company's exposure to credit risk primarily arises from the annuity funds which hold substantial volumes of public and private fixed income investments on which a certain level of defaults and downgrades are expected.

The Company is also exposed to credit risk through the holding of public and private fixed income investments for with-profits and unit-linked business to the extent that movements in the value of these assets impact the value of shareholder transfers from the with-profits business and charges levied on unit-linked business. Further, the Company is exposed to counterparty risk arising from reinsurance, derivative and securities lending counterparties and from placing cash deposits.

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, risk appetite statements, and risk limits and triggers; investment constraints and limits on the asset portfolios (in particular, in relation to credit rating, seniority, sector and issuer), investment constraints and limits on counterparties in particular for derivative, reinsurance and cash counterparties; and a robust credit rating process.

Notes on the financial statements (continued)

Debt Securities and Other Fixed Income Securities

The following table summarises by rating the securities held by the Company as at 31 December 2022 and 2021.

	2022 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
With-profits	**3,735**	**6,363**	**6,964**	**9,020**	**1,297**	**3,478**	**30,857**
Assets held to cover linked liabilities	**312**	**891**	**543**	**650**	**23**	**1,571**	**3,990**
Non-linked shareholder-backed	**848**	**2,375**	**1,437**	**1,386**	**127**	**3,188**	**9,361**
Total debt securities and other fixed income securities	**4,895**	**9,629**	**8,944**	**11,056**	**1,447**	**8,237**	**44,208**

	2021 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
With-profits	4,410	9,065	8,396	12,317	1,950	4,695	40,833
Assets held to cover linked liabilities	465	1,323	605	859	30	2,393	5,675
Non-linked shareholder-backed	1,273	3,617	2,005	1,903	130	5,109	14,037
Total debt securities and other fixed income securities	6,148	14,005	11,006	15,079	2,110	12,197	60,545

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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.

Debt securities with no external credit rating are classified as "other". 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 2022 which are not externally rated, £5,391m (2021: £8,586m) were internally rated AAA to A-, £2,114m (2021: £2,698m) were internally rated BBB+ to B- and £732m (2021: £913m) 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.

Loans and receivables

In accordance with accounting policy, impairment reviews were performed for loans and receivables. During the year ended 31 December 2022, impairment losses of £15m (2021: £2m) and £2m (2021: £5m) reversal of impairment losses were recognised for loans and receivables.

Of the total loans and receivables held £3m (2021: £4m) are past their due date but have not been impaired. 100% (2021: 100%) of the loans and receivables that are past due but not impaired are less than one year past their due date for 2022. The Company expects full recovery of these loans and receivables.

Notes on the financial statements (continued)

Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions at 31 December 2022 of £5,964m (2021: £7,224m), 21% (2021 (restated): 24%) of the balance relates to companies outside of the Group. The amounts related to reinsurers' share of technical provisions impacting Financial Assets and Liabilities have been restated in the previous sentence for the year ended 31 December 2021 as a result of the wrong denominator being used. As a result the prior period note disclosure has been restated. The impact of the change is to alter the percentage from 10% to 24%. There is no impact on historic periods or to the primary statements.

The following table summarises by rating the reinsurance asset held by the Company as at 31 December 2022 and 2021.

	2022 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
Reinsurance asset	—	243	685	—	—	316	1,244

	2021 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Reinsurance asset	—	747	(20)	1,053	—	(34)	1,746

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 securities lent and securities subject to repurchase agreements are not derecognised from the Group's statement of financial position. Collateral typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2022, the Company has £3,638m (2021: £6,270m) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements was £3,779m (2021: £6,505m).

At 31 December 2022, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £14,848m (2021: £13,022m).
During 2022 and 2021 the Company did not take possession of any other collateral held as security.

Collateral and pledges under derivative transactions

At 31 December 2022, the Company had pledged £2,556m (2021: £1,278m) for liabilities and held collateral of £1,215m (2021: £1,661m) 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 premiums and reinsurance fees. 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. As at 31 December 2022, the Company had pledged exposure collateral of £214m (2021: £206m), relating to these agreements.

Collateral Pledges for Equity Release mortgages

As at 31 December 2022 the Company had pledged collateral of £287m (2021: £420m) consisting of debt securities for the deferred purchase consideration for the mortgages purchased from Santander.

E. Insurance Risk

The Company's exposure to insurance risk primarily arises from the shareholder-backed annuity business in the form of longevity risk, the risk of unexpected changes in the life expectancy (longevity) of policyholders. The Company's results are particularly sensitive to the variance between actual and expected mortality experience and assumptions made in relation to future mortality experience. For example, any major medical breakthrough (for example, in the treatment of cancer or other life-threatening diseases) would require the Company to strengthen its longevity assumptions, impacting its results. The Company's annuity business results are also sensitive to changes in the level of expenses incurred on the business.

The Company is also exposed to insurance risks through its with-profits and unit-linked business, to the extent that these risks impact on shareholder transfers from the with-profits business and charges levied on the unit-linked business. Insurance risks are relatively minor factors in the determination of with-profits bonus rates. Adverse persistency experience can affect the long term profitability of with-profits business but in any given year, the shareholder transfers may only be marginally affected. However, altered persistency trends may affect shareholder profits to the extent that this could lead to changes in future shareholder transfers.

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. However, profits are sensitive to changes in expenses and persistency trends.

Longevity risk has been predominantly managed through:

- regular reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus the best estimate assumptions;
- longevity research; and
- longevity reinsurance arrangements.

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

A decrease in assumed mortality rates of 1% would decrease pre-tax profits by approximately £29m (2021: £40m). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £47m (2021: £86m). A decrease in renewal expenses (excluding asset management expenses) of 5% would increase pre-tax profits by £13m (2021: £18m). An increase in improvements of longevity trend of 0.25% would decrease pre-tax profits by £29m (2021: £62m). 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 £2m (2021: £1m). This analysis has been determined by varying the relevant assumption as at the reporting date while holding all other assumptions constant.

With-Profits Fund liability sensitivity analysis

For business written in the With-Profits Fund, the change in the policyholder liabilities is directly offset by a corresponding change in unallocated surplus of the With-Profits Fund and therefore has no impact on the profit after tax.

Persistency assumptions and mortality assumptions in respect of the annuities in the With-Profits fund are key judgements in determining the With-Profits fund policyholder liability valuations but have no impact on FRS 102 profit after tax. The impact from those sensitivities on the policyholder liabilities within the With-Profits fund are shown in the table below:

Notes on the financial statements (continued)

Non-economic sensitivities	**Year Ended 31 December 2022 £m**	Year Ended 31 December 2021 £m
10% increase in persistency assumptions	**84**	(53)
10% decrease in persistency assumptions	**(58)**	57
1% decrease in base mortality assumptions	**42**	64
0.25% increase in mortality improvements	**38**	100

A reduction in lapse rates increases the liability for traditional with-profits products as a result of the associated high cost of guarantees, but reduces the liability for PruFund products (which have a low cost of guarantees) by reducing charge income received. During the year ended 31 December 2021, the increase in the cost of guarantees on traditional with-profits products outweighed the increase in charge income received on PruFund products following a decrease in lapse rates, resulting in a net increase in liability. However, the cost of guarantees is sensitive to interest rates, and following the large increase in interest rates during the year ended 31 December 2022, the increase in the cost of guarantees following a reduction in lapse rates outweighed by the increase in charge income received on PruFund products.

F. Treasury Liquidity Risk

The Company is exposed to treasury liquidity risk through a range of situations, the most material of these being:

- 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 policy, which sets out the approach to the management of treasury risk on an ongoing basis. 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;
- regular monitoring of exposures, under base and stress scenarios, against specific triggers and limits for PAC overall, the with-profits fund, annuity funds and unit linked funds for a range of time horizons;
- additional monitoring and controls to satisfy Solvency II matching adjustment requirements, including an Eligible Collateral Coverage Ratio, reported quarterly, which captures the increased risk that collateral requirements cannot be met due to matching adjustment constraints; and
- liquidity stress testing.

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.

Derivatives are used in a number of the Company’s funds including the with-profits and non-profit annuity funds, primarily for the purpose of risk reduction, hedging and to obtain cost effective and efficient exposure to various markets. The vast majority of derivatives undertaken are cash settled, and therefore the Company holds assets (which may be cash or other types of assets as specified in the collateral requirements) that are sufficient in value such that it could meet its collateral obligations in the relevant currency when it falls due, following reasonably foreseeable adverse variations (relying solely on cash flows from, or from realising, those assets). The use of derivatives is tightly controlled under the RMF, mitigating any significant risks for the Company’s liquidity.

Notes on the financial statements (continued)

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.

2022	**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**
Obligations under finance leases	—	1	1	1	—	7	10	10
Creditors arising out of direct insurance operations	103	—	—	—	—	—	103	103
Creditors arising out of reinsurance operations	51	—	—	—	—	—	51	51
Deposits received from reinsurers	—	146	—	—	—	—	146	146
Other creditors	6,552	217	54	52	42	48	6,965	6,965
	6,706	**364**	**55**	**53**	**42**	**55**	**7,275**	**7,275**

2021	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
Obligations under finance leases	—	—	—	—	—	8	8	8
Creditors arising out of direct insurance operations	68	—	—	—	—	—	68	68
Creditors arising out of reinsurance operations	44	—	—	—	—	—	44	44
Deposits received from reinsurers	—	298	—	—	—	—	298	298
Other creditors	6,119	148	68	80	78	127	6,620	6,620
	6,231	**446**	**68**	**80**	**78**	**135**	**7,038**	**7,038**

ii) Maturity analysis of derivatives and investment contracts

The following table shows the gross and net derivative positions together with the maturity profile of the contractual undiscounted cashflows.

2022	**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**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Derivative assets*	**817**	**2,297**	**2,471**	**2,170**	**2,417**	**4,201**	**14,372**	**2,418**
Derivative liabilities	**(1,212)**	**(2,605)**	**(2,542)**	**(2,756)**	**(2,797)**	**(4,605)**	**(16,516)**	**(3,882)**
Net derivative position	**(395)**	**(308)**	**(71)**	**(586)**	**(380)**	**(404)**	**(2,144)**	**(1,464)**

Notes on the financial statements (continued)

2021	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
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets*	340	625	694	626	878	1,953	5,116	2,909
Derivative liabilities	(579)	(637)	(526)	(502)	(529)	(1,242)	(4,015)	(2,333)
Net derivative position	(239)	(12)	168	124	349	711	1,101	576

* Includes assets held to cover index-linked liabilities.

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 and is gross of reinsurance..

	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**
2022								
Life assurance investment contracts	**10**	**35**	**35**	**28**	**20**	**30**	**158**	**85**
2021								
Life assurance investment contracts	10	32	30	22	14	18	126	90

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 25.

G. Derivatives and Hedging

The Company uses derivatives for the purpose of efficient portfolio management or the reduction in investment risks. In so doing, the Company obtains cost effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency and other business risks. Key hedging strategies in place include the hedging of equity risk in relation to future shareholder transfers, the use of interest rate swaps and swaptions if appropriate to reduce exposure to interest rate movements and the use of various currency derivatives to limit volatility arising from foreign exchange rate movements. The Company has opted not to apply hedge accounting to derivatives.

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 14.

There are hedging arrangements in place for the with-profits liabilities. In addition to some product/purpose specific arrangements, the main objective of the hedging arrangements 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 (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 subsequently (with the last extension in

2021). The effect in 2022 is an unrealised gain of £121m (2021: unrealised loss of £227m) and a realised loss of £119m (2021: realised loss of £81m) charged to the non-technical account.

Since 2018 the Company has entered into hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, specifically with regard to the PruFund new business, as arise over the contract period of 10 years. During 2022, the transaction resulted in £8m unrealised loss in the non-technical account (2021: £36m).

During 2019, and subsequently in 2020, 2021 and 2022, the Company's shareholder fund entered into interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2022, realised losses on these instruments of £186m were recognised (2021: £18m) and unrealised losses of £803m (2021: unrealised gains of £86m).

28. Capital Requirements and Management

The Company is regulated under Solvency II and supervised by the Prudential Regulation Authority. The Company manages Solvency II own funds as its measure of capital. As at 31 December 2022 estimated and unaudited Company Solvency II own funds are £9.4bn (2021: £12.2bn).

The Solvency II surplus represents the capital (own funds) held by the Company less the solvency capital requirement (SCR). Own funds is the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Company. The SCR is calculated using the Company's Internal Capital Model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

The Company complied with externally imposed regulatory capital requirements throughout the year.

A. Regulatory capital position

The regulatory capital position of the Company includes the With-Profits Fund. This view of capital recognises the ring-fenced nature of the With-Profits Fund, and on consolidation surplus in the fund can only be recognised to the level of associated SCR with any excess surplus being eliminated as a ring-fenced fund restriction, effectively restricting the solvency coverage ratio of the With-Profits Fund to 100%. As such, the combined regulatory solvency coverage ratio is highly resilient to movements in the With-Profits Fund's own funds.

The estimated and unaudited Solvency II capital position for the Company as at 31 December 2022 and 31 December 2021 is shown below:

	2022	2021
	Unaudited	Unaudited
	£bn	£bn
Solvency II Own Funds	**9.4**	12.2
Solvency II Capital Requirement (SCR)	**6.3**	8.3
Solvency II Surplus	**3.1**	3.9
Solvency II Coverage ratio	**150%**	147%

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2022, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differs from the position disclosed in the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report of the same date. As at 31 December 2021, the recalculation was approved for the reporting date and the positions were aligned.

Notes on the financial statements (continued)

B. Shareholder Capital Position

The Company focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more relevant reflection of the capital strength of the Company. The Company's shareholder Solvency II capital position includes the Present Value of Shareholder Transfers from the WPSF (PVST) and excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund.

The estimated and unaudited shareholder Solvency II capital position for the Company as at 31 December 2022 and 31 December 2021 is shown below.

	2022	2021
	Unaudited	Unaudited
	£bn	£bn
Shareholder Solvency II Own Funds	**6.9**	8.3
Shareholder Solvency II Capital Requirement (SCR)	**3.8**	4.4
Shareholder Solvency II Surplus	**3.1**	3.9
Shareholder Solvency II Coverage ratio	**183%**	187%

C. Meeting of capital management objectives

The Company manages its capital on a Solvency II basis 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 Solvency II balance sheet resilient to stresses that affect the Company's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the regulator. The sensitivity of liabilities and other components of total capital vary, depending upon the type of business concerned, and this influences the approach to asset/liability management.

In addition, projections are performed 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.

29. Related Undertakings

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

The following is a list of related undertakings of the Company at 31 December 2022.

(i) Direct subsidiary undertakings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Caisson (Jersey) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, Jersey, JE1 1ST
Carraway Guildford General Partner Limited	Ordinary Shares	100%	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

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
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
EF IV Schoolhill GP Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Leadenhall Unit Trust	Units	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Manchester JV Limited	Ordinary Shares	50%	United Kingdom	40 Broadway, London, SW1H 0BU, 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	300 E Lombard Street, 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 Equity Release Mortgages 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
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
RD Park (Hoddesdon Phase 1) Management Company Limited	Ordinary Shares	64%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Schoolhill Sarl	Ordinary Shares	100%	Luxembourg	20, rue de la Poste, Luxembourg
Smithfield Limited	£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 I Unit Trust	Units	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Vanquish II Unit Trust	Units	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties LP Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
West Station SAS	Ordinary Shares	100%	France	8 Avenue Hoche, 75008, Paris, France
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	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, 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
Manchester Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Scottish Amicable Life Assurance Society	No Share Capital	100%	United Kingdom	5 Central Way, Kildean Business Park, Stirling, United Kingdom, FK8 1FT, UK
Wessex Gate Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

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

Investment

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Aldwych LP	Limited Partnership Interest	100%	USA	1209 Orange Street, Wilmington, Delaware 19801
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 Limited Partnership	Limited Partnership Interest	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford (Nominee A) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford (Nominee B) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford Investments Unit Trust	Ordinary Shares	100%	Jersey	13 Castle Street, St Helier, JE4 5UT, Jersey
Catalyst capital fund	Units	100%	Luxembourg	16, Boulevard Royal, Luxembourg L-2499, Grand Duchy of Luxembourg, Luxembourg
Catalyst Credit fund	Units	100%	Luxembourg	16, Boulevard Royal, Luxembourg L-2499, Grand Duchy of Luxembourg, Luxembourg
Centaurus Retail LLP	Limited Partnership Interest	50%	United Kingdom	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	Limited Partnership Interest	88%	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	63%	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	58%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	Limited Partnership Interest	61%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
China Bond Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
CJPT Real Estate No. 1 Trust	Units	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	Units	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway Merchants Association Limited	Limited by Guarantee	20%	United Kingdom	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Debt Investments Opportunities IV	Units	26%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Eastspring Investments - Asian Local Bond Fund	Units	95%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Eastspring Investments - Asian Total Return Bond Fund	Units	99%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	Units	48%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian High Yield Bond Fund	Units	24%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity FUND	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Elle 14 S.a.r.l	Ordinary Shares	45%	Italy	Via Alessandro Manzoni 38, Milan, 20121, Italy
Episode	Limited Partnership Interest	93%	Cayman Islands	c/o Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands
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	66%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird Limited Partnership	Limited Partnership Interest	50%	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird GP Limited	Ordinary Shares	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
HCR Canary Fund	Limited Partner	99%	USA	300 Atlantic Street Suite 600 Stamford CT 06901
Infracapital Partners II LP	Limited Partnership Interest	26%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	Limited Partnership Interest	33%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
KBI ACWI Equity Fund	Units	75%	USA	KBI Global Investors (North America) Ltd, One Boston Place, 201 Washington Street Boston, MA 02108
LB Investment Private Equity Real Estate Investment Fund No.10 (Centropolis)	Units	23%	Korea	20F Seoul Finance Center, 136 Sejong-daero, Jung-gu , Seoul 04520, Korea
LF Prudential Risk Managed Active 4	Units	25%	United Kingdom	6th Floor, 65 Gresham Street, London, EC2V 7NQ
LF Prudential Risk Managed Active 5	Units	24%	United Kingdom	6th Floor, 65 Gresham Street, London, EC2V 7NQ
LF Prudential Risk Managed Passive Fund 1	Units	36%	United Kingdom	6th Floor, 65 Gresham Street, London, EC2V 7NQ
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	Ordinary Shares	100%	Ireland	5 George's Dock, IFSC, Dublin 1, Ireland, D01 X8N7
M&G (ACS) BlackRock Japan Equity Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) BlackRock UK All Share Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) BlackRock US Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G (ACS) China Equity Fund	Units	97%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) China Fund	Units	97%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) Earnest Partners US Small Cap Value Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) Granahan US Small Cap Growth Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) Japan Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) Japan Smaller Companies Fund	Units	98%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) UK Listed Equity Fund	Units	97%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (ACS) UK Listed Mid Cap Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G (Lux) Europe ex UK Equity fund	Units	99%	Luxembourg	16, boulevard Royal L-2449 Luxembourg Luxembourg
M&G (Lux) Europe ex UK Index Fund	Units	99%	Luxembourg	16, boulevard Royal L-2449 Luxembourg Luxembourg
M&G (Lux) Pan European Smaller Companies fund	Units	98%	Luxembourg	16, boulevard Royal L-2449 Luxembourg Luxembourg
M&G (Lux) Sterling Liquidity Fund	Units	100%	Luxembourg	16, boulevard Royal L-2449 Luxembourg Luxembourg
M&G Alternatives, SCSp - RAIF - 2020 Asian PE Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2020 European PE Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2020 PE Co-investment Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2021 North American Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2021 PE Impact Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp – RAIF – 2022 Global PE Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp – RAIF – 2022 PE Co-Investment Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Asia Property Fund	Ordinary shares	45%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Investment Funds (10) - M&G Better Health Solutions Fund	Units	92%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G BlackRock Canada Equity Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G BlackRock UK 200 Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Investment Funds (10) - M&G Climate Solutions Fund	Units	54%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G Credit Income Investment Trust plc	Ordinary Shares	22%	United Kingdom	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Investment Funds (3) - M&G Dividend Fund	Units	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European High Yield Credit Investment Fund	Units	25%	Luxembourg	80, route d'Esch, L-1470, Luxembourg
M&G European Property Fund SICAV-FIS	Units	29%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G European Living Property Fund SCSP, SICAV-RAIF	Limited Partnership interest	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Feeder Property Portfolio	Units	48%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia General Partner Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 1 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 2 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Asia Pacific (ex Japan) Equity Fund	Units	96%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) BlackRock Asia Pacific (ex Japan) Equity Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) BlackRock Emerging Markets Equity Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) GSAM Global Emerging Market Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) Invesco Global Emerging Markets Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) Lazard Global Emerging Markets Equity Fund	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) MFS Global Emerging Markets Equity	Units	99%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) Sterling Investment Grade Corporate Bond Fund	Units	77%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) US Corporate Bond Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) US Short Duration Corporate Bond Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Funds (1) Wellington Impact Bond Fund	Units	100%	United Kingdom	10, Fenchurch Avenue, London, EC3M 5AG
M&G Investment Funds (2) - M&G Gilt & Fixed Interest Income Fund	Units	28%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) - M&G Global High Yield Bond	Units	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Global High Yield ESG Bond Fund	Units	31%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G Investment Funds (10) - M&G Positive Impact Fund	Units	29%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Episode Allocation Fund	Units	22%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) - M&G Global Convertibles Fund	Units	74%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (Lux) Investment Funds 1 - M&G Lux Emerging Markets Bond Fund	Units	60%	United Kingdom	16 Boulevard Royal, L-2449 Luxembourg, Grand Duchy of Luxembourg
M&G PFI Partnership 2018 LP	Limited Partnership Interest	100%	United Kingdom	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UK Enhanced Value LP	Limited Partnership Interest	50%	United Kingdom	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UK Enhanced Value 1-A LP	Limited Partnership Interest	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Shared Ownership LP	Limited Partnership Interest	46%	United Kingdom	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Specialty Finance Fund 2	Limited Partnership	75%	Luxembourg	5 Heienhaff, L-1736 Senningerberg
M&G Sustainable Loan Fund Limited	Shares	88%	Ireland	5 Georges Dock, Ifsc, Dublin 1,Dublin,Ireland
M&G Investment Funds (4) - M&G Sustainable Multi Asset Fund	Units	39%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Companies Financing Fund II LP	Limited Partnership Interest	48%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Mortgage Income Fund (Under the umbrella structure - Luxembourg Specialist Investment Fund FCP-RAIF)	Units	67%	Luxembourg	16, Boulevard Royal, L-2249 Luxembourg
M&G UK Property Fund	Ordinary Shares	98%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Residential Property Fund	Limited Partnership	26%	Luxembourg	34-38, avenue de la Liberté, L-1931, Luxembourg
MCF S.r.l.	Ordinary shares	45%	Italy	Via Montenapoleone 29 CAP, 20121, Milan, Italy
NB Gemini Fund LP	Limited Partnership Interest	99%	Cayman Islands	Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY1-1104 Cayman Islands
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

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
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
Property Partners (Two Rivers) Limited	Ordinary Shares	50%	United Kingdom	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Prudential Credit Opportunities 1 S.a.r.l.	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities 2 S.a.r.l.	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Greenfield LP	Limited partnership interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Loan Investments SCSp	Limited Partnership Interest	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential UK Real Estate General Partner Limited	Ordinary Shares	100%	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
Randolph Street LP	Limited Partnership Interest	100%	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Specialist Investment Funds (2) ICAV - M&G Real Impact Fund	Units	100%	Ireland	5 George's Dock, IFSC, D01 X8N7
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	63%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 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

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Silverfleet Capital II WPLF LP	Limited Partnership Interest	100%	Guernsey	6th Floor Capital Tower, 91 Waterloo Road, London, SE1 8RT, UK
Sky Fund V Onshore, LP	Limited Partnership Interest	36%	USA	559 Pacific Avenue, San Francisco, CA 94133
SMLLC	Limited Partnership Interest	100%	USA	1209 Orange Street, Wilmington, DE 19801, USA
SOFA Holding LP	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808
St Edward Homes Limited	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Strand Partnership	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
StepStone Scorpio Infrastructure Opportunities Fund, L.P.	Limited Partnership Interest	100%	Cayman Islands	c/o Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY1-1104, Cayman Islands
The Car Auction Unit Trust	Units	50%	Guernsey	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
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
Two Rivers LP	Limited Partnership Interest	50%	United Kingdom	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Vanquish Properties (UK) Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Vanquish Properties GP 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 GP Nominee A Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Via Lodovico SRL	Ordinary Shares	100%	Italy	Via Alessandro Manzoni n.38, Milano, Italy
West Station 1 SCI	Ordinary Shares	100%	France	8 Avenue Hoche, 75008, Paris, France
West Station 2 SCI	Ordinary Shares	100%	France	8 Avenue Hoche, 75008, Paris, France

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
WFH Investments LLC	Limited Partnership Interest	23%	USA	2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808
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

30. Post balance sheet events

On 23 February 2023, the Company announced the 2022 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 interest 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 0.90%.

On 7 March 2023 the Company approved a final dividend of £333m to be paid to M&G plc. This is not recognised in the 2022 financial statements.