Registered No: 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2019

PRUDENTIAL PENSIONS LIMITED

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

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Directors

Ms C Bousfield
Mr P Cooper (appointed 2 March 2020)
Mr P Spencer CBE - Chairman

Secretary

M&G Management Services Limited

Auditor

KPMG LLP, London

Principal activity

The principal activity of Prudential Pensions Limited ('the Company') in the course of 2019 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2020.

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

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

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

Business review

Market review and strategy

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

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

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

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

Key to the Company's future success is delivering a great experience for its customers. Expectations of service have risen markedly, thanks to advances in digital technology. This is one of the reasons why the Company is making a substantial investment in transformation. The Company also has a duty to consider its customers' wider needs, including any special access requirements, as it makes these service improvements.

Performance and measurement

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

Key Performance Indicators	**2019**	**2018**	**Change**
	£'000	**£'000**	**%**
Profit on ordinary activities before tax	8,620	7,602	13.4 %
Shareholder funds	74,439	80,901	(8.0)%
Assets held to cover linked liabilities	11,073,321	11,223,917	(1.3)%
Estimated Solvency II capital surplus	39,170	39,786	(1.5)%

Profit on ordinary activities before tax has primarily increased due to a reduction in expenses in 2019. Shareholder funds have reduced due to a £15m dividend payment made during the year which is partly offset by the £8.5m profit after tax. The Company's assets held to cover linked liabilities have reduced in 2019 due to falls in global stock markets. The slight reduction in the estimated Solvency II capital surplus is primarily due to the profit after tax emerging, along with reductions in Risk Margin and Solvency Capital Requirement ('SCR') being offset by the payment of the £15m dividend. The Solvency II basis is covered in more detail in Note 15.

Section 172(1) Statement

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

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

In discharging our section 172 duties we have regard to the factors set out above. We also recognise the matters we consider as a Board can often have unique characteristics. This can require us 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 we consider will vary depending on the decision being taken across all the Board's decisions. We are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with the Group's overarching culture, vision and values.

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

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

During the period we received information to help us 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 our financial and operational performance; non-financial key performance indicators; risk; and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote the success of the Company.

Principal decisions

We set out below, some examples of how we have had regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duties and the effect of that on decisions taken by us. We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholders. In making the following principal decisions the Board considered the feedback from its stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal decision 1 - Dividend to Parent

Each year the Board makes an assessment of the strength of the Company's Statement of Financial Position and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. In 2019, the Board declared a dividend of £15m to its sole shareholder, The Prudential Assurance Company Limited. In making this decision the Board received detailed financial planning materials and considered a range of factors. These factors included any impact on the Company in the short to medium term as well as the long-term viability of the Company; its expected cash flow and financing requirements (including the regulatory capital position); and the ongoing need for strategic investment in our business, the activities of our subsidiaries, including the workforce and the expectations of its parent.

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

During the year, the Board reviewed the 2018 ORSA report which provides a quantitative and qualitative assessment of the Company's risk profile and solvency needs on a forward looking basis incorporating the Company's strategy and business plan, including appropriate stress tests, providing an integrated framework to understand the interplays between strategy, risk and capital. The scope of the ORSA report covers all the known risks of the Company, including stakeholder related risks such as customer and conduct risk, third party risk, people risk and regulatory risk, emphasising the importance the Company places on maintaining a reputation for high standards of business conduct and ensuring that customers and other stakeholders receive fair outcomes. The ORSA report was produced with involvement from key stakeholders, including Risk and Resilience, Compliance and Finance.

Principal decision 3 - Solvency II - Major Model Change

During the year the Board updated the Solvency II internal model and submitted this to the Prudential Regulation Authority ('PRA'). Key stakeholders in the process included the PRA, Prudential plc and M&G plc. This decision-making was centred around the Company's desire to maintain a reputation for high standards of business conduct.

Principal risks & uncertainties

The Company is a wholly owned subsidiary of The Prudential Assurance Company Limited which is a subsidiary of M&G plc, and hence M&G plc is the ultimate parent company. 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 ('GRMF'). The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. As such, they can only provide reasonable rather than absolute assurance against misstatement or loss, and focus on optimising the levels of risk and reward within a clearly defined risk appetite, with the aim of achieving the business objectives.

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

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

Financial risks

The Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are essentially the same as the net asset values backing those liabilities. The Company has a small amount of annuity business, but this is reinsured internally within the Group and, as such, the financial risk resides with the reinsurer. The financial risk factors affecting the Company include expense risk, market risk, persistency risk, liquidity risk and credit risk. These financial risks are discussed further in Note 22.

Non-financial risks

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

a) Business environment risk

Changing economic, political, environmental and market conditions, as well as changing customer needs and expectations, could adversely impact the Company's ability to deliver its business strategy and have implications for the profitability of its business model. The key dimensions to business environment risk pertaining to the Company are economic, political, competition and environmental.

- **Economic factors**: Changes in global economic conditions can impact the Company directly; for example by leading to poor returns on investments. They can also have an indirect impact. For example economic pressures, including impacts from the coronavirus outbreak, could lead to decreased savings, reducing the propensity for people to buy the Company's products.

- **Political**: In contrast to the parliamentary stasis in 2019, the result of the recent General Election provides the government with a strong mandate to progress its agenda, including the UK's withdrawal from the EU. However, economic uncertainty will persist whilst the outcome of the UK/EU negotiations, notably the agreement or otherwise to a trade deal, remains unclear. Furthermore, global political risks look set to remain heightened, affecting consumer and market confidence, and potentially increasing market volatility and the risk of a downturn in economic activity.

- **Competition**: The markets in which the Company operates are highly competitive with several factors affecting its ability to sell its products and maintain its profitability. Key considerations include; price and yields offered; financial strength and ratings; investment performance and historic bonus levels; brand strength and name recognition; developing demographic trends and customers' appetite expectations or need for certain savings products. Competition is expected to intensify in response to consumer demand, technological advances, the need for economies of scale and new market entrants.

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

b) Investment performance risk

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

c) Strategic risk

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

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

d) Operational risk

Operational risk is the risk of financial and non-financial impacts resulting from inadequate or failed internal processes, or from personnel and systems. Operational failures can also give rise to financial risk exposures, for example through process failures in the management of market and credit risk.

The Company's primary exposure to operational risk arises from business processes (e.g. customer administration, sales), people capabilities, operation of systems and financial reporting activity. Specific examples of potential operational risk exposures include:

- **Outsourcer/supplier risk**: The Company recognises that its use of outsourcing and third party solution providers can impact its risk profile, for example, the service may fail resulting in significant business interruptions, liability for losses and costs, reputational damage and regulatory breaches.

- **Technology and security risk**: The Company has a high dependency on technology to operate effectively and meet customer needs. Technology risk can arise through areas such as the sustained loss or unavailability of key hardware / software, inadequate information security arrangements, inappropriate deployment of digital solutions and cyber related risks.

- **People risk**: The Company's success is dependent on the Group's ability to attract, retain and develop highly qualified, diverse professional people with the right mix of skills and behaviours to support the business. As the Company continues to implement its transformation programme, the risk of employee conduct challenges and reputational impact is heightened.

(e) Reputational risk

Reputational risk is a pervasive risk that can be triggered by any other principal risk, or in its own right. The Company's reputation is the sum of its stakeholders' perceptions, which are shaped by the nature of stakeholder expectations and the Company's ability to meet them. Consequently, there is a risk that through its activities, behaviours or communications, it fails to meet stakeholder expectations in ways which adversely impact trust and reputation.

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

(f) Regulatory compliance

The Company operates in highly regulated markets and interacts with a number of regulators in a fluid environment. A number of regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, data privacy and systemic risks. Changes in UK government policy, legislation, regulation or regulatory interpretation may adversely affect the Company. Such risks are heightened in a post-Brexit world. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, costs to remediate, fines and restrictions on operations or products.

(g) Group risk

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

Being a member of the wider Group can give rise to risks; for example, if a guarantee of financial support given by the parent were removed, or from particular transactions arising from an impaired affiliate within the Group.

On behalf of the Board of directors

JAOwens

Ms J A Owens
On behalf of M&G Management Services Limited
Company Secretary
6 March 2020

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

Likely developments, business strategies and prospects

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

Ultimate parent company

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

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

Corporate responsibility

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

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

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

The Group's sustainable approach to business is reinforced by the Group-wide CR strategy. While the Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders, the Group approach is underpinned by four global CR themes:

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

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

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

Statement of corporate governance arrangements for large private companies

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

No specific governance code has been applied to the Company in the 2019 year, as it has an established set of governance procedures and practices, is a regulated entity and so follows certain regulatory requirements and is working within the established system of internal controls and risk management, the overall risk appetite and tolerance set for the Company, the GRMF, and all relevant Group policies and limits.

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

- Composition of Board - comprised of an independent Non-executive Chairman, alongside executives who are employees of the Group. The operational management of the Company is delegated to the CEO.
- Director Appointment - all directors are appointed only following regulatory approval and internal approval processes.
- Company Secretary - the Company has appointed an appropriately qualified and experienced Company Secretary who is responsible for ensuring that ongoing governance principles and processes are adhered to.
- Terms of Reference - The Board has in place Terms of Reference which have been followed in 2019 and are periodically reviewed.

Other disclosures

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

Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders please see the Section 172 Statement on pages 3-4.

Post balance sheet events

The Company has no post balance sheet events.

Financial performance and dividends

The state of affairs of the Company at 31 December 2019 is shown in the Statement of Financial Position on page 19. The statement of comprehensive income appears on pages 16 to 17. An interim dividend of £15m was paid in the year (2018: £nil). The directors have not proposed a final dividend for the year (2018: £nil).

Financial instruments

The Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are essentially the same as the net asset values backing those liabilities. The financial risk factors affecting the Company include expense risk, market risk, persistency risk, liquidity risk and credit risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in Note 22.

Share capital

There were no changes in the Company's share capital during 2019.

Directors

The present directors are shown on page 1. Mr K Davies was appointed as a director on 3 September 2019 and resigned on 28 February 2020. Mr P Cooper was appointed as a director on 2 March 2020. There have been no further changes.

Disclosure to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Act.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, KPMG LLP, will be deemed to be reappointed and will therefore continue in office.

Directors' and officers' protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc Group. In addition, the Articles of Association of the Company provide for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2019 and remain in force.

On behalf of the Board of directors

JAOwens

Ms J A Owens
On behalf of M&G Management Services Limited
Company Secretary
6 March 2020

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

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

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

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

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

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

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

Independent auditor's report

to the members of Prudential Pensions Limited

1. Our opinion is unmodified

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

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

Overview		
Materiality:	£25m (2018: £58m)	
financial statements as a whole	0.22% (2018: 0.5%) of total assets	
Risks of material misstatement		**vs 2018**
Recurring risks	Valuation of investments that require judgement	◄►

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

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

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

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

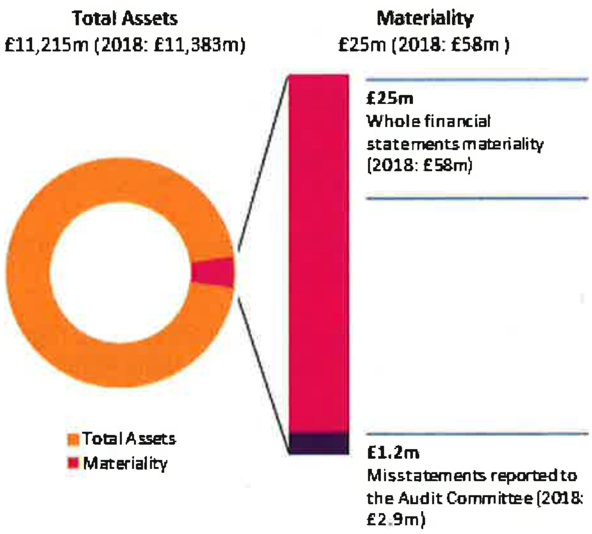
	The risk	Our response
Valuation of investments that require judgement 2019: £524 million (2018: £675 million) The risk is unchanged compared to the prior year. Refer to page 22 (accounting policy) and pages 33 to 37 (financial disclosures).	**Subjective valuation:** The areas that involved significant audit effort and judgement in were the valuation of unlisted Net Asset Value ('NAV') funds. For these positions a reliable third party price was not readily available and therefore involved the application of expert judgement in the valuations adopted. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments that require judgement has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 21B discloses the sensitivity estimated by the Company.	Our procedures included: – **Control design and observation:** Testing of the design and implementation of key controls over the valuation process for the investments. – **Tests of detail:** – Independently obtaining the most recent NAV statements to assess the appropriateness of the fair value of the unlisted funds. – Performing a retrospective test over the NAV valuation to assess if the fund valuation reported in the audited financial statements in the prior year were materially consistent with the NAV valuation statements available at the time. – Assessed the directors' assertion that NAV is a reasonable approximation for fair value by comparing disposals (redemptions) during the year to the redemption price quoted in the latest available NAV statement available prior to the disposal. – **Assessing transparency**: Assessing whether the Company's disclosures in relation to the valuation of investments that require judgement are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes. **Our result** We found valuation of investments that require judgement to be acceptable (2018 : acceptable).

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

Prudential Pensions Limited is part of a group headed by M&G plc. Materiality of £25 million (2018: £58 million), as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality that we would otherwise have determined and represents 0.22% (2018: 0.5%) of total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.2 million (2018: £2.9 million), in addition to other identified misstatements that warranted reporting on qualitative grounds

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



4. We have nothing to report on going concern

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

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Company's investments.

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

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

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

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

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

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

- we have not identified material misstatements in those reports;

- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 10, the Directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities - ability to detect

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, customer conduct regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

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

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

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

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
6 March 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

Long-term Business Technical Account	2019 £'000	2018 £'000	Note
Investment income	**668,026**	939,977	3
Unrealised gains/(losses) on investments	**701,451**	(1,340,349)	3
Other technical income	**12,609**	15,136	3
	1,382,086	(385,236)	
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
- gross amount	**2,621**	7,849	
- reinsurers' share	**(2,621)**	(7,749)	
	—	100	14
Change in technical provisions for linked liabilities	**(1,368,177)**	403,410	14
	(1,368,177)	403,510	
Net Operating Expenses			
- Acquisition costs	**(109)**	(107)	
- Administrative expenses	**(3,443)**	(1,400)	
Investment expenses and charges	**(3,272)**	(5,289)	3
Foreign exchange gains/(losses)	**2,935**	(1,955)	3
Interest payable	**(3)**	(5)	3
Tax attributable to long-term business	**(1,627)**	(3,483)	4
	(5,519)	(12,239)	
Balance on the long-term business technical account	**8,390**	6,035	

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

The accounting policies on pages 20 to 24 along with the accompanying notes on pages 24 to 41 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

Non-Technical Account	2019 £'000	2018 £'000	Note
Balance on the long-term business technical account	**8,390**	6,035	
Tax attributable to the balance on the long-term business technical account	**47**	1,422	4
Balance on the long-term business technical account before tax	**8,437**	7,457	
Investment income	**191**	151	3
Investment expenses and charges	**(8)**	(6)	3
Operating profit on ordinary activities before tax	**8,620**	7,602	
Tax on profit on ordinary activities	**(82)**	(1,451)	4
Profit and comprehensive income for the financial year	**8,538**	6,151	

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

The accounting policies on pages 20 to 24 along with the accompanying notes on pages 24 to 41 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Total £'000
Balance at 1 January 2018	6,000	4,088	64,662	74,750
Profit for the year	—	—	6,151	6,151
Total comprehensive income for the year	—	—	6,151	6,151
Balance at 31 December 2018	6,000	4,088	70,813	80,901
Balance at 1 January 2019	**6,000**	**4,088**	**70,813**	**80,901**
Profit for the year	—	—	**8,538**	**8,538**
Total comprehensive income for the year	—	—	**8,538**	**8,538**
Total distribution to owners, recognised directly in equity			**(15,000)**	**(15,000)**
Balance at 31 December 2019	**6,000**	**4,088**	**64,351**	**74,439**

The accounting policies on pages 20 to 24 along with the accompanying notes on pages 24 to 41 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	2019 £'000	2018 £'000	Note
Assets			
Investments			
Other financial investments	**73,264**	91,665	8
Assets held to cover linked liabilities	**11,073,321**	11,223,917	9
Reinsurers' share of technical provisions			
Long-term business provision	**52,305**	54,926	16
Debtors			
Other debtors	**6,640**	2,457	10
Other assets			
Cash at bank and in hand	**9,328**	10,322	11
Prepayments and accrued income	**130**	133	
Total assets	**11,214,988**	11,383,420	
Equity and liabilities			
Capital and reserves			
Share capital	**6,000**	6,000	13
Capital redemption reserve	**4,088**	4,088	
Profit and loss account	**64,351**	70,813	
Total shareholders' funds attributable to equity interests	**74,439**	80,901	
Technical provisions			
Long-term business provision	**52,385**	55,006	16
Technical provisions for linked liabilities	**11,073,321**	11,223,917	14
Provisions for other risks and charges			
Deferred taxation	**1,040**	1,436	4
Creditors			
Other creditors including taxation and social security	**13,803**	22,160	17
Total equity and liabilities	**11,214,988**	11,383,420	

The financial statements on pages 16 to 41 were approved by the board of directors on 6 March 2020.

The accounting policies on pages 20 to 24 along with the accompanying notes on pages 24 to 41 form an integral part of these financial statements.

Mr P Cooper
Director
6 March 2020

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company information

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

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

B. Basis of preparation

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

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("EU-Adopted" IFRS's), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The immediate parent company is The Prudential Assurance Company Limited. The Company's ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. The consolidated financial statements of M&G plc are prepared in accordance with IFRS. Copies of these accounts can be obtained from the Company Secretary at 10 Fenchurch Avenue, London EC3M 5AG.

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

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

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

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

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

- The Company is a subsidiary within the Group and it, its parent company and the ultimate parent company are continuing to trade. There are no plans for liquidation in the foreseeable future.

- The Company has a satisfactory capital surplus, well in excess of the regulatory capital requirement (as shown in Note 15) and generates positive cashflows. In addition, consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report, and the management of financial risk as set out in Note 22, including its exposure to liquidity risk and credit risk. In 2016, The Prudential Assurance Company Limited put in place an arrangement to formalise circumstances in which capital support would be made available to the Company. The drawdown of support would be triggered by a breach of pre-specified solvency conditions in the Company (105% of Solvency Capital Requirement or 105% of Economic Capital Requirement).

In assessing the going concern of the Company, the directors have assessed the Company's current and projected solvency position under Solvency II, which became effective on 1 January 2016, and considers the Company to have a sufficient capital surplus.

C. Long-term business

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

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

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

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

D. Reinsurance

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

E. Classification of instruments issued by the Company

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

(i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

F. Financial instruments - recognition and measurement

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

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

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

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

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

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

Financial liabilities

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

G. Financial assets - impairment

Impairment is recognised on financial assets measured at amortised cost based on expected credit losses ('ECL'). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

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

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

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

H. Premiums and claims

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

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

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

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

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

I. Securities lending and reverse repurchase agreements

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

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

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

J. Tax

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

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

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

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

K. Foreign currencies

Foreign currency assets and liabilities are translated at year end exchange rates. Foreign currency revenue and expense transactions are translated at rates ruling at the transaction dates, except for accrued revenue items that are translated at year end exchange rates.

2. Analysis of premiums

Gross Premiums

Premiums comprise corporate pension business where investment risk is borne by policyholders and which are transacted within the UK. All direct single and regular premiums are group pension business. Premiums for 2019 and 2018 are nil as all business is investment contracts without discretionary participation features and is deposit accounted for, as described in the accounting policies.

	2019	2018
New Business	**£'000**	£'000
Single premiums – Pensions – Investment-linked contracts		
Direct	**339,474**	444,304
External reinsurance accepted	**30,977**	49,957
Intragroup reinsurance accepted	**266,150**	341,467
	636,601	835,728

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

3. Revenue and investment return

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

	Long-term business technical account		
	2019	2019	2019
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from listed investments	267,054	—	267,054
Income from other investments	9,000	600	9,600
Gains on the realisation of investments at fair value through profit or loss other than derivatives	394,962	—	394,962
Losses on the realisation of derivatives	(3,590)	—	(3,590)
	667,426	600	668,026
Investment expenses and charges			
Investment managers' expenses	(3,212)	(60)	(3,272)
Unrealised gains on investments			
Debt securities	1,104	—	1,104
Linked assets - other than derivatives	697,949	—	697,949
Linked assets - derivatives	2,398	—	2,398
	701,451	—	701,451
Foreign exchange gains	2,935	—	2,935
Fee income from investment contracts	12,609	—	12,609
Bank interest paid	—	(3)	(3)
Total revenue and investment return	1,381,209	537	1,381,746

	Non-technical account		
	2019	2019	2019
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from other investments	—	191	191
	—	191	191
Investment expenses and charges			
Investment managers' expenses	—	(8)	(8)
Total revenue and investment return	—	183	183

NOTES ON THE FINANCIAL STATEMENTS (continued)

	Long-term business technical account		
	2018	2018	2018
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from listed investments	293,236	—	293,236
Income from other investments	8,238	445	8,683
Gains on the realisation of investments at fair value through profit or loss other than derivatives	640,151	—	640,151
Losses on the realisation of derivatives	(2,093)	—	(2,093)
	939,532	445	939,977
Investment expenses and charges			
Investment managers' expenses	(5,207)	(82)	(5,289)
Unrealised losses on investments			
Debt securities	(424)	—	(424)
Linked assets - other than derivatives	(1,338,370)	—	(1,338,370)
Linked assets - derivatives	(1,555)	—	(1,555)
	(1,340,349)	—	(1,340,349)
Foreign exchange losses	(1,955)	—	(1,955)
Fee income from investment contracts	15,136	—	15,136
Intra-group interest paid	—	(5)	(5)
Total revenue and investment return	(392,843)	358	(392,485)

	Non-technical account		
	2018	2018	2018
	£'000	£'000	£'000
	At fair value through profit or loss	Amortised cost	Total
Investment income			
Income from other investments	—	151	151
	—	151	151
Investment expenses and charges			
Investment managers' expenses	—	(6)	(6)
Total revenue and investment return	—	145	145

4. Tax

(a) Tax charged

	Long-term business technical account		Non-technical account	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Current tax				
UK Corporation tax on profits for the year	**1,996**	1,810	**35**	29
Adjustments in respect of previous years	**(1,566)**	8	**—**	—
	430	1,818	**35**	29
Foreign tax	**1,593**	2,061	**—**	—
Total current tax	**2,023**	3,879	**35**	29
Deferred tax				
Origination and reversal of temporary difference	**(397)**	(396)	**—**	—
Effect of changes in tax rate	**1**	—	**—**	—
Tax charge on profit on ordinary activities	**1,627**	3,483	**35**	29

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

	2019	2018
Current tax	**443**	1,818
Deferred tax	**(396)**	(396)
	47	1,422
Total	**82**	1,451

(b) Factors affecting tax charge for period

In July 2016, the UK Government announced reductions in the main rate of corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020. These reductions are reflected in the above figures as the changes were substantively enacted at the Statement of Financial Position date.

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

	2019	2018
	£'000	£'000
Profit on ordinary activities before tax	**8,620**	7,602
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19.00% (2018: 19.25%)	**1,638**	1,444
Effects of		
Adjustments to current tax in respect of previous periods	**(1,555)**	8
Impact of changes in local statutory tax rates	**(1)**	(1)
Total tax charge for the period	**82**	1,451

(c) Statement of Financial Position

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

Provision for deferred tax	2019 £'000	2018 £'000
Transitional adjustments	1,040	1,436
Undiscounted provision for deferred tax liability	1,040	1,436
Deferred tax liability at start of the period	1,436	1,845
Deferred tax credited in technical/non-technical account for the period	(396)	(409)
Deferred tax liability at the end of period	1,040	1,436

5. Staff costs

The Company has no employees (2018: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies. The majority of employees in the UK are employed by Prudential Distribution Limited, a service company within the Group.

6. Directors' emoluments

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

	2019 £'000	2018 £'000
Aggregate emoluments and benefits	15	7

The Company's directors perform services for other group companies. These costs are not included in the amounts charged to the Company as shown in the table above.

7. Auditor's remuneration

	2019 £'000	2018 £'000
Audit of these financial statements	86	86

8. Other financial investments

	Cost		Carrying value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Debt securities and other fixed income securities	19,843	19,843	24,668	23,565
Deposits with credit institutions	48,596	68,100	48,596	68,100
	68,439	87,943	73,264	91,665

All debt securities and other fixed income securities are listed on a recognised UK investment exchange. There has been no change to the cost of debt securities and other fixed income securities between 2019 and 2018.

9. Assets held to cover linked liabilities

	2019	2018
	£'000	£'000
Shares and other variable yield securities	**5,333,363**	4,869,439
British government securities - fixed income	**926,867**	819,976
British government securities - index-linked	**207,314**	229,935
Debentures and loan stocks	**3,717,133**	4,405,909
Provincial and municipal stocks	**347,151**	401,791
Deposits with credit institutions	**440,600**	376,550
Derivatives	**4,438**	(2,060)
Other assets	**96,455**	122,377
Assets held to cover linked liabilities – carrying value	**11,073,321**	11,223,917
Assets held to cover linked liabilities - cost	**9,783,054**	10,634,557

Included within shares and other variable yield securities is a Fond commun de placement called M&G UK Property Fund FCP - FIS, which at 31 December 2019 was 98.22% owned by Prudential Pensions Limited (2018: 98.52%). The value of the investment in this fund at 31 December 2019 was £524.3m (2018: £675.3m). The registered office of this investment is 34-38 Avenue de la Liberté, L-1930 Luxembourg.

Included within other investments are derivatives owned by the fund to offset currency movements. These can have a negative valuation.

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

10. Other debtors

All debtors are due within one year.

	2019	2018
	£'000	£'000
Debtors arising from reinsurance operations	**864**	446
Amounts owed by group undertakings	**799**	—
Other debtors	**4,977**	2,011
	6,640	2,457

11. Bank current accounts

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

12. Assets attributable to the long-term business fund

Of the total amount of assets shown on the Statement of Financial Position, £11,184m (2018: £11,352m) is attributable to the long-term business fund.

13. Share capital

	2019	2018
	£'000	£'000
Issued and fully paid		
6 million ordinary shares (2018: 6 million) of £1 each	**6,000**	6,000

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

14. Policyholder liabilities

	Long-term business provision net of reinsurance	Provision for linked liabilities net of reinsurance
	£'000	£'000
Balance at 1 January 2018	180	12,187,929
Movement in technical provisions for year		
Gross amount	(7,849)	(403,410)
Reinsurers' share	7,749	—
Deposits received from policyholders under investment contracts	—	835,910
Payments made to policyholders of investment contracts	—	(1,396,512)
As at 31 December 2018/1 January 2019	**80**	**11,223,917**
Movement in technical provisions for year		
Gross amount	**(2,621)**	**1,368,177**
Reinsurers' share	**2,621**	—
Deposits received from policyholders under investment contracts	—	**636,940**
Payments made to policyholders of investment contracts	—	**(2,155,713)**
Balance at 31 December 2019	**80**	**11,073,321**

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

15. Capital requirements and management

The introduction of Solvency II at the start of 2016 changed the capital dynamics of the Company's life operations which are directly impacted by this change. In overview, it permitted the inclusion of future profits in the available capital of the business but increased the statutory capital requirements.

The Company's estimated and unaudited shareholder Solvency II surplus at 31 December 2019 is £39m (2018: £40m), after allowing for recalculation of transitional measures. Own Funds is the Solvency II measure of assets less liabilities.

The Solvency II Pillar I capital requirements at 31 December 2019 have been calculated using the Company's Internal Capital Model. The method used to calculate the capital has been to:

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

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

The estimated and unaudited Solvency II capital position for the Company as at 31 December 2019 and 2018 is shown below:

	2019	2018
	Unaudited	Unaudited
	£'000	£'000
Solvency II Own Funds	86,999	90,037
Solvency II SCR	(47,829)	(50,252)
Solvency II surplus	39,170	39,785
Solvency II capital ratio	182%	179%

16. Long-term business provision

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

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

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

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

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

	2019	2018
Discount Rate assumption pre-2019	**2.078% for annuities**	2.650% for annuities
Discount Rate assumption post-2019	**2.078% for annuities**	2.669% for annuities
Fund Growth	**N/A for annuities**	N/A for annuities
Expense Inflation	**3.32% gross**	3.53% gross
Renewal expenses:		
Reassured annuity business	£32.23 per policy p.a. plus third party (TCS) costs	£34.62 p.a. per policy plus third party (TCS) costs
Annuity mortality	Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on England & Wales General Population mortality tables (E&W_Reference_Population for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality. Future mortality improvements: Calibration of CMI2017 with a long term rate of 1.75% for males and 1.50% for females, an Sk parameter of 7.50 for males and 7.75 for females, plus 0.5% constant increase to per annum improvement rates.	Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on England & Wales General Population mortality tables (E&W_Reference_Population for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality. Future mortality improvements: Default calibration of CMI2016 with a long term rate of 1.75% for males and 1.50% for females plus 0.5% constant increase to per annum improvement rates.

17. Creditors

All creditors are due within one year.

	2019	2018
	£'000	£'000
Creditors arising from reinsurance operations	**133**	—
Amounts due to group undertakings	**1,238**	1,582
Tax payable	**1,372**	3,353
Sundry creditors	**11,060**	17,225
	13,803	22,160

18. Charges

In the normal course of business, certain reinsurance liabilities are secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reinsurance) policies, over the long-term insurance assets of the Company. Amounts secured by charges of this nature were £5,516.9m, £293.0m, £94.2m, £41.8m, £18.2m and £4.8m, representing liabilities to six different customers (2018: £4,853.2m, £278.4m, £84.1m, £38.5m, £5.9m and £17.3m representing liabilities to six different customers).

19. Guarantees and Commitments

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

20. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited. On 26 November 2018 the immediate parent's legal ownership was transferred from its previous parent company Prudential plc to a new holding company M&G Prudential Limited which was at the time, a subsidiary of Prudential plc. On 24 July 2019, M&G Prudential Limited was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, M&G Prudential plc changed its name to M&G plc. On 21 October 2019, M&G plc de-merged from Prudential plc and listed on the London Stock Exchange.

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

21. Financial Assets and Financial Liabilities

A. Financial assets and financial liabilities – classification and measurement

Under IFRS 9, financial assets and financial liabilities are valued at either FVTPL or amortised cost.

2019	**Fair value through profit or loss**	**Amortised Cost**	**Total carrying value**	**Fair value where applicable**
Financial Assets	**£'000**	**£'000**	**£'000**	**£'000**
Deposits with credit institutions	—	**48,596**	**48,596**	**48,596**
Debt securities	**24,668**	—	**24,668**	**24,668**
Assets held to cover linked liabilities	**11,073,321**	—	**11,073,321**	**11,073,321**
Other debtors	—	**6,640**	**6,640**	**6,640**
Cash at bank and in hand	—	**9,327**	**9,327**	**9,327**
Accrued investment income	—	**129**	**129**	**129**
Total	**11,097,989**	**64,692**	**11,162,681**	**11,162,681**
Financial Liabilities				
Investment contracts without discretionary participating features	**11,073,321**	—	**11,073,321**	**11,073,321**
Deferred tax liabilities	—	**1,040**	**1,040**	**1,040**
Other creditors	—	**13,670**	**13,670**	**13,670**
Total	**11,073,321**	**14,710**	**11,088,031**	**11,088,031**

2018	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value where applicable
Financial Assets	£'000	£'000	£'000	£'000
Deposits with credit institutions	—	68,100	68,100	68,100
Debt securities	23,565	—	23,565	23,565
Assets held to cover linked liabilities	11,223,917	—	11,223,917	11,223,917
Other debtors	—	2,457	2,457	2,457
Cash at bank and in hand	—	10,322	10,322	10,322
Accrued investment income	—	133	133	133
Total	11,247,482	81,012	11,328,494	11,328,494
Financial Liabilities				
Investment contracts without discretionary participating features	11,223,917	—	11,223,917	11,223,917
Deferred tax liabilities	—	1,436	1,436	1,436
Other creditors	—	22,160	22,160	22,160
Total	11,223,917	23,596	11,247,513	11,247,513

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

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

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

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

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

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

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

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

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

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

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

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

- Reclassification of £675.2m of equity securities from level 2 to level 3.
- Reclassification of £48.4m of corporate bonds from level 2 to level 1.
- Reclassification of £264.0m of government bonds from level 1 to level 2.

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 property funds which are exposed to bespoke properties or risks.

	31 December 2019			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Unit-linked				
Equity securities	4,808,060	1,031	524,272	5,333,363
Debt securities	1,255,274	3,943,191	—	5,198,465
Derivative assets	1,771	2,933	—	4,704
Derivative liabilities	(2)	(265)	—	(267)
Total financial investments, net of derivative liabilities	6,065,103	3,946,890	524,272	10,536,265
Investment contracts without discretionary participation features held at fair value	—	(11,073,321)	—	(11,073,321)
Total	6,065,103	(7,126,431)	524,272	(537,056)
Non-linked				
Debt securities	24,668	—	—	24,668
Total	24,668	—	—	24,668
Company total				
Equity securities	4,808,060	1,031	524,272	5,333,363
Debt securities	1,279,942	3,943,191	—	5,223,133
Derivative assets	1,771	2,933	—	4,704
Derivative liabilities	(2)	(265)	—	(267)
Total financial investments, net of derivative liabilities	6,089,771	3,946,890	524,272	10,560,933
Investment contracts without discretionary participation features held at fair value	—	(11,073,321)	—	(11,073,321)
Total	6,089,771	(7,126,431)	524,272	(512,388)

	31 December 2018 (restated)			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Unit-linked				
Equity securities	4,194,187	—	675,252	4,869,439
Debt securities	942,642	4,914,969	—	5,857,611
Derivative assets	7	597	—	604
Derivative liabilities	(636)	(2,028)	—	(2,664)
Total financial investments, net of derivative liabilities:	5,136,200	4,913,538	675,252	10,724,990
Investment contracts without discretionary participation features held at fair value	—	(11,223,917)	—	(11,223,917)
Total	5,136,200	(6,310,379)	675,252	(498,927)
Non-linked				
Debt securities	23,565	—	—	23,565
Total	23,565	—	—	23,565
Company total				
Equity securities	4,194,187	—	675,252	4,869,439
Debt securities	966,207	4,914,969	—	5,881,176
Derivative assets	7	597	—	604
Derivative liabilities	(636)	(2,028)	—	(2,664)
Total financial investments, net of derivative liabilities	5,159,765	4,913,538	675,252	10,748,555
Investment contracts without discretionary participation features held at fair value	—	(11,223,917)	—	(11,223,917)
Total	5,159,765	(6,310,379)	675,252	(475,362)

Additional disclosures required by IFRS 13 for items within Level 3

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

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

Reconciliation of Level 3 opening to closing balances 2019

2019	**At 1 Jan 2019**	**Total gains/ (losses) in long-term technical account**	**Purchases**	**Sales**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec 2019**
Unit-linked	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity securities	**675,252**	**(38,320)**	**—**	**(112,660)**	**—**	**—**	**524,272**

Reconciliation of Level 3 opening to closing balances 2018 (restated)

2018	At 1 Jan 2018	Total gains/ (losses) in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2018
Unit-linked	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity securities	769,136	33,794	—	(127,678)	—	—	675,252

As at 1 January 2019, as restated, £675.3m of level 3 assets were held (2018: £769.1m). During 2019, no transfers were made to level 3 (2018: £nil). During 2019, there were sales of level 3 items of £112.7m (2018: £127.7m).

Of the total loss in long-term technical account of £38.3m (2018: gain of £33.8m), the unrealised loss on level 3 equity securities for 2019 was £64.3m (2018: gain of £5.0m). As stated above this is included within "unrealised gains/(losses)" in the long-term technical account.

As at 31 December 2019, the Company held £524.3m (2018: £675.3m) of equity investments classified as level 3 in the fair value hierarchy. These investments are comprised solely of investments in a property fund. The investments are valued using net asset value less redemption costs. A 10% increase in the net asset value of these investments would increase the fair value of the investments by £52m (2018: increase of £67.5m); a decrease of 10% would have an equal, but opposite, effect.

Exposure to sovereign debt and bank debt

The Company's exposure to UK sovereign debt held in non-linked funds is £24.7m (2018: £23.6m). The non-linked funds hold no foreign sovereign debt securities or bank debt securities.

The unit-linked funds hold a range of sovereign debt securities and bank debt securities, but due to the matching of policyholder liabilities to attaching asset value movements there is minimal exposure to these securities for the Company on the unit-linked contracts as the risks are borne by the policyholders.

C. Market Risk

The financial assets and liabilities attaching to the Company's life assurance business are, to varying degrees, subject to market risk that may have a material effect on the profit or loss and shareholders' funds. Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value, will fluctuate because of changes in market prices.
Market risk comprises three types of risk, namely:

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

Due to the matching of policyholder liabilities to attaching asset value movements the unit-linked business is not directly affected by market risk. The principal factor affecting the results is investment performance through fund management fees.

(i) Interest rate risk

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

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

2019	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Total**
Financial Assets	**£'000**	**£'000**	**£'000**
Deposits with credit institutions	—	**48,596**	**48,596**
Debt securities	**24,668**	—	**24,668**
Cash at bank and in hand	—	**9,327**	**9,327**
	24,668	**57,923**	**82,591**

2018	Fair value interest rate risk	Cash flow interest rate risk	Total
Financial Assets	£'000	£'000	£'000
Deposits with credit institutions	—	68,100	68,100
Debt securities	23,565	—	23,565
Cash at bank and in hand	—	10,322	10,322
	23,565	78,422	101,987

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

	31 December 2019			
	Fall of 1%	**Fall of 2%**	**Rise of 1%**	**Rise of 2%**
	£'000	**£'000**	**£'000**	**£'000**
Carrying value of debt securities	**2,987**	**5,973**	**(2,987)**	**(5,973)**
Interest on deposits with credit institutions	**(426)**	**(426)**	**579**	**1,159**
Related tax effects	**(435)**	**(943)**	**409**	**818**
Net sensitivity of profit after tax and shareholders' funds	**2,126**	**4,604**	**(1,999)**	**(3,996)**

	31 December 2018			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£'000	£'000	£'000	£'000
Carrying value of debt securities	2,842	5,684	(2,842)	(5,684)
Interest on deposits with credit institutions	(560)	(560)	784	1,568
Related tax effects	(388)	(871)	350	700
Net sensitivity of profit after tax and shareholders' funds	1,894	4,253	(1,708)	(3,416)

(ii) Currency risk

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

(iii) Other price risk

Due to the matching of policyholder liabilities to attaching asset value movements the unit-linked business is not directly sensitive to other price risk. The Company does not hold any investment property outside of the unit-linked funds. The Company holds no equity securities outside of the unit-linked funds (2018: £nil), and so is not exposed to other price risk.

D. Liquidity analysis

Contractual maturities

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

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

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

E. Credit Risk

Concentration of credit risk

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

	2019	2018
	£'000	£'000
AA	**24,668**	23,565
	24,668	23,565
Unit-linked	**11,073,321**	11,223,917
Total assets bearing credit risk	**11,097,989**	11,247,482

Due to the matching of policyholder liabilities to attaching asset value movements there is minimal credit risk for the Company on the unit-linked contracts as the risks are borne by the policyholders.

There are no overdue debtors. There is minimal credit risk from reinsurance recoverable as this solely relates to reinsurance agreements with other M&G plc Group companies.

Reverse repurchase agreements

At 31 December 2019, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The value of these transactions at 31 December 2019 was £489.2m (2018: £444.7m). The fair value of the collateral held in respect of these transactions was £499.0m (2018: £453.5m).

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

Collateral and pledges under derivative transactions

At 31 December 2019, the Company had pledged £nil (2018: £2.3m) for liabilities and held collateral of £1.6m (2018: £2.4m) in respect of over-the-counter derivative transactions.

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

22. Financial risk management

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

A significant part of the Company's profit is related to the fund management charges on its unit-linked products, which are proportionately dependent on the asset values in the funds under management. Any adverse impact on the current and expected future asset returns is therefore likely to impact the Company's profitability by reducing the value of funds under management and management charges collected.

a) Expense risk

Expense risk is the risk of loss or of adverse changes in the profitability of financial situation of the Company resulting from changes in the level of expenses incurred.

Expense risk is the risk of actual expenses exceeding the assumptions in pricing and reserving bases. If actual expenses are significantly different than assumed in pricing and reserving in its annuity business, the Company's operating results could be adversely affected.

b) Market risk

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

The continued uncertainty in global economic, political and markets outlooks, have increased market risk (e.g. increased volatility) and this could adversely affect the Company's business and profitability, principally through a fall in the Company's funds under management (FUM) due to reduced investment returns and adverse movements in foreign currency exchange rates (for overseas investment funds).

As a large proportion of the Company's income is earned via fund management charges expressed as a percentage of FUM, a fall in value as a result of market risk could adversely affect the Company's profitability.

c) Persistency risk

Persistency risk is the risk that customer retention levels are different from the Company's expectations.

The Company's persistency assumptions reflect the recent past experience for each relevant line of business including any expected trends in future persistency rates. If the actual levels of future persistency are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), the Company's results could be adversely affected.

d) Liquidity risk

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

The Company's liquidity risk exposure arises mainly from surrenders or processing delays in its unit-linked business and lower than expected market liquidity for assets requiring significant cash resources at short notice. To manage liquidity risk in property funds which are inherently more illiquid, deferral clauses are in place, which can allow the Company to defer cash payments to withdrawing customers in extreme adverse liquidity scenarios. Liquidity risk however cannot be completely eliminated for unit-linked funds, in particular over the short term, where market volatility can result in mass withdrawals over a short period of time.

e) Credit risk

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

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

Impairment methodology

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

This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2019 to derive the Expected Credit Losses ('ECL').

The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL. The Company held cash balances of £57.9m at 31 December 2019 (2018: £78.4m). These balances are held with bank and financial institution counterparties.

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

23. Post balance sheet events

The Company has no post balance sheet events.