Registered No: 15454

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Annual Report and Financial Statements for the Year Ended 31 December 2023

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

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

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

Mr C P Adamson
Mr C Bolton (appointed 25 September 2023)
Mr R S Bowie (Chairman)
Ms L Fowler
Mr S Horgan
Dr I Owen
Ms M Tannemaat
Mr D K Watson

Company Secretary

M&G Management Services Limited (appointed 4 December 2023)

Independent Auditors

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Principal activity

The principal activity of The Prudential Assurance Company Limited (the Company) in the course of 2023 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2024. Throughout 2023 the Company also owned insurance subsidiary undertakings Prudential Pensions Limited (PPL) and Prudential International Assurance plc (PIA). Both these companies transacted insurance business in the United Kingdom and PIA transacted business in Europe.

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

The Company's Irish subsidiary PIA, is an insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus in 2023 has been the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe. PIA also distributes savings and protection products in Poland through its Polish branch. PIA also provides a wholesale market solution that facilitates European domiciled third party distributors to make investments in the PAC With-Profits Fund.

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

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

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

Business review

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

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

Over 2023, M&G plc continued building its advisory capabilities to offer a better and more cost effective proposition to the UK market, including the Company's clients. M&G plc aims to make financial advice more accessible and, in line with the growth strategy, it is transforming and simplifying operations, and investing in digital capabilities to become more efficient. Through its multi-channel advice offering, the Company combines digital journeys with access to human-based advice. The Company also continues to make progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and further improve operational stability.

During the year, the Company completed two bulk-purchase annuity transactions in September 2023, for a combined premium of £617m. Re-entering this market formed a key component of the M&G plc strategy and represents the first deals completed since closing the annuity book to new business in 2016. With the

exception of the bulk-purchase annuity transactions, new business still has a strong focus on more flexible bond, ISA, pension and income drawdown products across a range of tax efficient solutions through the Company's PruFund range of products. PruFund has £61.3bn (2022: £58.3bn) in assets and is one of the largest multi-asset investment propositions in the UK and Europe. Powered by the Company’s £129bn (2022: £129bn) With-Profits fund, it enables clients to access a unique blend of private and public investments. PruFund spreads risk over a wide range of assets and pools money from all investors, giving customers greater buying power and access to opportunities that would not be attainable as an individual investor. The PruFund net client inflows for 2023 of £1.0bn (2022: inflow of £0.8bn) and other movements offset any negative market movements. Other assets under management and administration, from individual and corporate pensions, annuities, life and saving products, decreased to £92bn (2022: £94bn).

Further, in 2023, PAC's shareholder fund entered into a new arrangement with the With-Profits fund in relation to future shareholder transfers expected to emerge from PruFund business written to 31 December 2022. The shareholder fund accepted a one-off cash payment in lieu of 20% of these shareholder transfers. This arrangement is mutually beneficial since it generates certainty and cash for the shareholder while reducing the with-profit fund exposure to a potential mismatch between the value of the shareholder transfers and the fixed charges taken to cover those transfers. In addition, under the arrangement the shareholder paid the With-Profits fund for a higher share of future surplus from certain cohorts of business. In the current year a loss arises on the transaction due to the interaction of the arrangement with the fund for future appropriation. These are expected to unwind in future in line with the receipt of future shareholder transfers.

The strength of the legacy book, mainly annuities and traditional with-profits policies, puts the Company and its ultimate parent M&G plc in a strong position to weather any short-term market volatility. The Company’s Life business brings together end-to-end responsibility for the proposition and customer servicing of all legacy books, some of which remain open to top-up investments. Over the year, the Company has continued to focus on improving the quality of customer service and customer outcomes, migrating clients to enhanced policy platforms, with a focus on digitisation and greater flexibility for customers. Overall service has continued to improve and the client Net Promoter Score has marginally improved from +14 in December 2022 to +15 in December 2023.

Strategic Direction and Corporate Transactions

Sustainability

As a subsidiary of M&G plc, the Company’s sustainability ambitions are in line with the wider Group - these are reflected through Group-level commitments to both diversity and inclusion and climate change, including a pledge to reach net zero carbon emissions across operations and its total book of assets under management and administration by 2050, to align with the Paris Agreement. At a Company level, climate commitments are supported by interim decarbonisation targets set through the Company's membership of the Net Zero Asset Owners Alliance, which are now informing the Company’s investment policy and asset allocation decisions for the With-Profits Fund and the pension savings and annuity books. Addressing thermal coal is an important component of Group’s climate strategy - as part of this, M&G plc has committed to phase out thermal coal from its public investment portfolios by 2030 for OECD and EU countries, and by 2040 for developing countries. The Company's climate strategy is aligned with the Group.

The With-Profits Fund is a cornerstone investor in M&G’s £5bn sustainability-oriented private asset strategy, Catalyst, which invests in innovative private companies that are working to contribute to a more sustainable economy. At year-end 2023, Catalyst had deployed over £2bn of capital, with further committed capital to investments of c£1bn. Highlights from the year include: investment in technology that reduces wastewater in industrial processing where nearly half of the world’s water is currently used, an affordable blood test to detect the presence of any of twenty types of cancer in the body at an early stage, and a company that replaces chemical fertilizers and pesticides with biological substitutes, such as beneficial insects and mites, significantly reducing the environmental damage of agriculture. From a propositions perspective, the Company's PruFund Planet range offers policyholders access to smoothed returns (similar to PruFund) while also aiming to achieve positive social and environmental outcomes.

To keep customers informed about these developments, and also more generally how and where their money is put to work, the Company publishes annual Stewardship reports, and in 2023 published its first Taskforce for climate-related financial disclosures (TCFD) entity report which is available on the M&G plc website. The

Company continues to improve the disclosures available to customers, including product TCFD reports published for the first time in 2023, which are available online to all Prudential policyholders.

Investment Strategy

Over the course of 2023 the Company reviewed the investment strategy across PAC Funds via the Investment Office. This aims to maintain and improve future policyholder outcomes, taking into account the prevailing capital market and economic views.

Key Performance Indicators and measurement

Key Performance Indicators	**2023 £m**	**2022 £m**
Adjusted Operating Profit:		
With-profit shareholder transfer net of hedging	179	354
Annuities business	240	227
Unit Linked and other	(15)	(33)
Total adjusted operating profit before tax	**404**	**548**
Non-Operating Profit/(Loss):		
Short-term fluctuations on investment returns	16	(2,375)
Transformation costs	(30)	(34)
Total Non-operating loss before tax	**(14)**	**(2,409)**
Profit/(loss) on ordinary activities before tax	**390**	**(1,861)**
Estimated Solvency II capital surplus:		
Overall	**3,244**	3,125
Shareholder	**3,244**	3,125
Policyholder	**7,165**	6,631
Estimated Solvency II coverage ratio:		
Overall	**154%**	150%
Shareholder	**190%**	183%
Policyholder	**403%**	362%

Use of Key Performance Indicators (KPIs) and definitions

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

Adjusted operating profit before tax is the Company's non-GAAP alternative performance measure, which complements UK GAAP total profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to UK GAAP profit before tax. This includes adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Company-wide restructuring and transformation and profits or losses arising on corporate transactions. This measure is not defined under UK GAAP and other companies may calculate such measures differently. The Company has aligned this measure to the principles used by M&G plc.

For the Company's business written in the with-profits fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers, and can be separated into cash flow hedges and capital hedges. Cash flow hedges are instruments that are held to mitigate volatility in the Company's UK GAAP results by being explicitly matched to the expected future shareholder transfers. Capital hedges are instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

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

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

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

Total adjusted operating profit before tax

The total adjusted operating profit of £404m (2022: £548m) consists of £179m (2022: £354m) relating to the shareholder transfer and associated hedges from the with-profits fund, £240m (2022: £227m) relating to the annuities business, and a loss of £15m (2022: £33m loss) on unit-linked and other business.

The result from the with-profits business reduced to £316m (2022: £446m). The in-year cash transfer increased by £32m, mainly due to increased claims in the current year but was more than offset by the impact of an agreement to revise the schedule of future shareholder transfers. The initial impact of the revised schedule reduces profit by £144m primarily due to the amount paid in exchange for a higher share of future surplus from certain cohorts of business, the corresponding value of which is not recognised under UK GAAP. A further reduction of £18m is caused by in-year economic effects. There were fair value losses of £117m (2022: £102m loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers in the year. In addition there was a loss of £20m on the expense overrun provision (2022: £10m profit from the release of part of the provision).

For the annuities business, assumption changes contributed £22m (2022: £152m) to adjusted operating profit, of which £25m related to changes in the longevity assumptions (2022: £198m), and £14m (2022: £19m loss) relating to a reduction in renewal expenses, offset by an increase in investment management expenses. Both current mortality rates and future improvements assumptions based on the Company's own calibration of the Continuous Mortality Investigation (CMI) 2021 model, have been updated during 2023.

The expected return on assets and release of margins for annuities contributed £171m (2022: £163m). Asset trading and the impact of changes in interest rates contributed a loss of £9m (2022: £86m loss). New business profits, experience variance and other items contributed a profit of £56m (2022: loss of £2m), of which £46m was from new bulk purchase annuity deals.

Unit linked and other business contributed a loss of £15m (2022: £33m loss) mainly due to an increase in a provision for expected losses of the European business offset by a reduction in the short term expense reserve.

Non-Operating Profit

Market conditions have changed during 2023 leading to profits from short-term fluctuations in investment returns.These profits primarily comprise a £28m gain on the revaluation of shareholder subsidiaries (2022: £18m gain), £69m loss (2022: £1,301m loss) from fair value movements on surplus assets in the annuity portfolio offset by a £17m profit on equity release mortgages (2022: £15m loss) and a £8m gain (2022: £989m loss) on interest rate swaps purchased to protect the Company's Solvency II capital position against falls in interest rates, due to a decline in yields in the year. The release of the non-negative equity guarantee provision, following the equity release mortgage restructure, resulted in a profit of £20m (2022: £1m loss) and the termination of the Prufund risk mitigation agreement resulted in a £9m profit (2022: £8m loss).

In addition, there was no profit impact (2022: £104m gain) on the equity hedges used to protect the value of future shareholder transfers from the With-Profits Fund on the Company's Solvency II balance sheet.

Profit on ordinary activities before tax

The results of the Company for the year as set out on pages 32 to 33 show a profit on ordinary activities before tax of £390m (2022: loss of £1,861m). This is made up of the total adjusted operating profit described above, together with the non-operating items as described in the table above.

Solvency II surplus and coverage ratio

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

The Solvency II surplus is adjusted for the Transitional Measure on Technical Provisions (TMTP). The TMTP was formally recalculated for the Company, following approval from the regulator, at 31 December 2023 in line with expectations of recalculation every 24 months. As a result, the estimated and unaudited Solvency II capital position will be the same as the position disclosed in the formal regulatory Quantitative Reporting Templates and the Group's Solvency and Financial Condition Report.

The Company retains a shareholder capital surplus of £3.2bn (2022: £3.1bn). The Company's shareholder surplus has increased over 2023, which predominately reflects the operational surplus generation over the year and the impact of the PRA risk margin and TMTP reforms partially offset by the impact of the change in economic conditions over the year and the payment of the dividend to M&G plc (£0.5bn).

The Company retains a With-Profits capital surplus of £7.2bn (2022: £6.6bn). The Company's With-Profits surplus has increased over 2023, which predominately reflects the operational surplus generation over the year, the impact of the PRA risk margin and TMTP reforms and the impact of the change in economic conditions over the year partially offset by the c.£1bn distribution of excess surplus from the With-Profits inherited estate.

The overall or regulatory capital surplus includes the With-Profits Fund capital requirement, but excludes the surplus in the with-profit fund reflecting the ring-fenced nature of the Fund.

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

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

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

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

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

The Company's key stakeholders are its customers and ultimate beneficial owner M&G plc. Details of additional stakeholder groups such as the Company's regulators, policyholders and corporate customers, are set out in M&G plc's Annual report. In respect of customers of the Company's with-profits products, further details of with-profits governance are discussed in the Director's Report on page 16. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, for example, interaction with regulators, the size and spread of both the Company's stakeholders and the M&G plc group means that other stakeholder engagement takes place at Group level. The Company believes that as well as being a more efficient and effective approach, this also helps it achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company.

During the year the Board received information to help them understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance, non-financial key performance indicators, risk, environmental, social and governance matters and the outcomes of specific pieces of engagement. As a result of this the Board has had an overview of engagement with stakeholders and other relevant factors which allow the Board to understand the nature of the stakeholders' concerns and to comply with the section 172 duty to promote the success of the Company.

Principal Decisions

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

Principal decision 1 - Bulk Purchase Annuities

The Board approved two bulk purchase annuity ("BPA") transactions in 2023 for a combined premium of £617m. A key aim was to create overall value for the Company, its shareholders, and policyholders. The Board considered the individual BPA transactions from a capital allocation perspective and concluded that they would promote the success of the company for the benefit of its members, and would be beneficial to the Group's stakeholders in terms of the priorities to deliver profitable growth, simplify the business, and ensure a resilient balance sheet. The Board further concluded that re-entering the BPA market would be beneficial to clients by offering new solutions to the pensions market.

Principal decision 2 – Dividends to Parent

The Board resolved to pay a total of £500m in dividends to M&G plc during 2023. £333m was declared on 7 March 2023 and the remaining £167m was declared on 11 September 2023.

The Directors noted that the payments were in accordance with detailed financial planning, which took into account the other ongoing financial obligations for the Company. The Directors gave particular and careful consideration to the Company's solvency and liquidity position. As part of their deliberations, the Directors also considered a range of other factors. These included: the likely consequences on the Company in the medium-term; the long-term viability of the Group; the quality of capital and the sustainability of planned dividend payments; the ability of the Company to withstand stresses after payment of the dividend; the ongoing need for strategic investment in the Company's business; and the activities of the Company's subsidiaries.

Principal Risks and Uncertainties

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

Whilst the Company re-entered the Bulk Purchase Annuity market in 2023, the types of risk to which the Group is exposed have not changed significantly over the year.

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

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

As at the date of approval of the financial statements, the Company's Financial Strength was rated A1 by Moody's (stable outlook), A+ by Standard & Poor's (stable outlook) and AA- by Fitch (stable outlook).

Financial and Insurance risk

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

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

Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Customer investment return is determined by an Expected Growth Rate (EGR) which is declared each quarter, and Unit Price Adjustments (UPAs) which may be applied from time to time (when unit prices move outside specific limits as detailed in the policy conditions). The shareholder transfer crystallises at the point in which the customer elects to take money from PruFund and is up to 1/9th of the difference between the customer payout and the premium(s) paid.

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

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

(a) Market risk

Market risk is the risk of loss, or of adverse changes in the health of the Company's business (including the with-profits fund estate) resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets, currencies, liabilities and financial instruments.

For the Company's shareholder business, the key sources of market risk exposures arise in relation to shareholder transfers from the Company's With-Profits Fund as falls in the value of equities, property and alternatives, lower interest rates and fluctuations in currencies can negatively impact on investment returns generated for with-profits policyholders, reducing the value of the shareholder transfers. Hedging is in place on the shareholder balance sheet to partially mitigate and protect the value of such transfers. Additional market risk exposure arises on the non-profit annuity book, the 'no negative equity' guarantee on equity release mortgage loans, the value of management charges on unit-linked business and the risk of additional deficit funding contributions to the defined benefit staff pension schemes as the Company is responsible for ensuring such schemes (which are closed to new members) remain adequately funded to meet their expected future liabilities.

The Company's With-Profits Fund is also exposed to market risk predominately arising from the mismatch between the assets held and the guarantees embedded in the policyholder liabilities. Changes in market conditions may lead to an increase in the expected cost of these guarantees, with investment strategies and hedging in place to partially mitigate this risk. The risk is largely borne by the With-Profits Fund itself, but can impact the shareholder by reducing the size of shareholder transfers and shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

Changes in market conditions that may impact the exposures described above include inflation, which fell over 2023 but remains above government targets, and interest rates which have risen in response to high inflation but have stabilised recently. Prolonged high inflation and interest rates increases the risk of recession which can lead to a fall in equity and property asset prices.

Market risk exposure is expected to increase over the Business Plan period driven by expected volumes of PruFund new business and the Company's re-entry into the Bulk Purchase Annuity market partially offset by the run-off of the existing insurance business. Market risk remains uncertain, with upcoming US and UK elections, rising geopolitical risk and negative market sentiments.

See note 28 (C) for further details.

(b) Credit risk

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

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

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

The Company is also exposed to counterparty risk arising from reinsurance, derivative, broker trading, securities lending and reverse repo counterparties, and from placing cash with counterparties.

Credit risk is expected to increase as a result of the Company's re-entry to the BPA market and ongoing economic uncertainty that may trigger volatile markets. Negative market developments, legislative changes or industry events impacting invested sectors could negatively impact the Company's invested credit positions.

Included within private placement loans and assets held to cover linked liabilities are senior and junior notes backed by residential ground rents with a carrying value of £1,241m (2022: £1,423m), of which £859m are held in the shareholder-backed fund (2022: £994m). In November 2023, the Department of Levelling up, Housing and Communities, a branch of the UK Government, issued a consultation titled, Modern leasehold: restricting residential ground rent for existing leases (UK Government consultation). The consultation which is now closed to comments included five options on how residential ground rents payments should be calculated which all result effectively in capping future income that can be generated from the underlying assets. The

industry has provided its responses to the consultation, however the outcome of the consultation in terms of any change in legislation is still uncertain.

The impact of the potential outcomes under the consultation have been reflected in the valuation of the assets at the reporting date.

See note 28 (D) for further details.

(c) Insurance risk

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

Longevity Risk

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

Risk exposure is expected to increase at a managed level due to the re-entry into the Bulk Purchase Annuity market as part of the growth strategy. Insurance risks are subject to appropriate controls in pricing and reserving processes. In particular Bulk Purchase Annuity transactions require appropriate consideration of longevity risk and are subject to risk oversight.

Persistency Risk

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

The With-Profits Fund is also exposed to persistency risk, with the impact generally depending on the level of investment guarantees included in the products. Reductions in policyholder exits will tend to increase the expected costs of meeting guarantee obligations to policyholders, due to an increase in the number of policies remaining in-force with the potential for a guarantee to apply. However, in recent years new business sales have been dominated by business without material guarantees, and if this continues, the With-Profits Fund will become increasingly exposed to increases in policyholder exits and the associated loss of income from Annual Management Charges.

Expense risk

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

While the management of expenses is a key focus of the Company, the continued inflation uncertainty may increase expense risk.

See note 28 (E) for further details.

(d) Corporate Liquidity risk

Corporate liquidity risk is the risk that the Company and its businesses are unable to meet their financial obligations (e.g. claims, creditors and collateral calls) as they fall due because they do not have or are unable to generate sufficient liquid assets.

The Company’s corporate liquidity risk exposure arises mainly from:

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

See note 28 (F) for further details.

(e) Investment risk

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

Investment risk exposure is expected to increase as markets have priced in a soft economic landing alongside central banks cutting interest rates, this is coinciding with significant elections globally. Economic uncertainty increases investment risk which is driven by market targets with investment performance measured against benchmarks and peers. Any unforeseen economic downturns or surprise elections results could result in repricing of markets.

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

Non-financial risk

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

(a) Operational risk

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

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

Operational risk exposure is expected to remain neutral throughout 2024, supported by continued progress of the transformation and simplification programme, data management, and implementation of an enhanced third party management framework planned in 2023. The Company continues to improve its operational resilience of important business services under 'severe, but plausible' scenarios to meet the March 2025 regulatory requirement. Efforts to enhance the control environment, and the deployment consideration of new technology, including artificial intelligence, are ongoing.

The Risk Management Framework defines the Group's approach to managing operational risks and associated controls including Information Technology, Privacy and Data Protection and Third Party Risk Management. In particular, a Group Data Policy sets out the principles and requirements on the use of data and a Group Information Technology Risk Policy is in place to manage technology risks. Business continuity

and crisis management requirements are applied across the Group to identify and manage Important Business Services and Critical Shared Services.

(b) Business environment and market forces risk

Changing customer preferences and economic and political conditions could adversely impact the Company's performance against its strategy. Economic factors may impact product demand and the Company's ability to generate an appropriate return. Increased geopolitical risks and conflicts, and policy uncertainty, may impact products, investments and operating model. The Company's reliance on PruFund for inflows and on the intermediated channel for savings solutions sales heightens its exposure to changing economic conditions and client preferences.

Risk exposure to business environment and market forces is expected to increase as the Company builds scale in selected markets, while managing risks arising from uncertain economic outlook, geopolitical conflicts and negative economic trends.

The annual strategic planning is overseen by the Risk and Compliance function and the Board, and results in the approved strategy and Business Plan. The process of strategy approval considers the potential impact of the wider business environment and economy. Throughout the year, the Company monitors and report on progress in delivering its Business Plan.

(c) Sustainability and ESG risk

A failure to address and embed sustainability considerations within the Company's strategy, products, operating model and communication approach could adversely impact profitability, reputation and future growth. The Company considers and acts upon a broad range of issues including those concerning greenwashing, climate impact, diversity and inclusion, and corporate governance. The Company considers ESG Risk in terms of sustainability, or by how the Company impacts on the planet and society, the impact of ESG factors on its organisation, and its ability to meet a range of key stakeholder expectations on sustainability and ESG issues.

The importance of ESG factors to the Company is expected to increase as the physical impacts of climate change continue to accelerate, nature risks become more prominent and new risks emerge. Regular review of the ESG Risk Management Framework will be required to identify any enhancements necessary to allow the business to manage these risks appropriately.

The Group ESG Risk Management Framework and Policy provides a structured approach for the identification, assessment and management of ESG risks supported by the ESG Risk Policy which sets out key business requirements. Consideration of ESG Risk is built into key strategic decisions, regular reporting and Board risk assessment papers. Climate change risk is integrated into the Company's scenario analysis process with both top down and bottom up consideration over a range of time horizons.

(d) Change risk

Failure to deliver on the significant Group change programmes within cost and capacity constraints may impact the Company's business model and ability to deliver against its Business Plan and strategy.

The nature of change risk is expected to remain stable over 2024 as The Company looks to deliver on its strategic priorities including the Group transformation and simplification announced in 2023. The change risk profile is expected to decrease and return to a more normal level once these ambitions are achieved.

A Group project standard is in place which all business units must follow and attest compliance with. This includes reporting and escalation of risks to management and the Board. The Group Executive Committee is responsible for prioritisation decisions to prioritise the activities which help to achieve the strategy and comply with new regulations. A suite of metrics is used to monitor and report on the delivery, costs and benefits of transformation programmes.

(e) People risk

Although the Company does not directly employ staff, as this is done through servicing companies within the wider Group, it is still exposed to people risk in relation to those employees that service the Company. The success of the Company's operations are highly dependent on the ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support a positive culture and growth. As the Company's strategy continues to be implemented, people risk is heightened in areas including pay practices, workloads and morale, the conduct of individuals or groups of individuals and industrial relations.
People risk is expected to remain stable in 2024, following successful delivery of the voluntary redundancy programme in 2023 and with key people metrics remaining stable. The impacts on colleagues of the transformation and simplification programme and changes to hybrid working are being monitored and managed.

People risk is managed through the HR Framework which is designed to align staff objectives and remuneration to business strategy and culture. The framework includes policies for Diversity and Inclusion, Employee Relations, Talent and Resourcing, Remuneration, and Performance and Learning. Management and the Board receive regular reporting on key issues and developments, including succession planning, industrial relations, pay, culture and diversity. Colleague surveys are also conducted to better understand views and the Company use the survey findings to improve their experience.

(f) Regulatory compliance risk

Regulatory risk can arise from potential failure to meet regulatory requirements or to adequately consider regulatory expectations, standards or principles. The Company operates in a highly regulated environment and is subject to a number of regulatory initiatives. There are wide-ranging consequences of regulatory non-compliance, including client detriment, reputational damage, fines and restrictions on operations or products.

There continues to be a high quantum of regulatory change across the financial services industry with ESG, consumer protection and operational resilience being the key themes globally. Within the UK, Consumer Duty, including the addition of 'closed book' products, will continue to be a key focus.

Accountability for compliance with regulatory and legal requirements sits with senior management. The Risk and Compliance function provides guidance to, and oversight of, the Company in relation to regulatory compliance matters and carries out assurance activities to assess the adequacy of systems and controls designed to comply with regulations and legislation. Regulatory developments and consultations are regularly monitored.

(g) Reputational risk

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

Key to managing evolving stakeholder expectations will be the need to continue to address the material aspects of sustainability and ESG risk, as well as other reputational risks. Such risks may include strategic commitments, continuity of servicing, and evolving regulatory expectations.

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

(h) Conduct risk

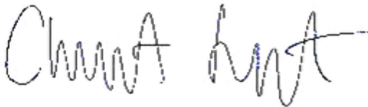
There is a risk that through the acts or omissions of individuals, the Company delivers poor outcomes for customers, colleagues, or other stakeholders, or affect market integrity.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

Conduct continues to be a key theme from regulators, with firm failures often cited as part of enforcement actions notably from the SEC and FCA. The Company have taken positive steps to design and implement processes to oversee, measure and report on conduct risk during 2023 and these will be embedded during 2024.

Due to the broad nature of conduct risk, management is pervasive and reflected in Group policy and processes including but not limited to the Code of Conduct and the Conflict of Interest, Market Abuse and Investment Communications Recording policies.

By order of the Board.



M&G Management Services Limited
Company Secretary
19 March 2024

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

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

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2023.

Likely developments, business strategies and prospects

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

Ultimate parent company

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

Subsidiary and associate undertakings

Particulars of the Company's subsidiary undertakings at 31 December 2023 are shown in note 30.

Statement of corporate governance arrangements for large private companies

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

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

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

Composition of Board - comprised of an independent Non-executive Chairman, and a majority of independent Non-executive Directors, alongside executives who are employees of the Group. The operational management of the Company is delegated to the Chief Executive Officer (CEO) of the Company. Clive Bolton has been appointed as M&G Life CEO and fulfils this role.

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

Director Appointment - the process to appoint the Chairman is led by the Group Chairman and CEO and any appointment is approved by the Group Nomination Committee. Non-executive Directors are appointed with the approval of the Chairman in consultation with the Group. Executives are appointed by the CEO, in discussion with the Group Chair. The Group Nomination Committee oversees the composition of the Board and reviews all Non-executive Director appointments across the Group.

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

Company Secretary - The Company has appointed M&G Management Services Limited as its corporate secretary. This entity is supported by a number of appropriately qualified and experienced Company Secretaries who are responsible for ensuring that the Manual and the principles and processes contained in it are adhered to.

Terms of Reference - The Board, Audit and Risk Committees have Terms of Reference which are approved by the PAC Board.

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

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

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

Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders please see the Section 172 Statement on pages 6-7. Being a Material Subsidiary of M&G plc, stakeholder engagement also takes place at a Group level. The M&G plc report contains further details of the ongoing engagement with its key stakeholders including colleagues, clients and regulators. The M&G plc report also contains details of the work done with other stakeholders in order to ensure that positive relationships are maintained and to take account of their views and interests, including charity partnerships, suppliers and the communities we operate in.

With-profits governance

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

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

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

Independent Governance Committee

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

Corporate responsibility

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

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

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

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

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

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

The Group's CR strategy and performance is reviewed by M&G's Executive Committee bi-annually.

Post balance sheet events

On 27 February 2024, the Company announced the 2023 annual bonus rates for the with-profits fund, declaring a distribution of £3.5bn. The Company also announced an additional bonus of 1.25% to enhance the unsmoothed value of plans for eligible customers with traditional and accumulating policies. It may be necessary to take back the additional bonus in order to protect the interest of all customers and the strength of the fund at a future date, although this is not expected to happen. For PruFund customers, additional surplus has been shared by increasing the unit price by 0.90%.

On 18 March 2024 the Company approved a final dividend of £333m to be paid to M&G plc. This is not recognised in the 2023 financial statements.

Financial Performance

The state of affairs of the Company at 31 December 2023 is shown in the balance sheet on pages 36 and 37. The profit and loss account appears on pages 32 and 33.

Financial instruments

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

Share Capital

There have been no changes in the Company's share capital during 2023 as shown in note 20.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

Dividends

Dividends totalling £500m were paid in 2023 (2022:£500m).

The board declared a final cash dividend in respect of 2022 of £333m on 7 March 2023; an interim cash dividend of £167m was declared on 11 September 2023.

Directors

The present directors are shown on page 1. Mr C Bolton was appointed on 25 September 2023. Ms C J Bousfield resigned on 30th September 2023. There have been no further changes.

Statement of directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP (PwC) have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

Directors' and officers' protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc group. In addition, the Articles of Association of the Company provide for the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2023 and remain in force.

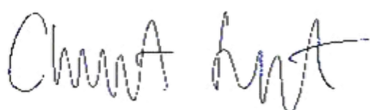
Going concern

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

Streamlined energy and Carbon reporting

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

By order of the Board.



M&G Management Services Limited
Secretary
19 March 2024

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company’s affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2023; Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 11, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

The Prudential Assurance Company Limited ('PAC') transacts long-term insurance business in the United Kingdom. In addition to forming this opinion, in this report we have also provided information on key audit matters we discussed with the Audit Committee, setting out a description of the matter, how we approached the audit in these areas, and our conclusion. In designing our audit, we have considered the impacts that climate change could have on PAC, including physical or transitional risks which could arise. In particular, we have assessed the impacts on financial statements of the commitments related to climate change which the PAC has made.

Overview

Audit scope

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

Key audit matters

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

Materiality

- Overall materiality: £55,000,000 (2022: £52,250,000) which is 10.36% of 3 year average of Adjusted operating profit before tax.
- Performance materiality: £35,750,000 (2022: £33,962,500).

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of hard to value financial investments (level 3)	
Refer to notes 1 (section F, G, H and J), 12, 14, 15 and 28 to the financial statements for disclosures of related accounting policies, valuation methodologies and balances. PAC's financial investments are held to back the long-term business provision and linked liabilities and to meet regulatory capital requirements. Most of the Company's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. The models vary in complexity depending on the nature of the investments. Investments that require the use of significant judgement and inputs that are not market observable have a higher level of inherent estimation uncertainty. These investments are classified as Level 3 in the fair value hierarchy and include: ● Lifetime mortgages; ● Unlisted equity investments; ● Private credit and other illiquid debt securities; and ● Investment property. The valuation of these hard to value financial investments was a key area of focus given the magnitude and the inherent uncertainty involved in the estimation. Changes in estimates could result in material changes in the valuation. **Lifetime mortgages (LTMs)** The valuation of PAC's LTM portfolio is inherently subjective. There are significant unobservable inputs relating to the No Negative Equity Guarantee. The valuation uses an internal discounted cash flow model with assumptions based on the current property value, net property growth rate and the discount rate (including spread assumptions to estimate an illiquidity premium above the risk free discount rate). **Unlisted Equity Investments** Private equity investments are held through funds managed by internal and external fund managers. The investments are valued in line with the requirements of The International Private Equity and Venture Capital Valuation (IPEV) Guidelines. Given their size, the external valuations are an area of focus. Valuations are performed periodically by the fund managers. The investments are included at the most recent Net Asset Value (NAV) provided by the fund manager adjusted for cash movements, where applicable. **Private credit and other illiquid debt** Private credit and other illiquid debt are predominantly valued using discounted cash flow models. A key assumption applied in determining the discount rate used to calculate the fair value of these securities is the credit rating and the associated credit spread. The credit rating is determined by assessing the credit quality of the underlying borrower and assigning an internal credit rating, which is unobservable. The credit spread is then determined by reference to a comparable security or basket of securities. Determining the internal credit rating and the associated comparables requires expert judgement. For residential ground rent assets, the valuation could be impacted by the UK government's Leasehold and Freehold Reform Bill and the associated consultation on potential restrictions to the level of residential ground rents, issued on 9 November 2023.	We performed the following audit procedures to test the valuation of the investments classified as Level 3: • Assessed the design and, where applicable, the operating effectiveness of controls related to the valuation of investments; and • Assessed both the methodology and assumptions used in the calculation of the year end valuation as well as understanding the governance controls that the Company has in place to monitor these processes. For Lifetime mortgages, we: • Applied our industry knowledge and experience (using our actuarial specialists) to assess the appropriateness of the methodology, models and assumptions used against recognised actuarial practices; • Tested data inputs used in the valuation models to underlying documentation on a sample basis; • Evaluated the appropriateness of significant economic assumptions, including the spread applied above the risk free rate, that are used within the valuation process, with reference to market data and industry benchmarks where available; • Evaluated the appropriateness of the mortality and morbidity assumptions used in the valuation, based on available experience data and industry data on expectations of future mortality improvements; and • Performed testing over the model calculation. We placed reliance on the model baselining carried out as part of our first year audit (in 2022), whereby we independently replicated the asset cash flows for a sample of policies in order to validate that the model calculations were operating as intended. There are no changes in the model calculations over 2023. For unlisted equity investments, we: • Assessed the methodology used for the valuation of these investments and whether this is consistent with the International Private Equity and Venture Capital Valuation ('IPEV') guidelines; • Where possible, independently obtained the most recent NAV statements from fund managers and agreed the valuation to underlying books and records; • For a sample, verified any adjustments made for subsequent capital movements; and • For a sample, performed look back testing on the NAV statements provided by fund managers against the equivalent audited financial statements. For private credit and other illiquid debt, we: • Tested inputs into the valuation model to external sources, where possible, and contractual data; • Engaged our valuation experts to assess the appropriateness of the methodology used to determine internal credit ratings; • For a sample, assessed the application of the internal credit rating methodology, including challenging the assumptions used in setting the internal credit rating • For a sample of investments, reperformed the valuation using our independently selected internal credit ratings and comparables; • Where a management expert has been used to corroborate management's Level 3 valuations, we have assessed their expertise and objectivity and the valuation methodology, including considering any variances identified; and • Assessed the impact of our findings on credit ratings and valuation on the portfolio of private placement loans.

Key audit matter	How our audit addressed the key audit matter
Investment Property PAC holds property (directly and indirectly) within the UK, Europe and Asia. The valuation of the property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. There is continued uncertainty facing the real estate sector as a result of the current economic environment and the impact of climate change. Valuations are carried out by third party valuers engaged by the Company, who perform their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards or equivalent local standards. The valuations take into account the property-specific information including the current tenancy agreements and rental income, condition and location of the property, and future rental prospects, as well as prevailing market yields and market transactions.	In response to the recent Leasehold and Freehold Reform Bill and the associated consultation on potential restrictions to the level of residential ground rents, we have: • Assessed the appropriateness of the judgements made in determining the impact of the consultation on the valuation of the loans secured on residential ground rent assets; • Assessed the consideration given to a range of likely outcomes of the consultation and subsequent changes in legislation; • Challenged management on the changes in credit ratings and the associated credit spreads applied; and • Challenged the associated disclosure given the inherent uncertainty resulting from the consultation. For Investment property, we: • Engaged our own valuation experts (who are qualified chartered surveyors with relevant market knowledge) to support us in our audit of the property valuations; • Assessed the expertise and objectivity of the third party valuers engaged by the Company; • Obtained and read the external valuation reports and held separate meetings with the third party valuers to discuss the key assumptions; • To verify that the valuation approach was suitable for use in determining the carrying value for investment properties in the financial statements, we: ◦ Confirmed that the valuation approach was in accordance with RICS standards; ◦ Performed sample testing on the standing data in the Company's information systems used in the valuation process to verify the accuracy of the property information supplied to the third party valuers; ◦ Obtained valuation details of properties held by the Company and set an expected range for yield and capital value movement, determined by reference to published benchmarks and using our experience and knowledge of the market; ◦ Compared the investment yields used by the third party valuers with our expected range of yields and the year on year capital movement to our expected range. Where key assumptions were outside the expected range or otherwise appeared unusual, and/or valuations showed unexpected movements, we undertook further investigations; ◦ Assessed the reasonableness of other assumptions that are not readily comparable with published benchmarks; ◦ Challenged the third party valuers on the extent to which the valuations have taken into account the impact of climate change and related ESG considerations; and ◦ For properties under development valued using the residual valuation method, obtained the development appraisal and assessed the reasonableness of the third party valuers key assumptions. This included comparing the yield to comparable market benchmarks, comparing the estimated costs to complete to development plans and contracts, and considering the reasonableness of other assumptions that are not so readily comparable with published benchmarks, such as estimated rental value and developers' profit. For all asset classes we assessed the adequacy of the disclosures in the financial statements. Based on the work performed and the evidence obtained, we consider the valuations for hard to value assets to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit obligation and level 3 plan assets	
Refer to notes 1 (section K) and 9 to the financial statements for disclosures of related accounting policies and balances. The Company has two key defined benefit schemes, Prudential Staff Pension Scheme and Scottish Amicable Staff Pension Scheme, which are closed to new entrants. The schemes are run by Trustees on behalf of the beneficiaries. The defined benefit surplus presented is the net of the defined benefit obligation, the scheme plan assets and a restriction on the surplus. The key areas of focus are the valuation of the defined benefit obligations and the valuation of level 3 plan assets which are complex and judgemental. The valuation of the defined benefit obligations ("DBO") is performed by third party actuaries with key assumptions initially set based on market data and scheme specific analysis and reassessed annually by management. The estimate of the DBO is dependent on a number of assumptions, including the discount rate, inflation rate and mortality rates. Small changes in these assumptions can have a material impact on the valuation due to the size and the duration of the pension obligations. Management performs a review of the DBO valuation methodology and assumptions each year with the assistance of external experts. During the year there were no changes to mortality base tables. The financial methodologies were updated and longevity improvements updated based on annuity book data. The valuation of complex plan assets includes a longevity swap and illiquid private credit assets. The valuation of the illiquid private credit assets was assessed along with similar assets described in the 'Valuation of hard to value financial investments' key audit matter above. The valuation of the longevity swap has been performed by an external expert. Under IFRS 13 Fair Value Measurement, the longevity swap has been valued by assuming the swap had nil value at outset and applying a fee loading to the floating leg of the swap. The financial assumptions, including discount rate and inflation rate, are updated in line with market conditions at the reporting date. Other assumptions, such as mortality and the fee collateral have been set in line with the assumptions set out in the longevity swap contract. The surplus in the Prudential Staff Pension Scheme that is recognised is limited to the amount which is recoverable through reduced future contributions.	For the pension schemes, we have: • Understood and evaluated the design effectiveness of key controls in place in respect of the DBO; • Reviewed management expert's FRS 102 Section 28 report and challenged the methods adopted to determine the valuation of the obligations. • Engaged our actuarial specialists to evaluate the judgements made by management in determining the key financial and mortality assumptions used in the calculation of the liability; • Assessed the reasonableness of the methodologies and assumptions adopted using our knowledge of market practice and industry developments, including use of benchmarks and external market data. We also used sensitivity analysis to determine the impact of alternative assumptions; • Evaluated the objectivity and competence of management's actuarial expert; and • Reperformed calculations of pension liabilities and compared these with the expert's calculations. For the valuation of the level 3 plan assets, our work focused on: – For the illiquid private credit assets, we assessed the methods and assumptions used to value the assets (as set out above); – For the longevity swap, we reviewed the assumptions used to calculate the collateral value of the longevity swap and assessed the magnitude of the change in value of the longevity swap since the previous year end. For the surplus recognised in the schemes, we recalculated the available surplus in the PSPS scheme. We read and assessed the disclosures made in the financial statements, including disclosure of the assumptions. Based on the evidence obtained, we found the valuation of the Scheme's defined benefit obligations and hard to value plan assets to be appropriate.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of the long term business provision and technical provisions for linked liabilities: Annuitant mortality (Longevity)

Refer to notes 1 (section C), 26 and 28 to the financial statements for disclosures of related accounting policies and balances.

Annuitant mortality (longevity) assumptions are an area of significant management judgement, due to the inherent uncertainty involved. We consider these assumptions underpinning the long term business provision and technical provisions for linked liabilities to be a key audit matter given the Company’s exposure to a large volume of annuity business. The annuitant mortality assumption has two main components as set out below and a margin for prudence is then applied to these components.
(i) Base mortality assumptions: This component of the assumption is mainly driven by internal experience analyses. It requires expert judgement that includes determining the most appropriate level at which to carry out the analysis; the period used for historic experience (considering COVID-19 in recent periods); the choice of base table/ rates; and adjustments made within the process of fitting rates to past experience using management’s Prudential Retirement Mortality (PRM) model.

(ii) Rate of future mortality improvements: This component of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of internal experience data, with additional uncertainty around the longer term impact of COVID-19 and other trends in the UK on future mortality rates. The areas of judgement also include the selection of the mortality projection model, its calibration as well as re-expressing this in terms of the Continuous Mortality Investigation (CMI) Bureau industry standard model.

In addition, a margin for prudence is applied as required by the relevant accounting standard.</td><td>We have performed the following procedures:
• Understood and evaluated the design effectiveness of key controls in place in respect of the longevity assumptions to value the long term business provision and technical provisions for linked liabilities;
• Assessed the appropriateness of the methodology for analysing experience and setting assumptions for longevity with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience;
• Tested the design and operation of the controls in place to validate the assumptions and data used in the experience calculations and model calibration, including the accuracy of the PRM model used to calculate actual and expected deaths;
• Examined the results of management's experience analysis and the resulting base mortality rates;
• Assessed the appropriateness of areas of expert judgement used in the future mortality improvements and the consistency of these with observed experience from the Company’s annuity portfolio and market data;
• Tested and challenged significant judgements in determining the longevity assumptions, including assessing the implications of COVID-19; and other mortality trends in the UK;
• Tested the re-expression of the projection basis in terms of CMI models and their parameterisation;
• Compared the longevity assumptions selected by management against those used by peers using our annual benchmarking survey of the market;
• Assessed the margin for prudence including benchmarking to peer companies, consistency over time and checking that this has been correctly applied to the assumptions;
• Examined management’s calculation of the financial impacts of changes to the longevity assumptions , to ensure that these are in line with our expectations; and
• Assessed the disclosure of the longevity assumptions and the commentary to support the impact of any changes in 2023 financial statements.

Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.</td></tr>
<tr><td>Valuation of long term business provision and technical provisions for linked liabilities: Credit default allowance

Refer to notes 1 (section C), 26 and 28 to the financial statements for disclosures of related accounting policies and balances.

The valuation interest rate is the discount rate derived from the yield on the assets backing the annuity long term business provision and technical provisions in linked liabilities. It is used in calculating the present value of annuity benefit and other policyholder payments. The discount rate includes an explicit deduction to the yield on the assets for credit default risk.

The credit default risk assumptions are set based on the credit rating of the assets backing the liabilities and consist of various components. The components include:
- A mechanical long-term allowance for expected defaults and downgrades (based on historical data);
- A credit risk premium (or margin for prudence); and
- A short-term overlay reflecting a prospective outlook on future potential experience.

Significant management judgement is required to set the internal credit ratings for illiquid level 3 assets (such as private credit assets and Lifetime Mortgages). Once the credit rating has been established there is further judgement in selecting the short-term overlay to allow for risks not captured in the long-term credit default allowance.</td><td>Using our actuarial specialists, we have performed the following procedures:
• Understood and evaluated the design effectiveness of key controls in place in respect of the credit default assumptions to value the long term business provision and technical provisions for linked liabilities;
• Assessed the methodology used to derive the credit default assumptions (including margin for prudence) with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience;
• Obtained an understanding and challenged management over the analysis performed to assess internal credit ratings for illiquid assets, such as Lifetime Mortgages. Tested the approach, the ratings ascribed and the resulting default allowances;
• Tested to ensure that the inputs and calculations for the internal credit ratings to derive of credit default allowance were in line with intended methodology and are appropriate;
• Tested and challenged key management judgements including the short-term overlay, referencing industry data, market benchmark where available and our industry knowledge. In particular, consideration has been given to the appropriateness of management’s proposals in the context of the current economic climate;
• Tested and challenged the judgements in allowing for the potential impact on the short-term overlay assumption from the recent Leasehold and Freehold Reform Bill and the associated consultation on potential restrictions to the level of residential ground rents.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Changes to the valuation and internal credit rating of residential ground rent assets (see 'Valuation of hard to value assets' above) that back annuity liabilities will impact the credit default assumptions. The credit default assumptions involve complex and subjective judgements about future default and downgrade events which have a significant impact on the long term business provision and technical provisions for linked liabilities, with small changes having a large financial impact, and hence this is a key audit matter.	• Assessed the appropriateness of the margin for prudence and its consistency over time; • Examined management's calculation of the financial impact of changes to the credit default assumptions on the provision, to ensure that these are in line with our expectations; and • Assessed the disclosure of the credit default risk assumptions and the commentary to support the impact of any changes in the 2023 financial statements. Based on the work performed and the evidence obtained, we consider the assumptions used for credit default risk to be appropriate.

Valuation of the long term business provision and technical provisions for linked liabilities: Renewal expenses
Refer to notes 1 (section C), 26 and 28 to the financial statements for disclosures of related accounting policies and balances.
 	
Future maintenance expenses and expense inflation assumptions (or collectively the renewal expenses assumptions) are used in the future cash flows to value the long term business provision and technical provisions for linked liabilities. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date, including an allowance for unavoidable project costs and a margin for prudence.
 	
Significant judgement is required to estimate the maintenance costs through the use of a cost allocation model and the allocation of costs to cost centres; identification of non-attributable costs; removal of one-off costs; the allocation between fixed and variable costs; identification of any future costs and short term allowances.
 	
Unit costs are then set by product, based on the maintenance expenses and the current number of policies in force.
 	
In addition, when calculating the long term business provision and technical provisions for linked liabilities, an assumption is also needed to reflect how these costs will change in future as a result of inflation rates. This assumption is set with reference to industry and market data; and management's view of how their cost base will inflate in future and includes a margin for prudence.
 	
The projection of these costs forward over the duration of the policies means that small changes in unit cost can lead to significant changes in the estimated provision. Due to this, and the management judgement involved, we have noted this as a key audit matter.
	Using our actuarial specialists, we have performed the following procedures:
	
	• Understood and evaluated the design effectiveness of key controls in place in respect of the renewal expense assumptions in the valuation of long term business provision and technical provisions for linked liabilities;
	• Examined and assessed the methodology applied in the cost model, choice of approach and cost drivers to confirm that these are reasonable and supportable.
	• Tested the input data used in the cost allocation model, including the completeness and accuracy of the total cost base and allocation of expenses to the appropriate cost centres;
	• Compared the allocations in the cost allocation model to prior year and understood the rationale for changes;
	• Assessed the methodology used by management to derive the assumptions with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience;
	• Assessed and challenged the appropriateness of significant judgements in application of the methodology, including:
	  ◦ Excluded costs (for example, costs neither related to the insurance business nor being non-recurring in nature);
	  ◦ The split of expenses between acquisition and maintenance expenses;
	  ◦ The allocation of costs to products;
	  ◦ The allowance for recurring project costs,
	  ◦ The projection of fixed costs;
	  ◦ Allowances for cost savings (to the extent permissible); and,
	  ◦ Assumptions about outsourcing costs beyond current contracts.
	• Tested the calculation of any components of the renewal expense assumptions that are not based on the cost allocation model (for example, short term expense allowances), by performing a combination of controls and substantive testing;
	• Assessed the appropriateness of the prudence margin and its consistency over time;
	• Tested the assumption derived for expense inflation by assessing the use of industry data, current economic conditions and challenged the judgements used within the calculations to ensure that they are reasonable;
	• Examined management's calculation of the financial impact of changes to the renewal expense assumptions, to ensure that these are in line with our expectations; and
	• Assessed the disclosure of the renewal expense assumptions and the commentary to support the impact from any changes for 2023 reporting in the financial statements.
	
	Based on the work performed and the evidence obtained, we consider the assumptions used for renewal expenses to be appropriate

Key audit matter	How our audit addressed the key audit matter
Valuation of investment in group undertakings and participating interests Refer to notes 1 (section F) and 13 to the financial statements for disclosures of related accounting policies and balances. The Company's investment in group undertakings and participating interest consists of both investments in direct subsidiaries, such as Prudential International Assurance and Prudential Pensions Limited, as well as investments in funds. The investments in group undertakings and participating interests are held at fair value. Investments held in direct subsidiaries are complex to value as the entities held are unlisted and therefore the methodology applied and the calibration of the valuation requires the use of significant judgements and assumptions or inputs that are not observable in the market. Management models fair value for the insurance subsidiaries using their Solvency II Own Funds and own funds multiples observed in the market and recent acquisition activity, where they are available. The fair value of the insurance subsidiaries was a key area of focus given the magnitude and the inherent uncertainty involved in the estimation. Changes in estimates could result in material changes in the valuation.	Using our actuarial specialists and experts, we have performed the following audit procedures: For investments in underlying insurance companies,we have considered whether the use of Solvency II Own Funds is an appropriate proxy for fair value considering the Group's policies for fair value of insurance business and the multiples observed in recent acquisition activity in the market by performing the following procedures: • We have considered whether there are any material adjustments that would be expected to Solvency II Own Funds to provide a fair value considering the nature of the subsidiary undertakings and the business. • In particular, we have assessed whether the Solvency II Risk Margin would represent a reasonable basis for the allowance for risk that would be required under a fair value and the consistency of this with the Group's fair value policies. • We have considered the appropriateness of the 100% multiple used in the valuation of the investment in group undertakings balance. • We performed look back testing on the Solvency II Own Funds value used in the prior year against the equivalent audited values to ensure they are materially consistent. Based upon the results of our testing we are satisfied that the fair value of the investment in subsidiary balance materially meets the definition of fair value in accordance with Section 2 of FRS 102 Appendix 2.

How we tailored the audit scope

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

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

The impact of climate risk on our audit

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

Materiality

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

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

Overall company materiality	£55,000,000 (2022: £52,250,000).
Materiality benchmark	10.36% of 3 year average of Adjusted operating profit before tax.
How we determined it	In determining our materiality, we have considered financial metrics and benchmarks which we believe to be relevant to the primary users of the Company financial statements. Due to the disparate size of the Profit and Loss Account and Balance Sheet, the materiality amount was selected judgmentally by the audit team having considered a range of relevant benchmarks including Adjusted Operating Profit, Profit before tax, Operational Capital Generation, Total assets, and Solvency II own funds. A materiality amount was selected judgementally and expressed as a percentage of Adjusted operating profit before tax, as an appropriate benchmark for materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 65% (2022: 65%) of overall materiality, amounting to £35,750,000 (2022: £33,962,500) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,475,000 (2022: £2,350,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK regulatory principles, such as those governed by the Prudential Regulation Authority (PRA)and

the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgmental areas of the financial statements as shown in our 'Key audit matters' and journals. Audit procedures performed by the engagement team included:

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 25 May 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2022 to 31 December 2023.

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 March 2024

Profit and Loss Account for the year ended 31 December 2023

Long-term Business Technical Account

		2023 £m	2022 Restated £m	Note
Gross premiums written		**7,746**	6,309	2
Outward reinsurance premiums		**(445)**	(455)	
Earned premiums, net of reinsurance		**7,301**	5,854	
Investment income		**7,278**	5,968	3
Unrealised (losses) / gains on investments		**(48)**	(18,428)	
Other income		**17**	—	
Claims paid				
	Gross amount	**(12,749)**	(12,030)	
	Reinsurers' share	**447**	481	
Claims paid, net of reinsurance		**(12,302)**	(11,549)	
Change in provision for claims				
	Gross amount	**(91)**	(85)	
	Reinsurers' share	**—**	(2)	
Claims incurred, net of reinsurance		**(12,393)**	(11,636)	
Change in long-term business provision				
	Gross amount	**115**	13,873	
	Reinsurers' share	**18**	(415)	
		133	13,458	
Change in technical provision for linked liabilities, net of reinsurance		**(533)**	3,232	
Change in other technical provisions, net of reinsurance		**(400)**	16,690	
Net operating expenses		**(749)**	(674)	5
Investment expenses and charges		**(283)**	(360)	6
Tax attributable to the long-term business		**(367)**	684	7
Transfer (to) / from the fund for future appropriations		**(62)**	2,051	
Balance on the long-term business technical account		**294**	149	

The accounting policies on pages 38 to 48 along with the accompanying notes on pages 48 to 113 form an integral part of the financial statements.

Profit and Loss Account for the year ended 31 December 2023 (continued)

Non-Technical Account	**2023**	2022 Restated	Note
	£m	£m	
Balance on the long-term business technical account	**294**	149	
Tax credit/(charge) attributable to the balance on the long-term business technical account	**118**	(192)	7
Balance on the long-term business technical account before tax	**412**	(43)	
Investment income	**(371)**	(236)	3
Unrealised gains/(losses) on investments	**336**	(1,570)	
Other income	**16**	10	
Other charges	**(3)**	(22)	
Total profit/(loss) on other activities	**(22)**	(1,818)	
Profit/(loss) on ordinary activities before tax	**390**	(1,861)	
Tax on profit/(loss) on ordinary activities	**(101)**	448	7
Profit/(loss) for the financial year	**289**	(1,413)	

Refer to note 1 (B) for further details on restatements for the year ended 31 December 2022.

The accounting policies on pages 38 to 48 along with the accompanying notes on pages 48 to 113 form an integral part of the financial statements.

Note: General Business Technical Account

The Company no longer underwrites new non-life insurance contracts directly and its run-off obligations have been reinsured. As such the non-life business is no longer material enough to require the presentation of a technical underwriting account.

Statement of Comprehensive Income for the year ended 31 December 2023

	2023	2022	Note
	£m	£m	
Profit/(Loss) for the financial year	**289**	(1,413)	
Other comprehensive income/(expense):			
Actuarial (losses)/gains on defined benefit pension schemes	**(41)**	23	9
Deferred tax charge/(credit)	**10**	(6)	
Transfer from/(to) the fund for future appropriations	**12**	1	
Total other comprehensive (expense)/income for the financial year, net of income tax	**(19)**	18	
Total comprehensive income/(expense) for the financial year	**270**	(1,395)	

The accounting policies on pages 38 to 48 along with the accompanying notes on pages 48 to 113 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 December 2023

	Share Capital	Other reserves*	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 January 2022	330	536	3,812	4,678
Loss for the financial year	—	—	(1,413)	(1,413)
Other comprehensive income for the financial year	—	—	18	18
Total comprehensive expense for the financial year	—	—	(1,395)	(1,395)
Dividends	—	—	(500)	(500)
Total distribution to owners, recognised directly in equity	—	—	(500)	(500)
Balance as at 31 December 2022	**330**	**536**	**1,917**	**2,783**
Balance as at 1 January 2023	330	536	1,917	2,783
Profit for the financial year	—	—	289	289
Other comprehensive expense for the financial year	—	—	(19)	(19)
Total comprehensive income for the financial year	—	—	270	270
Dividends	—	—	(500)	(500)
Total distribution to owners, recognised directly in equity	—	—	(500)	(500)
Other movements	—	—	2	2
Balance as at 31 December 2023	**330**	**536**	**1,689**	**2,555**

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

Balance sheet as at 31 December 2023

Assets	2023	2022 Restated	Note
	£m	£m	
Investments			
Land and buildings	**6,214**	6,756	12
Investments in group undertakings and participating interests	**4,628**	6,181	13
Other financial investments	**132,490**	132,848	14
	143,332	145,785	
Assets held to cover linked liabilities	**10,973**	10,567	15
Reinsurers' share of technical provisions			
Long-term business provision	**798**	780	
Claims outstanding	**64**	122	
Technical provisions for linked liabilities	**5,330**	5,062	
	6,192	5,964	16
Debtors			
Debtors arising out of direct insurance operations			
Policyholders	**27**	20	
Debtors arising out of reinsurance operations	**14**	25	
Deferred tax asset	**436**	453	7
Other debtors	**397**	556	17
	874	1,054	
Other assets			
Cash at bank and in hand	**829**	875	18
Finance lease assets	**42**	42	12
Pension asset	**13**	23	9
	884	940	
Prepayments and accrued income			
Accrued interest and rent	**532**	510	
Deferred acquisition costs: long-term business	**5**	9	
Accrued external dividends receivable	**14**	11	
Other prepayments and accrued income	**172**	158	
	723	688	
Total Assets	**162,978**	164,998	

Balance sheet as at 31 December 2023 (continued)

Equity and Liabilities	**2023**	2022 Restated	Note
	£m	£m	
Capital and reserves			
Share capital	**330**	330	20
Other reserves	**536**	536	
Profit and loss account	**1,689**	1,917	
Shareholders' funds – equity interests	**2,555**	2,783	2
Fund for future appropriations	**14,927**	14,877	26
Technical provisions			
Long-term business provision	**119,243**	118,967	26
Claims outstanding	**942**	919	8
Unearned revenue provision	**1**	3	
Total technical provisions	**120,186**	119,889	
Technical provisions for linked liabilities	**16,303**	15,630	26
Provisions for other risks and charges			
Deferred taxation	**345**	465	7
Obligations under finance leases	**9**	10	
Other provisions	**6**	27	21
	360	502	
Deposits received from reinsurers	**111**	146	
Creditors			
Creditors arising out of direct insurance operations	**101**	103	
Creditors arising out of reinsurance operations	**196**	177	
Amounts owed to credit institutions	**7,031**	9,740	22
Other creditors including taxation and social security	**1,062**	1,008	23
	8,390	11,028	
Accruals and deferred income	**146**	143	
Total Equity and Liabilities	**162,978**	164,998	

Refer to note 1 (B) for further details on restatements for the year ended 31 December 2022.

The accounting policies on pages 38 to 48 along with the accompanying notes on pages 48 to 113 form an integral part of the financial statements.

The financial statements on pages 32 to 113 were approved by the Board of directors on 18 March 2024 and were signed on its behalf by:

S Horgan
Director
19 March 2024

Registered No: 15454

Notes on the financial statements

1. Accounting policies

A. Company Information

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

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

B. Basis of Preparation

The financial statements are prepared in accordance with Part 15 of the Companies Act 2006 (the Act) and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations). The financial statements are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and Financial Reporting Standard 103, Insurance Contracts (FRS 103), and have been prepared under the historical cost accounting rules, modified by the recognition of certain financial assets and liabilities measured at fair value.

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

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

- Cashflow Statement and related notes;
- Key Management Personnel Compensation; and
- Related party transactions with wholly owned subsidiary undertakings of the M&G plc group.

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

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

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

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The tables below set out the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

Notes on the financial statements (continued)

Critical accounting judgements

Financial statement area	Key judgement	Accounting policy
Classification of insurance and investment contracts	FRS 103 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Company transfer significant insurance risk. Judgement is also required in the case of certain contracts, both investment and insurance, which provide an additional benefit over and above the guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features.	C
Recognition of deferred tax asset	FRS 102 requires deferred tax asset to be recognised to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. Judgement is required to determine the extent to which future taxable profits emerge.	I

Sources of estimation uncertainty

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Long-term business provision	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. For policyholder annuity liabilities, the areas where the assumptions could have a material impact are the assumed rates of policyholder mortality, maintenance expenses and the valuation rate of interest. For policyholder liabilities other than annuities, determining the allowance for persistency and maintenance expenses are areas where the assumptions could have a material impact.	C	26
Equity securities and pooled investment funds, investment property and loans	The fair value of financial assets classified as level 3 in the fair value hierarchy are determined based on inputs which are not directly observable in the market requiring a high degree of estimation which could result in a significant change to the valuation. This includes the determination of the spread above risk free rate applied to value residential ground rents that are impacted by the recent UK Government consultation which potentially restricts future income on these assets.	F	28
Defined benefit pension schemes asset/liability	The valuation of defined benefit pension scheme liability (resulting in either a surplus or deficit on the scheme) is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long-term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	K	9

Going Concern

The directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of approval of these financial statements and thus continue to adopt the going concern basis of accounting. This conclusion has been based upon the following:

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

- The Company has a satisfactory capital surplus, generates positive liquidity from its shareholder business, and has very low debt-financing. Consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report on pages 2 to 14. The management of financial risk is set out in note 28, including the Company's exposure to credit risk and liquidity risk which it carefully manages through cash flow forecasting and fund management.

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

- In addition, we assessed the strength of our solvency position to withstand any potential legislative change that may result in the value of the residential ground rent portfolio falling to close to nil as a result of the Government implementing the 'peppercorn cap' described in the Department for Levelling up, Housing and Communities' recent consultation on residential ground rents. This is explained further in note 28, page 86.

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

Restatements to prior year

The Company has chosen to adopt IFRS 9 to align with the Group (see note 1 F). The Company has applied IFRS 9 retrospectively and restated comparative information for the year ended 31 December 2022. The adoption of IFRS 9 for PAC has changed the classification and measurement of the loans portfolio to Fair Value Through Profit and Loss (FVTPL) rather than amortised cost under IAS 39.

The Company has chosen to reclassify certain Prufund contracts which are sold via wholesale distribution agreements with certain European financial institutions from investments with discretionary participation features (dpf) to investment contracts without dpf. The Company now judges that the contracts do not have sufficient discretionary participation features (per the Company's classification criteria) as a result of cancellation rights included in the contracts. These contracts are measured at fair value through profit and loss under IFRS 9. The carrying value of these liabilities as at 31 December 2023 is £261m (2022: £127m). The comparative information for the year ended 31 December 2022 has been restated accordingly.

The following table sets out the changes to the financial statements.

Notes on the financial statements (continued)

Financial statement item	Previously reported for year ended 31st December 2022	Adjustment for IFRS 9 Adoption	Adjustment for reclassification of investment contracts with to without dpf	Restated balance for year ended 31st December 2022
Profit & Loss	£m	£m	£m	£m
Gross premiums written	6,440		(131)	6,309
Unrealised (losses)/gains on investments	(18,341)	(91)	4	(18,428)
Claims paid - gross amount	(12,033)		3	(12,030)
Change in long-term business provision - gross	13,712	39	122	13,873
Change in technical provision for linked liabilities	3,230		2	3,232
Transfer from/(to) fund for future appropriations	1,999	52		2,051
Balance sheet				
Other financial investments	133,066	(91)	(127)	132,848
Assets held to cover linked liabilities	10,440		127	10,567
Fund for future appropriations	14,929	(52)		14,877
Long-term business provision	119,133	(39)	(127)	118,967
Technical provisions for linked liabilities	15,503		127	15,630

C. Long-term Business

i. *Classification of insurance and investment contracts*

The measurement basis of long-term business contract liabilities is dependent upon the classification of the contracts under FRS 103 as either insurance contracts (if the level of insurance risk is significant), or investment contracts (if the risk is insignificant). Judgement is applied in assessing whether the features of a contract gives rise to the transfer of significant insurance risk. This assessment is based on if there is at least one scenario where the amounts that could be payable under the contract represent 10% or more than the amounts payable if the insured event does not occur. This judgement is made at inception and is not revisited.

A further distinction is made between investment contracts with and without discretionary participation features. Discretionary participation features (DPF) represent the contractual right to receive additional profit-sharing benefits as a supplement to guaranteed benefits that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance.The additional discretionary benefits are significant when they are expected to be at least 5% of the total contractual benefits. This judgement is made at inception and is not revisited.

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

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

Investment contracts without DPF include certain unit-linked and similar contracts written by the Company. Certain PruFund contracts which are sold via wholesale distribution agreements with certain European financial institutions and that are not considered to have sufficient discretionary participation features are also included in investment contract liabilities without DPF.

Insurance contracts and investment contracts with DPF are accounted for under FRS 103. Investment contracts without DPF are accounted for as financial liabilities under FRS 102.12 *Other Financial Instruments* and, where relevant, the provisions of FRS 102.23 *Revenue* in respect of the attaching investment management features of the contracts.

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

The provisions for investment contracts without DPF and index-linked annuities are included in Technical Provisions for Linked Liabilities in the balance sheet.

ii. *Technical account treatment*

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

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

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

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

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

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

iii. *Measurement of long-term business provisions and technical provisions for linked liabilities*

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

Valuation of the With-Profits Fund's liabilities

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

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

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

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

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

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

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

The FPRL includes a market consistent valuation of the costs of guarantees, options and smoothing. This is determined using stochastic modelling. In line with FRS 103 requirements, the non-profit annuities business within the With-Profits Fund is valued on the statutory basis, i.e. including margins for adverse deviations (as set out in "Valuation of annuity contracts"). The with-profits liabilities are valued on a realistic basis and therefore allow for future enhancements to the policyholders. Following this approach unadjusted would lead to an inconsistency in the net assets, as such, the present value of future profits from the relevant non-profit annuities is applied as an adjustment to the with-profits liabilities. Annually, when the enhancements to asset shares are committed to, the value of the enhancements is transferred from the FFA of the With-Profits Fund to with-profits liabilities. For the former SAIF business, the realistic liability calculation includes the value of the liability for the Final Relevant Policies Enhancement (FRPE), which is a percentage uplift to SAIF with-profits policies, applied at point of claim. The FRPE was calculated at the point SAIF merged with the with-profits sub fund (WPSF), in order to fully distribute the remaining surplus assets in SAIF back to its with-profits policyholders.

Valuation of annuity contracts and other long-term business

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

Valuation of unit-linked contracts

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

Investment contracts without discretionary participation features

Investment contracts without DPF, such as unit-linked savings and similar contracts, are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and recognised directly on the statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a

fair value basis. For unit-linked contracts, the fair value of the liability is equal to the unit value obligation. The Company incurs various incremental, directly attributable acquisition costs relating to the investment management element of these contracts which are capitalised and amortised in line with the related revenue. If the contracts involve upfront charges, this income is also deferred and amortised through the income statement, as the service is provided in accordance with FRS102.

D. General Business

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

E. Reinsurance

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

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

F. Investments

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

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

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

The Company has chosen to account for its financial instruments in accordance with FRS 102.11.2(c) which applies the recognition and measurement provisions of IFRS 9 with the disclosure requirements of FRS 102.11 and FRS 102.12 *Other Financial Instruments* (FRS 102.12). The Company has chosen to replace IAS 39 with IFRS 9 to align with the Group. The Company has applied IFRS 9 retrospectively and restated comparative information for the year ended 31 December 2022.

Upon initial recognition financial investments are recognised at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, fair value through other comprehensive income or amortised cost. The Company does not hold any assets measured at fair value through other comprehensive income. The Company holds financial investments on the following bases:

(i) Financial investments at fair value through profit and loss - this comprises assets designated by management as fair value through profit or loss on inception and derivatives. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account. The Company uses bid prices to value its quoted financial investments. Actively traded investments without

quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cashflow model. Further information on valuation techniques is provided in note 28 (A).

(ii) Amortised cost - these comprise investments that have fixed or determinable payments and are not designated as fair value through profit or loss. These investments include deposits and other receivables. These investments are carried at amortised cost using the effective interest method and are subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cashflows discounted at the original effective interest rate. If, in subsequent periods, an impaired receivable recovers in value (in part or in full), and this recovery can be objectively related to an event occurring after the impairment, then the previously recognised impairment loss is reversed through the income statement (in part or in full). Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised.

Equity release mortgage loans of the Company have been designated at fair value through profit or loss as this loan portfolio is managed and evaluated on a fair value basis and these are included within loans in the balance sheet. The Company accounts for the equity release outstanding mortgage loans as financial assets designated at FVTPL on the statement of financial position and the value of the no negative equity guarantee (NNEG) is included in determining the overall fair value of the loans. The existence of the NNEG is not sufficient for the equity release mortgage loans to transfer significant insurance risk to the Company, and therefore the equity release mortgages are not considered an insurance contract.

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

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

Properties are carried at fair value, with changes in fair value included in the profit and loss account in accordance with FRS 102.16 *Investment Property* (FRS 102.16). Properties are valued annually, by a number of different professional external valuers using the Royal Institution of Chartered Surveyors valuation standards. On disposal of an investment property, the difference between the net proceeds received and the carrying amount is recognised in the income statement.

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

Leases of investment property where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). The finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Finance leases are subsequently measured at fair value. Where the Company is a lessor a finance lease asset equal to the net investment in the lease, is presented on the face of the balance sheet. This represents the Company's gross investment in the lease (minimum lease payments receivable and any unguaranteed residual value accruing) discounted by the interest rate implicit in the lease.

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

G. Financial Liabilities

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

The Company holds financial liabilities on the following bases:

(i) Financial liabilities at fair value through profit or loss - these comprise derivatives, investment contracts without DPF and certain creditors. Derivative liabilities and certain creditors are valued at fair value with all changes thereon being recognised in the profit and loss account. The accounting policy for investment contracts without DPF is described at section C above.
(ii) Financial liabilities that are not valued at fair value through profit or loss and are not investment contracts with DPF are mainly creditors shown at settlement value.
(iii) Investment contracts with DPF. The accounting policy is covered at section C above.

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

H. Securities lending and reverse repurchase agreements

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

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

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

I. Tax

Tax on the profit or loss for the year comprises current and deferred tax. The UK HM Revenue & Customs rules for taxing long-term business are significantly different to those applying to non-insurance companies and the different classes of business written by the Company are themselves subject to distinct rules.

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

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

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

The total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Company considers that it is probable that the taxation authority will accept those positions. Otherwise, the Company considers an uncertain tax position to exist and

a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management's judgement and estimate of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management's judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and they have full knowledge of all related information. The judgments and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgments.

J. Foreign Currency

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

K. Defined benefit pension schemes

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

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

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

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

L. Dividend Policy

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

M. Cash at bank and in hand

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

Notes on the financial statements (continued)

N. Provisions and contingencies

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

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

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

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

2. Segmental Analysis

(a) Long-term business

Premiums and profit

	Gross premiums written		Balance on the long-term technical account before tax	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
United Kingdom	**7,092**	5,760	**412**	(43)
Europe*	**654**	549	**—**	—
	7,746	6,309	**412**	(43)

New business

	Regular premiums		Single premiums	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
United Kingdom	**167**	129	**7,729**	6,411
Europe*	**16**	10	**721**	739
	183	139	**8,450**	7,150

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

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

Notes on the financial statements (continued)

Analysis of premium income	**2023** **£m**	2022 £m
Gross written premiums:-		
Direct	**7,093**	5,629
Reinsurance accepted	**653**	680
	7,746	6,309
Analysis of gross direct premiums:-		
Individual business	**5,945**	5,224
Group contracts	**1,148**	405
	7,093	5,629
Regular premiums	**611**	685
Single premiums	**6,482**	4,944
	7,093	5,629
Participating contracts	**6,034**	5,137
Non-participating contracts	**1,059**	115
Linked long-term contracts (excluding investment contracts without discretionary participation features)	**—**	377
	7,093	5,629

Direct premiums were written solely in the United Kingdom. The geographical analyses of long-term premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different. Reinsurance accepted is mainly from PIA .

(b) Shareholders' funds

All shareholders' funds of £2,555m relate to the United Kingdom (2022: £2,783m).

3. Investment income

	Long-term business		**Non-technical account**	
	2023 **£m**	2022 £m	**2023** **£m**	2022 £m
Income from:				
Group undertakings	**1,432**	261	**—**	(3)
Other investments				
Land and buildings	**442**	408	**—**	—
Other investments	**4,226**	3,938	**(21)**	89
	6,100	4,607	**(21)**	86
(Losses)/gains on loans and receivables	**(171)**	(22)	**—**	—
Gains/(losses) on the realisation of investments at fair value through profit and loss other than derivatives	**18**	3,031	**(143)**	15
Gains/(losses) on the realisation of derivatives – see note 28	**1,288**	(2,204)	**(208)**	(337)
Exchange gains/(losses)	**17**	525	**1**	—
Fees for policy administration and asset management services arising from unit-linked investment contracts	**26**	31	**—**	—
	7,278	5,968	**(371)**	(236)

Notes on the financial statements (continued)

Income of £6,100m (2022: £4,607m) is from assets measured at fair value with the exception of interest income on other receivables which was £1,995m for the year ended 31 December 2023 (2022 (restated): £221m). The increase in the year is due to interest rate increases and associated yield curve movements in the year.

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

4. Policyholder Bonuses

Bonuses added to with-profits customers' policies during the year are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £3,637m (2022: £3,552m).

5. Net operating expenses

	Long-term business	
	2023	2022
	£m	£m
Acquisition costs	**126**	126
Change in deferred acquisition costs	**4**	5
Reinsurance commissions and profit participation	**11**	3
Administrative expenses	**608**	540
	749	674

Administrative expenses include commission payments in respect of long-term direct insurance business renewal of £25m (2022: £26m).

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

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

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

Operating leases

Amounts related to leases relate to office space in London and Reading under non-cancellable operating leases.

The London lease has run since 2002 and ended in September 2022. The lease was set aside and a provision created for the dilapidation and decommissioning costs in 2020 (see note 21).

The Reading lease has run since 2013 and is due to expire in 2030, however there is a break option on that lease in 2025. Part of the property was vacated in October 2022 and accordingly the corresponding value of the right of use (ROU) asset has been impaired and a provision created to cover the unavoidable costs attributable to the vacant portion of property.

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

	2023	2022
	£m	£m
Less than 1 year	**2**	2
1 to 5 years	**2**	4
Total	**4**	6

Notes on the financial statements (continued)

The total operating lease expense in 2023 was £1m (2022: £3m).

6. Investment expenses and charges

	Long-term business	
	2023	2022
	£m	£m
Investment management expenses	**283**	353
Interest on bank borrowings	**—**	7
	283	360

7. Tax

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

In February 2018, the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in the Company's favour. The decision of the Supreme Court released in July 2018 upheld the main point in dispute in the Company's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle.The Supreme Court issued its order giving effect to its decision in October 2019, stating any remaining issues of computation be remitted back to the High Court.

The Company and HMRC are working through the mechanics of implementing the Supreme Court decisions. To date, this work has led to a reduction in the estimate for policyholder tax credit recoverable, and the associated estimate of interest receivable. As at 31 December 2023, the company has recognised a total policyholder tax credit of £114m (2022: £114m) in respect of its claim against HMRC. Of this amount, £40m (2022: £40m) has been paid by HMRC leaving a tax recoverable balance of £74m (2022: £74m) recorded as an amount of tax due from HMRC. The Company will be entitled to interest on the tax repaid. As a result of the COVID-19 pandemic the timing to finalise the issue was further delayed. The Company has been actively pursuing this with HMRC throughout 2023 but are still awaiting HMRC's final settlement.

Under the terms of the agreement governing the domestication of the Company's previous Hong Kong branch in 2014, its previous Hong Kong subsidiary was entitled to a proportionate share of any tax and interest ultimately paid to the Company. At the balance sheet date the Company is holding a provision of £12m (2022: £12m) in respect of this liability which is included within other creditors (see note 23).

Notes on the financial statements (continued)

a) Tax charged / (credited)

	Long-term funds		Shareholders' Profits	
	2023	**2022**	**2023**	**2022**
	£m	**£m**	**£m**	**£m**
Current Tax				
UK corporation tax	**437**	—	**(38)**	—
Overseas tax	**45**	36	**—**	—
Adjustments in respect of prior years	**(2)**	(24)	**1**	1
Total current tax	**480**	12	**(37)**	1
Deferred tax				
Origination and reversal of timing differences	**(113)**	(696)	**20**	(257)
Total deferred tax	**(113)**	(696)	**20**	(257)
Shareholders' attributable tax in respect of the long-term business				
Current	**—**	—	**106**	32
Deferred	**—**	—	**12**	(224)
Total shareholders' attributable tax	**—**	—	**118**	(192)
Tax charge/(credit) on profit/(loss) on ordinary activities	**367**	(684)	**101**	(448)

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

b) Factors affecting tax charge/ (credit) for the year

	2023	2022
	£m	£m
Profit / (Loss) on ordinary activities before tax	**390**	(1,861)
Profit / (Loss) on ordinary activities multiplied by effective rate of corporation tax in the UK of 23.52 per cent (2022: effective rate of 19 per cent)	**92**	(354)
Permanent differences	**33**	24
Adjustment to current tax in respect of previous years	**(10)**	3
Different tax bases of long-term insurance (current tax)	**(1)**	(7)
Impact of deferred tax recognised at 25% on current year movements	**(4)**	(96)
Non-taxable income	**—**	(7)
Tax losses not recognised for DT purposes	**(2)**	(7)
Revaluation of subsidiaries	**(7)**	(4)
Total tax charge/(credit) for the year	**101**	(448)

c) Balance Sheet

	Attributable to Long-term funds		Attributable to Shareholders' funds	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Provision for Deferred Tax				
Short term timing differences	**(8)**	(5)	**—**	—
Unrealised gains	**384**	522	**—**	—
Deferred acquisition costs	**(26)**	(37)	**—**	—
Pension asset (liability)	**2**	3	**1**	2
Unutilised tax losses	**(185)**	(199)	**(259)**	(274)
Undiscounted provision for deferred tax liability/ (deferred tax asset)	**167**	284	**(258)**	(272)
Deferred tax liability/(asset) at start of the year	**284**	981	**(272)**	(21)
Deferred tax (credit)/charge in technical/non-technical account for the year	**(113)**	(696)	**20**	(257)
Deferred tax (credit)/charge from statement of comprehensive income	**(4)**	(1)	**(6)**	6
Deferred tax liability/(asset) at end of the year	**167**	284	**(258)**	(272)
Deferred tax asset	**(178)**	(201)	**(258)**	(252)
Deferred tax liability	**345**	485	**—**	(20)
As at 31 December	**167**	284	**(258)**	(272)

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

During 2023, the UK Government enacted the Pillar Two income taxes legislation effective from 1 January 2024. Under the legislation, the parent company (M&G Plc) will be required to pay top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15 per cent. The company’s taxable profits are predominantly in the UK and given the mainstream UK corporation tax rate is 25%, the company (and the Group) is not expecting to be liable for any material top-up tax. The Group have completed a high-level impact assessment for the other countries in which it has a taxable presence. This resulted in immaterial top-up tax. The group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance.

The Company’s net deferred tax position moved from a deferred tax liability at 31 December 2022 of £12m to a deferred tax asset at 31 December 2023 of £91m. The movement of £103m is predominantly due to a decrease in the deferred tax liability on unrealised gains on investment assets of £138m and a reduction in the deferred tax assets recognised on carry forward tax losses of £29m.

The deferred tax asset on tax losses carried forward at 31 December 2023 of £444m (2022: £473m) comprises of £431m in relation to UK income tax losses (2022: £453m) and £13m in respect of UK capital losses (2022: £20m). The deferred tax asset on UK income tax losses has been recognised in full based upon sufficient future taxable profits arising from shareholder transfers from the with-profits business. These transfers are considered a reliable source of profit and are a consistent measure used in the Company’s Business Plans and Solvency II calculations.

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

Notes on the financial statements (continued)

Modelling was undertaken to review the recovery period of the tax losses. Under current UK tax legislation there is no time limit on utilisation of the tax losses, however these tax losses can only be used against 50 percent of the taxable profits and gains in future periods. The value of the deferred tax asset in respect of income tax losses is expected to be fully recovered by 2035 in the base case forecast. An impaired scenario was also modelled which reflected a 10 percent reduction of forecast shareholder transfer in each period, this extended the recovery to 2037. The income tax losses arising in 2022 are expected to be a one-off and not continuous, and given the forecast of future profitability, in management's judgement it is probable that the value of the deferred tax asset on losses will be recovered by the Company while still operating as a going concern. The modelling of future capital gains arising on investments support that the recognised deferred tax asset on capital losses is expected to reverse by 2029.

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

At the end of the financial year, the Company has unused tax losses of £434m (2022: £448m) for which no deferred tax asset is being recognised. The unused tax losses relate to capital losses in the UK. No deferred tax asset is recognised on the unused capital losses as it is considered not probable that future taxable UK capital gains or other appropriate profits will be available against which they can be utilised.

8. Incurred but not reported provision

A gross and ceded IBNR (Incurred but not Reported) provision of £45m (2022: £102m) has been recognised for the general insurance business operations in run off, primarily for industrial disease exposure, and is included within claims outstanding. This liability is reinsured externally and there is a corresponding asset held in reinsurance receivables.

9. Information on staff and pension costs

The Company has no employees (2022 : Nil).

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

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

Defined Benefit Pension Schemes

Most UK staff employed by the M&G plc group are members of its open defined contribution scheme, the Prudential Staff Pension Scheme – Defined Contribution Section.
A minority are active members of the M&G plc group's defined benefit pension schemes, all of which closed to new employees on 31 July 2003.

The largest defined benefit scheme is the Prudential Staff Pension Scheme - Defined Benefit Section. At 31 December 2023, the underlying PSPS liabilities account for 83% (2022: 82%) of the aggregate liabilities of the M&G plc group's defined benefit schemes. The Company also has a smaller defined benefit scheme, the Scottish Amicable Staff Pension Scheme (SASPS), as described below.

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

The Company is the Principal Employer of PSPS. The principal employer of SASPS is M&G Corporate Services Limited. PSPS contributions are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity. SASPS contributions are payable in accordance with the current Schedule of Contributions, comprised of contributions for the ongoing cost of accrual, deficit contributions, and contributions in respect of non-investment expenses.

Notes on the financial statements (continued)

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

- 70% of the surplus in PSPS is allocated to the with-profits fund of the Company; 30% is allocated to M&G Corporate Services Limited, a fellow subsidiary undertaking of the M&G plc group.

- 40% of the deficit and related costs of SASPS is allocated to the with-profits fund and 60% has been allocated to the shareholder fund of the Company.

In the prior year, 70% of the surplus in PSPS was allocated to the with-profits fund of the Company; 30% was allocated to M&G Corporate Services Limited, a fellow subsidiary undertaking of the M&G plc group. In the current year, there has been a transfer of the liability related to active members of MGGPS scheme to PSPS which has necessitated an allocation of PSPS scheme to M&G FA Limited, being the principal employer of the MGGPS scheme. As a result of this, from current year onwards the allocation of the PSPS surplus to the with-profits fund of the Company and M&G Corporate Services Limited would take place in the ratio of 70:30 of the net surplus remaining after the M&G FA allocation has been made.

For PSPS and SASPS, the current unit method and the projected unit credit method were used respectively for the most recent full actuarial valuations. Defined benefit schemes are subject to full actuarial valuation every three years to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The last completed actuarial valuation of PSPS was as at 5 April 2020 and was finalised during 2021. This valuation demonstrated the scheme to be 108% funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. The ongoing contributions into the scheme, are payable at the minimum level required under the scheme rules. Excluding expenses, the contributions are now payable at approximately £3m per annum (2022: £3m) for ongoing service of active members of the scheme. No deficit or other funding is required. Deficit funding for PSPS, where applicable, is apportioned in the ratio of 70/30 between the Company's with-profits fund and M&G Corporate Services Limited based on the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The last completed actuarial valuation of the SASPS was as at 31 March 2020 and was finalised in 2021. This valuation demonstrated the scheme to be 85% funded. Based on this valuation, it was agreed with the Trustees that the level of deficit funding should continue at £26m per annum until 31 December 2025 (2022: £26m per annum), subject to review at subsequent valuations.

Corporate Governance

The Company's UK pension schemes are regulated by The Pension Regulator in accordance with the Pensions Act 2021. Trustees have been appointed for each pension scheme and they have the ultimate responsibility to ensure that the scheme is managed in accordance with the Trust Deed & Rules. The Trustees are required by the Pension Regulator to be well conversant with the Trust Deed & Rules and to act in accordance with these Rules.

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

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

Notes on the financial statements (continued)

The Trustee sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the Investment Managers.
During 2020, PSPS entered into a longevity swap transaction with Pacific Life Re Limited. This arrangement provides long term protection for PSPS against costs that could result from unexpected increases in the life expectancy relating to the pensions that were in payment on 6 April 2019 (excluding any future discretionary increases). As at 31 December 2023, the longevity swap covered £2.0bn (2022: £2.0bn) of the total current pensioner scheme liabilities.

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

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

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

	2023		**2022**	
	PSPS	**SASPS**	**PSPS**	**SASPS**
	%	**%**	%	%
Price inflation:				
Retail Price Index (RPI)	**3.0**	**2.9**	3.3	3.2
Consumer Price Index (CPI)	**2.7**	**2.7**	3.0	3.0
Salary inflation	**3.4**	**3.2**	4.0	3.2
Rate of increase of pensions in payment:				
PSPS				
Guaranteed (Max 5%)	**2.8**	**n/a**	3.0	n/a
Guaranteed (Max 2.5%)	**2.5**	**n/a**	2.5	n/a
Discretionary	**2.9**	**n/a**	2.5	n/a
SASPS	**n/a**	**2.9**	n/a	3.2
Discount rate	**4.6**	**4.6**	4.9	4.8

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

				Expectation of life from retirement at aged 60			
As at	**Scheme**	**Mortality tables (with scaling factors applied to reflect experience, and allowances for future improvement)**	**Mortality improvements model**	**Male currently aged 60**	**Male currently aged 40**	**Female currently aged 60**	**Female currently aged 40**
31/12/2023	**PSPS**	**S2PMA/S2PFA for males/females**	**CMI 2021**	**26.5**	**28.6**	**28.3**	**30.3**
	SASPS	**S1PMA/S1PFA for males/females**	**CMI 2021**	**27.4**	**29.4**	**29.9**	**31.8**
31/12/2022	PSPS	S3PMA/S3PFA for males/females	CMI 2020	26.7	29.1	28.4	30.6
	SASPS	S3PMA/S3PFA for males/females	CMI 2020	27.5	29.7	30.0	32.1

Notes on the financial statements (continued)

The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2023, this allowance was based on the CMI 2021 mortality improvements model with improvement factors of 1.60% for males (Sk = 7.25 and A parameter varies by age) and 1.60% for females (Sk = 7.75 and A parameter varies by age) (2022: this allowance was based on the CMI 2020 model with improvement factors of 1.60% for males (Sk = 7.25) and 1.60% for females (Sk = 7.75)).

The most recent full valuations have been updated to 31 December 2023 applying the principles prescribed by FRS 102.28.

The combined assets and liabilities of PSPS and SASPS were:

	31 December 2023		31 December 2022	
	£m	**%**	£m	%
Equities	**76**	**1 %**	126	2 %
Bonds	**5,252**	**101 %**	5,221	100 %
Derivatives	**(728)**	**(14)%**	(720)	(14)%
Properties	**356**	**7 %**	399	8 %
Other assets	**238**	**5 %**	197	4 %
Total value of assets	**5,194**	**100 %**	5,223	100 %
Present value of underlying scheme liabilities	4,836		4,616	
Underlying surplus in the schemes	358		607	

Included within other assets is a £3m derivative liability in respect of the longevity swap transaction with Pacific Life Re Limited (2022: £10m).

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

	2023	2022
	£m	£m
Attributable to the Company’s with-profits fund	9	13
Attributable to the Company’s shareholder fund	4	10
Total	**13**	23

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

The total actual return on scheme assets for both PSPS and SASPS is a gain of £137m (2022: loss of £2,893m) of which a gain of £100m (2022: loss of £1,899m) relates to the amounts attributable to the Company’s with-profits fund and a loss of £10m (2022: loss of £252m) relates to amounts attributable to the Company's shareholder fund.

The pension asset recognised on the balance sheet of the Company and detailed in the table below is £13m as at 31 December 2023 (2022: £23m). The provision for pensions on the balance sheet of the Company and detailed in the table below is nil as at 31 December 2023 (2022: nil).

The surplus in the Prudential Staff Pension Scheme of £7m represents the amount which is recoverable through reduced future contributions that is attributable to the Company and is net of the apportionment to M&G Corporate Services Limited (previously M&G Prudential Services Limited).

Notes on the financial statements (continued)

Underlying scheme assets and liabilities of PSPS and SASPS

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

2023 £m	**Assets**	**Liabilities**	**Net surplus/ (deficit**	**Effect of FRS 102 for derecognition of surplus/ (deficit)**	**Total surplus/ (deficit)**	**PAC share of surplus/ (deficit) *** **
Net surplus (deficit) at start of year	5,223	(4,616)	607	(581)	26	23
Current service cost	—	(6)	(6)	—	(6)	(4)
Net interest on net defined benefit	247	(218)	30	(581)	(551)	2
Administration expenses	(8)	—	(8)	—	(8)	(6)
Benefit payments	(259)	259	—	—	—	—
Company contributions*	43	—	43	—	43	40
Settlements or curtailments	50	(29)	21	—	21	—
Actuarial (losses)/gains	(102)	(226)	(329)	823	494	(42)
Net surplus/(deficit) at end of year	**5,195**	**(4,836)**	**358**	**(339)**	**19**	**13**
PSPS net surplus/(deficit) at end of year	**4,611**	**(4,260)**	**352**	**(339)**	**13**	**7**
SASPS net surplus/(deficit) at end of year	**583**	**(577)**	**6**	**—**	**6**	**6**

* The contributions include deficit funding, ongoing service contributions and expenses.
** In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("GMPs"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2023 and 31 December 2022, the Company has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £32m for PSPS and £11m for SASPS as at 31 December 2023 (2022: £31m for PSPS and £11m for SASPS). A portion of these costs are allocated to the Company in line with the apportionments described on page 53.
*** PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

2022 £m	**Assets**	**Liabilities**	**Net surplus/ (deficit)**	**Effect of FRS 102 for derecognition of surplus/ (deficit)**	**Total surplus/ (deficit)**	**PAC share of surplus/ (deficit) *** **
Net surplus/(deficit) at start of year	8,387	(7,503)	884	(896)	(12)	(23)
Current service cost	—	(13)	(13)	—	(13)	(9)
Net interest on net defined benefit	150	(134)	16	(16)	—	—
Administration expenses	(7)	—	(7)	—	(7)	(6)
Benefit payments	(312)	312	—	—	—	—
Company contributions*	41	—	41	—	41	38
Actuarial (losses)/gains	(3,036)	2,722	(314)	331	17	23
Net surplus/(deficit) at end of year	**5,223**	**(4,616)**	**607**	**(581)**	**26**	**23**
PSPS net surplus/(deficit) at end of year	**4,641**	**(4,050)**	**591**	**(581)**	**10**	**7**
SASPS net surplus/(deficit) at end of year	**582**	**(566)**	**16**	**—**	**16**	**16**

* The contributions include deficit funding, ongoing service contributions and expenses.
** In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of GMPs. GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. There was a further Court ruling in November 2020 which

required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2022 and 31 December 2021, the Company has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £43m for PSPS and £20m for SASPS as at 31 December 2022 (2021: £48m for PSPS and £21m for SASPS). A portion of these costs are allocated to the Company in line with the apportionments described on page 53.
*** PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

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

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

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

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

The amounts attributable to the Company's with-profits fund for both PSPS and SASPS are absorbed by the transfer to or from the FFA and therefore have no direct effect on shareholders' profit or shareholders' funds. In 2023, there was a pension debit of £16m (2022 : debit of £2m).

The amount attributable to the Company's shareholders for SASPS has a direct effect on shareholders' profit and shareholders' funds. In 2023 there was a pension debit of £25m (2022 : credit of £25m).

The actuarial loss for both PSPS and SASPS relating to the Company's with-profits fund of £16m (2022: actuarial loss of £2m) is included in the statement of comprehensive income and reflected in the transfer to or from the FFA. The actuarial loss of SASPS relating to the Company's shareholder element of £25m (2022: actuarial gain of £25m) is included in total other comprehensive income for the financial year.

Total employer contributions expected to be paid into PSPS and SASPS for the year ending 31 December 2023 amounts to £43m (2022: £41m), reflecting the annual accrual cost, deficit funding (SASPS only), and expenses, of which £40m (2022: £38m) relates to the Company.

The table below shows the sensitivity of the underlying PSPS and SASPS liabilities at 31 December 2023 of £4,260m (2022: £4,050m) and £577m (2022: £566m) to changes in discount rates, inflation rates and mortality rate assumptions.

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

Notes on the financial statements (continued)

Assumption	Change in assumption	Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis
2023		
Discount rate	Decrease by 0.2%: PSPS from 4.6% to 4.4% SASPS from 4.6% to 4.4%	Increase scheme liabilities by: PSPS 2.4% SASPS 3.4%
Discount rate	Increase by 0.2%: PSPS from 4.6% to 4.8% SASPS from 4.6% to 4.8%	Decrease scheme liabilities by: PSPS 2.3% SASPS 3.2%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.0% to 2.8% SASPS from 2.9% to 2.7% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 1.3% SASPS 1.6%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 2.7% to 2.5% SASPS from 2.7% to 2.5% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 1.3% SASPS 1.6%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.4% SASPS 2.7%

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

10. Directors' emoluments

	2023	2022
	£	£
Aggregate emoluments	3,716,470	1,522,286
Excess retirement benefits:		
Current directors	117,610	57,807
	3,834,080	1,580,093
Highest Paid Director:		
Aggregate emoluments and amounts receivable (excluding shares) under long term incentive schemes	2,156,225	380,871

Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. The directors' service and employment contracts

Notes on the financial statements (continued)

are with other Group companies. An assessment was made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this.

Contributions were made to a defined contribution pension scheme on behalf of two director in 2023 (2022: one). One directors (2022: none) exercised share options during the year. Three directors (2022: three) were entitled to shares under M&G plc's main long-term incentive scheme and no directors (2022: two) were entitled to retirement funds under defined benefit schemes.

The highest paid director in 2023 (and 2022) received shares under long-term incentive schemes and chose to exercise these in the year.

11. Auditor's remuneration

The following table shows the auditors' remuneration.

	2023	2022
	£000's	£000's
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	3,847	3,107
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	1,106	908
Audit of the Company's subsidiaries, pursuant to legislation	1,539	1,190
Other assurance services	30	—
Total fees payable	**6,522**	5,205

12. Land and buildings

	2023	2022
	£m	£m
Current value		
Freeholds	**3,952**	4,350
Leaseholds with a term of over 50 years	**1,925**	1,570
Leaseholds with a term of less than 50 years	**337**	836
	6,214	6,756
Cost	**5,743**	5,664

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

	2023	2022
	£m	£m
At cost	**5,743**	5,664
Aggregate depreciation	**(2,573)**	(2,535)
Net book value based on historical cost	**3,170**	3,129

Notes on the financial statements (continued)

(a) Investment property

	2023	2022
	£m	£m
Balance at 1 January	**6,756**	7,840
Additions		
Resulting from acquisitions	**250**	197
Resulting from expenditure capitalised	**128**	129
Disposals	**(330)**	(432)
Net loss from fair value adjustments	**(579)**	(983)
Other changes	**(11)**	5
Balance at 31 December	**6,214**	6,756

The 2023 profit and loss account includes rental income from investment properties of £442m (2022: £408m).

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

	2023			2022		
	£m			£m		
	Future minimum payments	**Future finance charges**	**PV of future minimum payments**	Future minimum payments	Future finance charges	PV of future minimum payments
Less than 1 year	**1**	**—**	**1**	1	—	1
1 to 5 years	**2**	**—**	**2**	2	—	2
Over 5 years	**63**	**(56)**	**7**	64	(57)	7
Total	**66**	**(56)**	**10**	67	(57)	10

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future value of a factor that changes other than with the passage of time. Contingent rent of £3m (2022: £3m) has been recognised as income with an expense charge of £6m (2022: £6m). There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. The contractual obligations to purchase or develop investment properties at 31 December 2023 were £159m (2022: £201m).
The Company's policy is to let investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Company's freehold and leasehold investment properties are receivable in the following years:

	2023	2022
	£m	£m
Less than 1 year	**306**	337
1 to 5 years	**964**	1,119
Over 5 years	**1,545**	1,572
Total	**2,815**	3,028

Notes on the financial statements (continued)

(b) Finance lease asset

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

	2023			2022		
	£m			£m		
	Future minimum receivables	**Future finance credits**	**PV of future minimum receivables**	Future minimum receivables	Future finance credits	PV of future minimum receivables
Less than 1 year	**2**	**—**	**2**	2	—	2
1 to 5 years	**8**	**(1)**	**7**	8	(1)	7
Over 5 years	**359**	**(326)**	**33**	361	(328)	33
Total	**369**	**(327)**	**42**	371	(329)	42

13. Investments in group undertakings and participating interests

	Cost		Current value	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Long-term fund investments	**3,391**	2,895	**3,015**	4,395
Shareholder investments	**401**	354	**598**	524
Total	**3,792**	3,249	**3,613**	4,919
Interest in joint ventures and associate long-term fund investments	**213**	348	**265**	414
Debt securities issued by, and loans to group undertakings – long term funds	**750**	848	**750**	848
Total	**4,755**	4,445	**4,628**	6,181

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

14. Other financial investments

	Cost		**Carrying value**	
	2023	2022	**2023**	2022 (Restated)
	£m	£m	**£m**	£m
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	**60,726**	55,025	**64,560**	57,156
Debt securities and other fixed income securities	**42,459**	44,596	**39,942**	40,218
Derivative assets	**349**	924	**1,354**	2,418
Participation in investment pools	**10,629**	9,721	**12,285**	12,062
Loans secured by mortgages*	**2,255**	2,365	**1,622**	1,727
Loans to policyholders secured by insurance policies*	**1**	2	**1**	2
Other loans*	**234**	641	**219**	601
Amortised cost				
Deposits with credit institutions	**12,507**	18,664	**12,507**	18,664
	129,160	131,938	**132,490**	132,848

**The amounts related to loans impacting Other financial investments were restated for the year ended 31 December 2022 as a result of the adoption of IFRS 9, changing classification from amortised cost to fair value through profit and loss. As a result the prior year note disclosure has been restated to reflect this change. The*

Notes on the financial statements (continued)

impact of the change is to alter the total carrying value of loans from £2,421m to £2,330m. This has impacted the primary statements.

The change in carrying value of other financial investments included in the Profit and Loss account was a gain of £1,910m (2022: £16,699m loss) analysed between a gain of £1,604m (2022: £15,111m loss) included in the Long-term business technical account and a gain of £306m (2022: £1,588m loss) included in the Non-technical account.

The change in carrying value of £1,910m gain (2022: £16,699m loss) included a gain of £1,668m (2022: £6,872m loss) in respect of equity securities, gain of £1,862m (2022: £7,954m loss) in respect of debt securities, a loss of £849m (2022: £1,564m loss) in respect of derivatives and a loss of £771m (2022: £309m loss) in respect of other financial instruments.

	Carrying value	
	2023	2022
Amounts included in the above relating to listed investments:	**£m**	£m
Shares and other variable yield securities and units in unit trusts	**25,856**	22,825
Debt securities and other fixed income securities	**35,405**	35,113
	61,261	57,938

The table below analyses the derivative positions of the Company:

	2023		2022	
	£m		£m	
	Fair value assets	**Fair value liabilities**	Fair value assets	Fair value liabilities
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	**684**	**1,463**	2,059	2,142
Cross currency swaps	**12**	**330**	8	420
Currency exchange forward contracts	**370**	**134**	116	648
Bond futures	**127**	**47**	33	16
Credit default swaps	**9**	**2**	2	46
Inflation swaps	**55**	**324**	110	372
Derivative financial instruments held to manage market risk and efficient investment management:				
Equity options	**42**	**212**	72	167
Equity futures	**45**	**60**	3	71
Equity warrants	**10**	**—**	15	—
Total	**1,354**	**2,572**	2,418	3,882

The nature of the derivative financial instruments used by the Company in 2023, are similar to those used in 2022. These include the partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which was set up in 2013. This arrangement was extended each year since 2015. This is currently a net liability of £217m (2022: liability of £204m). The derivative financial instruments also include hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund relating to 2019 and 2020 PruFund new business. These capital hedges are instruments that partially hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

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

Treatment of equity release mortgages transfer

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

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

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

A further tranche of equity release mortgages was purchased by the Company from its subsidiary Prudential Lifetime Mortgages Limited (PLML) in January 2020. The beneficial interest in the equity release mortgage portfolio was sold to PERM in an arm's-length transaction, for cash. As for the earlier transaction, the Company retains all the risks and rewards of ownership and has substantially the same rights to the use of the asset as before the sale, and so continues to recognise the asset within the Company's financial statements.
During 2023, the remaining equity release mortgages were purchased by the Company from PLML and sold onto PERM, following the same process as the earlier tranches.

The fair value of this equity release mortgage portfolio at 31 December 2023 was £783m (2022: £764m).

15. Assets held to cover linked liabilities

	Cost		Carrying value	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Assets held to cover linked liabilities	**10,284**	10,137	**10,973**	10,567

Assets held to cover linked liabilities of £10,973m (2022: £10,567m) plus reinsurers share of technical provisions for linked liabilities of £5,330m (2022: £5,062m) are equal to the technical provisions for linked liabilities of £16,303m (2022: £15,630m).

The main components of the assets held to cover linked liabilities are equities £5,565m (2022: £5,446m), debt securities £4,627m (2022: £4,017m) these include senior notes backed by residential ground rents with a carrying value of £499m (2022: £481m) – Please see page 86 for more information on these assets, deposits £818m (2022: £1,219m) and other current liabilities £169m (2022: £658m).

16. Reinsurers' share of technical provisions

	2023	2022
	£m	£m
PPL	5,054	4,720
Hannover	274	261
Rothesay	679	663
Swiss Re	99	235
Other smaller companies	86	85
Total	**6,192**	5,964

Notes on the financial statements (continued)

The increase over 2023 follows the movement in the reinsurance with PPL due to changes in the fund units and fund prices which is partially offset by the fall in Swiss Re reinsurance following the revaluation of the IBNR (see note 8).

17. Other debtors

	2023	2022
	£m	£m
Amounts owed by group undertakings	**42**	77
Amounts owed by undertakings in which the entity has a participating interest	**234**	282
Tax recoverable	**21**	197
Other debtors	**100**	—
	397	556

Other debtors includes £24m of property related debtors, £28m of outstanding sales of investment securities and the remaining balance relates to sundry debtors. 2022 is nil as was reflected in other creditors.

Other debtors include £95m (2022: £nil) due after more than one year.

18. Bank current accounts

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

19. Assets attributable to the long term business fund

Of the total amount of assets shown in the balance sheet on page 36, £161,350m (2022: £163,868m) is attributable to the long-term business fund.

20. Share capital

The Company's issued ordinary share capital is £330m comprising 1,318,068,254 ordinary shares of 25p each fully paid. There were no changes in the ordinary share capital of the Company during the year.

21. Other Provisions

	2023	2022
	£m	£m
At 1 January	**27**	27
Charged/(credited) to income statement:		
Additional provisions	**—**	1
Unused amounts released	**(21)**	(1)
Total at 31 December	**6**	27

Other provisions included a £20m provision in 2022 in respect of an agreement between PLML and the Company relating to equity release mortgages. During the year a significant proportion of these mortgages were sold to the Company as set out in note 14 and so the associated provision has been released.

Notes on the financial statements (continued)

22. Amounts owed to credit institutions

	2023	2022
	£m	£m
Other bank loans and overdrafts	**5**	14
Derivative liability (see note 14)	**2,572**	3,882
Obligations under funding, securities lending and sale and repurchase agreements	**4,086**	4,714
OTC derivatives collateral creditors	**368**	1,130
	7,031	**9,740**

The above balances were previously shown in other creditors including taxation and social security. This enhancement to further split the balance sheet provides greater clarity of creditor balances.

23. Other creditors including taxation and social security

	2023	2022
	£m	£m
Amounts owed to group undertakings	**157**	202
Amounts owed to undertakings in which the entity has a participating interest	**485**	522
Tax payable	**102**	26
Other borrowings not owed to credit institutions	**1**	1
Other creditors*	**317**	257
	1,062	1,008

Other creditors includes £187m (2022: £161m) of outstanding purchases on investment securities, £9m (2022: £5m) of property related creditors and the remaining balance on other sundry creditors.

*Other creditors include £1m (2022: £59m) due after more than one year.

Other creditors including taxation and social security previously included balances now shown in amounts owed to credit institutions, see note 22. Negative reinsurance assets of £151m (2022:£126m) were previously reported in other creditors including taxation and social security and have now been reported under creditors arising out of reinsurance operations on the balance sheet.

24. Ultimate parent company

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

25. Related party transactions

The Company has taken advantage of the exemption under FRS 102.33 *Related Party Disclosures* (FRS 102.33) paragraph 1A from disclosing transactions with other wholly-owned subsidiary undertakings of the M&G plc group. In the normal course of business the Company holds units in and transacts with investment vehicles which are managed by the Group. All transactions with these investment vehicles take place at arms length on the same basis as other investors. These transactions are not considered to be material to the operation of the Company.

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

The Company's long-term products consist of life insurance, investment, pensions and pension annuities. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked

products. Depending upon the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

With-profits policies are supported by the WPSF and can be single or regular premium. The return to shareholders on virtually all with-profits products is in the form of a statutory transfer to the Company's shareholders' funds which is analogous to a dividend from the Company's long-term fund and is dependent upon the level of bonuses credited or declared on policies in that year. There are two types of bonuses for traditional with-profits products – annual and final. Annual bonuses are declared once a year, and are determined as a prudent proportion of the long-term expected future investment return on the underlying assets. Once credited, annual bonuses are guaranteed in accordance with the terms of the particular product. In contrast, final bonuses are only guaranteed until the next bonus declaration, and are primarily determined on the actual investment return achieved, smoothed over the life of the policy. With-profits policyholders currently receive at least 9/10 of the distribution from the WPSF as bonus additions to their policies and shareholders receive up to 1/10 as a statutory transfer.

Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Policyholder return is determined by an EGR which is declared each quarter, plus any Unit Price Adjustments which may be applied in certain circumstances. The shareholder transfer only crystallises at the point when a claim is paid to the policyholder and is up to 1/9th of the difference between the policyholder payout and the premium(s) paid.

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

The Defined Charge Participating Sub-Fund (DCPSF) forms part of the Company's long-term fund and comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business reassured into the Company from both Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd and the with-profits annuity business transferred to the Company from the Equitable Life Assurance Society on 31 December 2007. For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders' profit arises as the difference between charges and expenses.

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

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

Notes on the financial statements (continued)

i. Analysis of movements in insurance liabilities including FFA

	Technical Provisions		
	Technical Provisions £m	**Linked liabilities £m**	**Total £m**
As at 1 January 2022			
Comprising			
Technical provisions	134,249	19,568	153,817
Fund for future appropriations	16,871	—	16,871
	151,120	19,568	170,688
Premiums (i)	6,358	93	6,451
Surrenders (i)	(6,275)	(401)	(6,676)
Maturities/Deaths	(5,074)	(883)	(5,957)
Shareholders’ transfers post tax	(361)	—	(361)
Switches	(44)	44	—
Investment-related items and other movements (iv)	(10,857)	(2,697)	(13,554)
Foreign exchange translation differences	80	—	80
Assumption changes (ii)	(181)	(94)	(275)
As at 31 December 2022/1 January 2023 (Restated)	**134,766**	**15,630**	**150,396**
Comprising			
Technical provisions	119,889	15,630	135,519
Fund for future appropriations	14,877	—	14,877
	134,766	15,630	150,396
Premiums (i)	6,196	576	6,772
Surrenders (i)	(7,149)	(233)	(7,382)
Maturities/Deaths	(3,376)	(383)	(3,759)
Shareholders’ transfers post tax	(368)	—	(368)
Switches	(19)	19	—
Investment-related items and other movements (iii)	5,098	702	5,800
Foreign exchange translation differences	(1)	(1)	(2)
Assumption changes (ii)	(34)	(7)	(41)
As at 31 December 2023	**135,113**	**16,303**	**151,416**
Comprising:			
Technical provisions	120,186	16,303	136,489
Fund for future appropriations	14,927		14,927
	135,113	**16,303**	**151,416**

i. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example premiums shown above will exclude any deductions for fees/charges. Claims represent the policyholder liabilities provision released, rather than the claim amount paid to the policyholder.

ii. Assumption changes included for the shareholder-backed business include credit downgrade/default provisioning and annuitant mortality. The total decrease to policyholder liabilities was £41m for the year ended 31 December 2023 (2022: £275m decrease). For the With-Profits Fund, the impact of assumption changes for the year ended 31 December 2023 was a decrease in With Profit liabilities of £42m (2022: £48m increase), which was offset by a corresponding increase in the fund for future appropriations.

Notes on the financial statements (continued)

iii. Increase over 2023 primarily reflects the impact of improving market movements over the year.
iv. 2022 balances have been restated to reflect the adoption of IFRS 9, see note 1 (B).

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

	2023	2022
Assumption changes impact on shareholder-backed business	**£m**	£m
Longevity (i)	(36)	(292)
Persistency	—	—
Expenses (including investment management expenses)	(5)	17
Other (ii)	—	—
Total	**(41)**	**(275)**

	2023	2022
Assumption changes impact on With-Profits business		
Longevity (i)	8	(278)
Persistency	(62)	99
Expenses (including investment management expenses)	53	210
Other (ii)	(41)	17
Total	**(42)**	**48**

Notes
(i) The net of reinsurance impacts of longevity assumption changes, as set out in the strategic report are £25m (2022: £198m).
(ii) 'Other' category includes non-annuitant mortality, morbidity, and judgemental assumption changes in respect of the future view of credit risk. Any impact relating to changes in those components of the credit default allowance that are not subjective but are purely market-driven are allocated to 'investment-related items and other movements'.

The impact of longevity assumption updates over the financial year reflects a slight weakening of the basis for shareholder and policyholder backed annuity business as a result of updating to the later version of the CMI model. Persistency assumptions were also updated for the year ended 31 December 2023 for most product lines in order to reflect emerging experience. The impact in respect of expense assumption changes reflects the updated cost base and changes to charging of investment management expenses. The 'other' category includes the impact of the increase in the subjective (non-market driven) components of the credit default allowance.

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

With the exception of annuity business, most unitised with-profits bonds and other whole-of-life contracts, the majority of the contracts of the Company have a contract term. However, in effect, the maturity term of contracts reflects the earlier of death, maturity, or lapse of the contract. In addition, with-profits contracts include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of the WPSF. The following table shows the maturity profile of the cash flows used for insurance contracts i.e. those containing significant insurance risk, and investment contracts with and without dpf. The maturity profile is the expected benefit payments calculated using a cash flow projection model with best-estimate assumptions of future mortality, persistency and future investment returns.

Notes on the financial statements (continued)

2023	With-profits business			Policyholder Annuities	Shareholder Annuities	Other		
	Insurance contracts %	Investment contracts %	Total %	Insurance contracts %	Insurance contracts %	Insurance contracts %	Investment contracts %	Total %
0-5 years	41	41	41	47	39	54	51	42
5-10 years	23	26	25	27	27	26	26	26
10-15 years	15	15	15	14	17	12	13	15
15-20 years	10	9	9	6	9	5	6	9
20-25 years	5	5	5	3	4	2	3	5
Over 25 years	6	4	5	2	4	1	2	4

2022 (Restated)	With-profits business			Policyholder Annuities	Shareholder Annuities	Other		
	Insurance contracts %	Investment contracts %	Total %	Insurance contracts %	Insurance contracts %	Insurance contracts %	Investment contracts %	Total %
0-5 years	42	41	41	47	40	55	41	41
5-10 years	22	24	24	27	27	26	26	24
10-15 years	15	15	15	14	17	12	17	15
15-20 years	9	9	9	7	9	5	9	9
20-25 years	6	5	5	3	4	2	5	5
Over 25 years	6	5	5	2	3	1	3	5

Notes:

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

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

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

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

(v) The methodology used in determining the projected claims has been refined in 2023. The impact of the change is to reduce the level of assumed future returns, which are uncertain in nature. 2022 figures have been restated on the new approach for consistency.

ii. Determining insurance liabilities

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

A. Business in WPSF and DCPSF

With-profits options and guarantees

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

Notes on the financial statements (continued)

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

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

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

Assumptions are required in three areas, namely:

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

Retrospective assumptions

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

The 2023 year end Investment Return for asset shares is:

Return	WPSF Main Asset Share Fund	High Reversionary Bonus fund (held within the WPSF)	PruFund Cautious Fund (held within the WPSF)	Ex-SAIF
Gross return	4.29%	4.22%	5.37%	4.29%
Net return	3.60%	3.48%	4.41%	3.60%

The 2022 year end Investment Return for asset shares were:

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

The High Reversionary Bonus and PruFund Cautious funds are contained within the with-profits sub-fund. Compared with the assets backing the main asset share fund, the High Reversionary Bonus and PruFund

Notes on the financial statements (continued)

Cautious funds are both allocated a higher proportion of fixed interest securities and a lower proportion of equities.

Prospective assumptions

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

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

Expenses

Expense assumptions have been revised to reflect the Company's most recent experience, and expected expenditure over the business planning period. Maintenance expense assumptions are expressed as per policy amounts. They are set based on current expense levels, including an allowance for ongoing investment management expenses and are allocated between entities and product groups in accordance with the Company's internal cost allocation model. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap curve. These assumptions therefore take recent increases in inflation into account, and allow for the market-driven long-term view of future inflation.

The table below summarises the range of maintenance expense assumptions used as at 31 December 2023 and 31 December 2022, before allowance for future inflationary increases.

	2023	2022
	£ p.a.	£ p.a.
With-profits contracts	7 - 174	7 - 165

Refer to note 28 (E) for sensitivity analysis of FRS 102 profit before tax to changes in assumptions.

Persistency

The table below summarises the range of lapse rate assumptions used as at 31 December 2023 and 31 December 2022. These exclude assumptions relating to retirement rates for pension contracts, which may be as high as 100% at certain ages.

	2023	2022
With-profits contracts	0% - 30%	0% - 45%

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

Refer to note 28 (E) for sensitivity analysis of FRS 102 profit before tax to changes in assumptions.

Notes on the financial statements (continued)

The table below shows the mortality bases used for the valuation at 31 December 2023:

Product	Mortality Table (M/F)	Age Rating Years (M/F)	Multiplier % (M/F)
Prudence Bond	AMC00/AFC00	+0/+0	85 / 85
PSA / PIB	AMC00/AFC00	+0/+0	70 / 70
Personal Pensions	AMC00/AFC00	+0/+0	80 / 80
Ordinary Branch assurances	AMC00/AFC00	+0/+0	90 / 90
Industrial Branch	AMC00/AFC00	+0/+0	60 / 60
With-Profits Deferred Annuities	AMC00/AFC00	+0/+0	80 / 80
Group Pension Deferred Annuities	PMA16_CMI21_M_LTR_1.60_Sk_7.25_A_PSA_pl50bp / PFA16_CMI21_F_LTR_1.60_Sk_7.75_A_PSA_pl50bp	+0/+0	92/84 (PAC) 93/90 (ex-PAL)
SAIF Conventional With-Profits	AMC00/AFC00	+0/+0	75 / 75 Life & 60 / 60 Pensions
SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	+0/+0	50 / 50 or 55 / 55 Life (depending on product) & 60 / 60 Pensions

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

Product	Mortality Table (M/F)	Age Rating Years (M/F)	Multiplier % (M/F)
Prudence Bond	AMC00/AFC00	-1 / -1	90 / 90
PSA / PIB	AMC00/AFC00	-0.5 / -0.5	80 / 80
Personal Pensions	AMC00/AFC00	-1 / -1	95 / 95
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	100 / 100
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	95 / 95
Group Pension Deferred Annuities	PMA16_CMI_20_M_LTR_1.60_Sk_7.25_A_PSA_pl50bp / PFA16_CMI_20_F_LTR_1.60_Sk_7.75_A_PSA_pl50bp	+0/+0	90/84 (PAC) 91/89 (ex-PAL)
SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	70 / 70 Life & 50 / 50 Pensions
SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	50 / 50 Life & 55 / 55 Pensions

Stochastic asset model economic calibration and management actions

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

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

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

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

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

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

B. Other non-linked business

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

At 31 December 2023, longevity swap reinsurance covered £3.7bn (2022: £3.9bn) of annuity liabilities in the shareholder fund, equivalent to 30% (2022: 31%) of total annuity liabilities.

Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining policyholder liabilities.

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

An increase in mortality rates was observed over 2020 and 2021 due to the COVID-19 pandemic. Higher mortality experience may be expected to continue to some extent over the short-term, with significant excess deaths observed in the population over 2022 and 2023. However, there is significant uncertainty and the longer-term implications for mortality rates amongst the annuitant population are unknown at this stage. In line with broader industry approach, zero weight has been given to pandemic experience. This is an area that will continue to be monitored by the Company.

The assumptions were fully reviewed in 2022 including a bottom-up review of future mortality improvements following the COVID-19 pandemic. No changes have been made to best-estimate assumptions for current mortality in the twelve months ended 31 December 2023.

The 2023 mortality improvements assumption is expressed in terms of the CMI 2021 model, updated from the CMI 2020 model used in 2022, whilst the parameters of the model have been maintained.

The mortality improvement assumptions used are summarised in the table below, with other assumptions reflecting the core CMI projection.

Year Ended	Model Version (i) (ii)	Long Term Improvement Rate (iii)	Smoothing Parameter (iv)
31 December 2023	CMI 2021	For males: 2.10% p.a. For females: 2.10% p.a.	For males: 7.25 For females: 7.75
31 December 2022	CMI 2020	For males: 2.10% p.a. For females: 2.10% p.a.	For males: 7.25 For females: 7.75

i An ‘A’ parameter in the model to reflect socio-economic differences between the portfolio and population experience is also used. This adjusts initial mortality improvement rates and varies by age and gender. It is unchanged relative to 31 December 2022.

Notes on the financial statements (continued)

ii The tapering of improvements to zero is set to occur between ages 90–110 at 31 December 2023, which is unchanged from 31 December 2022.
iii As at 31 December 2023, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates relative to the best estimate used under Solvency II as a margin for prudence, which is unchanged from 31 December 2022.
iv The smoothing parameter controls the amount of smoothing by calendar year when determining the level of initial mortality improvements.

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

The sensitivity of FRS 102 profit before tax and of with-profits liabilities to changes in assumed mortality rates is shown in Note 28 (E).

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term overlay to reflect prospective outlook in respect of experience over the coming period, including any uncertainty in outlook. Due to the uncertainty of credit outlook in the UK and given that the credit spreads have widened, primarily during the first half of 2023, the short-term overlay has been increased for reporting as at 31 December 2023.

The derivation of the discount rates includes the impact of the UK Government consultation on residential ground rents (further explained in note 28, page 86) and the resulting impact on the portfolio yield and the credit risk allowances

The table below shows the credit allowance relative to the overall spread over swaps.

Year ended 31 December 2023	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit Default allowance	53bps	53bps
Overall valuation interest rate	5.18	5.25
Credit allowance as proportion of spreadover swaps	22.5	21.8
Net of reinsurance credit reserve (£m)	523	205

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

The increase in net of reinsurance reserve is primarily due to a reduction in yields since 31 December 2022 and an increase in the short term overlay. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities, and the sensitivity of FRS 102 profit after tax to changes in this assumption is shown in Note 28 (E).

Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on current expense levels, including an allowance for ongoing investment management expenses and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for prudence is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. These assumptions therefore take recent increases in

Notes on the financial statements (continued)

inflation into account, and allow for the market-driven long-term view of future inflation. For the shareholder-backed annuities the maintenance expense assumptions are £35 - 57 pa (£35 pa 2022). The sensitivity of FRS 102 profit after tax to changes in expense levels is shown in Note 28 (E).

Term assurance assumptions

The following discount and mortality bases were used for term assurances at 31 December 2023:

	Interest Rate %	Actuarial Mortality Table Reference*
UK (excluding ex-Scottish Amicable Insurance Fund)		
Term assurances - life business	2.86	85% to 105% AMC00/AFC00 +1 or 1.5 age adj depending on product
Term assurances - pensions business	3.58	80% to 90% AMC00/AFC00+1
Ex-Scottish Amicable Insurance Fund		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	4.19	80% AMC00/AFC00+1

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

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

C. Linked business in the Shareholder Fund

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2023:

Discount Rate	3.58%
Fund Growth	4.33%
Mortality	80%-120% AMC/AFC00 Ultimate -3 or +1 age adj depending upon product type
Administration Expenses	£74 to £174 depending on product type
Expense Inflation	3.33% for retained expenses, 2.83% for third party expenses

Notes on the financial statements (continued)

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

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

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

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2023:

Discount Rate	3.58%
Fund Growth	4.33%
Mortality	80%-120% AMC/AFC00 Ultimate -3 or +1 age adj depending upon product type
Administration Expenses	Ex-SAIF: £77 to £182 depending on product type WPSF: £100 to £117 depending on product type
Expense Inflation	4.33% for retained expenses, 2.83% for third party expenses

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

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

E. Other long-term business provisions

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

27. Commitments, Contingencies and Related Obligations

Pension Mis-selling Review

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

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

At 31 December 2023, the pension mis-selling amount included within the long-term business provision was £140m (2022: £226m). The table below summarises the change for the year ended 31 December 2023.

Notes on the financial statements (continued)

	Year Ended 31 December 2023 £m	Year Ended 31 December 2022 £m
Balance at start of the year	**226**	297
Changes to actuarial assumptions and method of calculation	**(34)**	(59)
Changes to actuarial soft-close rate assumption	**(46)**	—
Release of provision in respect of closed cases	**(4)**	(1)
Redress paid to policyholders	**(2)**	(7)
Payment of administrative costs	**—**	(4)
Balance at end of the year	**140**	226

The pension mis-selling review provision as at 31 December 2023 is £140m for the remaining population.

The key assumptions underlying the provisions are:

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

The £86m reduction in the provision for the Pension Mis-selling Review is mainly driven by the rise in interest rates which reduces the present value of future benefit payments and an update to the soft close rate from 30% to 15% which reduces the number of claims expected from customers who have not engaged with the review.

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

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

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

Pensions Equalisation Review

The European Court of Justice ruled in 1990 that pension schemes should equalise retirement ages for males and females (Barber vs Guardian Royal Exchange). This affects certain defined benefit pension schemes previously administered by Scottish Amicable Life Assurance Society and wound up schemes formerly administered by the Company, where the Company issued the buy-out policy to members. Investigations have been carried out over recent years to determine the extent to which the Company was responsible or liable for any errors in members' benefit calculations and whether compensation or redress may be payable, and from which fund. Accordingly, as at 31 December 2023 an amount is held within the long-term business provision of £11m in respect of shareholder-backed business and £3m in respect of ex SAIF (2022: £11m and £3m respectively).

Guaranteed Minimum Pensions

From April 1987, pension schemes were able to 'contract out' of the State Earnings Related Pension Scheme, enabling companies and members to pay lower National Insurance Contributions, but their schemes had to provide a minimum level of benefit, the GMP. Recent court cases have confirmed that there is a requirement for GMPs to be equalised between male and female members/policyholders. The Company has included an amount within the long-term business provision for the expected costs of equalisation, however there is uncertainty as to the extent to which the judgements apply to schemes other than active defined benefit schemes and therefore the extent to which the Company may be responsible for achieving this across its product lines. A provision of £39m was held at 31 December 2023 (£39m at 31 December 2022) to provide for equalisation of GMP benefits. This provision was set up following a high court ruling in 2018 relating to Lloyds Banking Group which resulted in pension schemes being legally required to remove any inequality of treatment between members for pensions benefits accrued after May 1990.

Support of Long-term Business Funds by Shareholders’ Funds

As a proprietary insurance company, the Company is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Company’s ability to satisfy policyholders’ reasonable expectations was adversely affected, or otherwise not able to meet its obligations to treat the with-profits policyholders fairly, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders’ funds to the long-term funds to provide financial support.

In line with the FCA regulations which ensures that new business written in the With-Profits Sub-Fund (WPSF) is financially self-supporting or, in the event charges are not sufficient to cover costs, shareholders will make an appropriate contribution to the WPSF. In 2022 a £6.6m loss arose due to the establishment of a provision (credited to the fund for future appropriations) as the lower sales volumes were not sufficient to generate charges to fully absorb the operational fixed costs. The final shortfall in respect of 2022 new business was greater at £7.3m A provision has been established in relation to 2023 new business volumes of £17.3m, resulting in an overall loss of £17.9m in 2023 (transferred to the fund for future appropriations).

The Company established a Polish branch which became operational in March 2013. The Company’s With Profits inherited estate contributed to the costs of establishing the branch and receives repayment through income from charges levied on the business. There is an obligation on the Company's shareholder funds to ensure the With Profits inherited estate will be repaid in full, with interest, and therefore an amount is recognised for the estimated cost to the shareholder of any shortfall at end of the term of the agreement. This obligation to repay the With Profit inherited estate in full was not affected by the Part VII Transfer of the Company's Polish branch to its subsidiary, PIA, in 2019. At 31 December 2023 £62m has been provided for by the Shareholder fund which has been credited to the fund for future appropriations with changes in the value recognised in transfer from/(to) the fund for future appropriations in the profit or loss account.

Transformation costs associated with new business will be recovered in the pricing of future new business (subject to a shareholder underpin whereby the shareholder will compensate the WPSF if any of these costs are not fully recovered after a specified period, currently 10 years with an extension of 5 years to 2031). As at 31 December 2023 the provision was £6.8m (2022: £nil), a loss in the period of this amount (transferred to the fund for future appropriations).

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

Litigation

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

Notes on the financial statements (continued)

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

Intra-group Capital Support Arrangements

M&G plc and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by M&G plc (including in the scenarios referred to in Pension Mis-selling Review above). While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to the Company and its policyholders.

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

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

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

Risk Mitigation Agreement between Shareholder and With Profits Fund

PAC's shareholder fund had previously entered into a risk management arrangement with the with-profits fund in relation to the shareholder transfers expected to emerge from the with-profits sub-fund, specifically with regard to the PruFund new business written during 2018 to 2020. This arrangement was designed to protect the shareholders against extremely weak market returns. This arrangement was terminated in 2023. The arrangement resulted in a £9m realised loss for the year ended 31 December 2023 (2022: unrealised loss of £8m).

Further, in 2023, PAC's shareholder fund entered into a new arrangement with the WPSF in relation to future shareholder transfers expected to emerge from PruFund business written to 31 December 2022. The shareholder fund accepted a one-off cash payment in lieu of 20% of these future shareholder transfers. This arrangement is mutually beneficial since it generates certainty and cash for the shareholder while reducing the with-profit fund exposure to a potential mismatch between the value of the shareholder transfers and the fixed charges taken to cover those transfers. In addition, under the arrangement the shareholder paid the WPSF for a higher share of future surplus from certain cohorts of business. In the current year a loss of £144m arises on transaction, an unrealised loss of £14m (2022:£nil) and a realised gain of £nil (2022:£nil), due to the interaction of the arrangement with the fund for future appropriations of the with-profits fund. These are expected to unwind in future in line with the receipt of future shareholder transfers.

28. Financial assets and liabilities

A. Financial instruments - designation and fair values

All financial assets of the Company are designated as either fair value through profit and loss or amortised cost. Financial liabilities are designated as either fair value through profit and loss, amortised cost or investment contracts with discretionary participation features accounted for under FRS 103 as described in note 1 (Accounting Policies). The Company has chosen to adopt IFRS 9 to align with the Group (see note 1 (F)) and has applied IFRS 9 retrospectively and restated comparative information for the year ended 31 December 2022.

2023	Fair value through profit and loss	Amortised Cost	Total carrying value	Fair value
	£m	£m	£m	£m
Financial Assets				
Deposits with credit institutions	—	12,507	12,507	12,507
Equity securities and portfolio holdings in unit trusts	64,559	—	64,559	64,559
Debt securities and other fixed income securities (note i)	39,943	—	39,943	39,943
Loans	1,842	—	1,842	1,842
Participation in investment pools	12,285	—	12,285	12,285
Derivative assets	1,354	—	1,354	1,354
Assets held to cover linked liabilities	10,012	961	10,973	10,973
Debtors arising out of direct insurance operations	—	27	27	27
Debtors arising out of reinsurance operations	—	14	14	14
Accrued investment income	—	718	718	718
Other debtors	—	376	376	376
Cash at bank and in hand	—	829	829	829
Total	**129,995**	**15,432**	**145,427**	**145,427**

	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
	£m	£m	£m	£m
Financial Liabilities				
Investment contracts without discretionary participation features	6,228	—	6,228	6,228
Creditors arising out of direct insurance operations	—	101	101	101
Creditors arising out of reinsurance operations	—	196	196	196
Deposits received from reinsurers	—	111	111	111
Other creditors (note ii)	—	960	960	960
Amounts owed to Credit Institutions (excluding derivatives)	—	4,459	4,459	4,459
Derivative liabilities	2,572	—	2,572	2,572
Total (note iii)	**8,800**	**5,827**	**14,627**	**14,627**

Notes on the financial statements (continued)

2022	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
	£m	£m	£m	£m
Financial Assets				
Deposits with credit institutions	—	18,664	18,664	18,664
Equity securities and portfolio holdings in unit trusts	57,156	—	57,156	57,156
Debt securities and other fixed income securities (note i)	40,218	—	40,218	40,218
Loans	2,332	(2)	2,330	2,330
Participation in investment pools	12,062	—	12,062	12,062
Derivative assets	2,418	—	2,418	2,418
Assets held to cover linked liabilities	9,737	830	10,567	10,567
Debtors arising out of direct insurance operations	—	20	20	20
Debtors arising out of reinsurance operations	—	25	25	25
Accrued investment income	—	679	679	679
Other debtors	—	361	361	361
Cash at bank and in hand	—	875	875	875
Total	**123,923**	**21,452**	**145,375**	**145,375**

	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
	£m	£m	£m	£m
Financial Liabilities				
Investment contracts without discretionary participation features	6,098	—	6,098	6,098
Creditors arising out of direct insurance operations	—	103	103	103
Creditors arising out of reinsurance operations	—	176	176	176
Deposits received from reinsurers	—	146	146	146
Other creditors (note ii)	246	735	981	981
Amounts owed to Credit Institutions (excluding derivatives)	—	5,858	5,858	5,858
Derivative liabilities	3,882	—	3,882	3,882
Total (note iii)	**10,226**	**7,018**	**17,244**	**17,244**

Notes

(i) As at 31 December 2023, £553m (2022: £411m) of convertible bonds were included in debt securities. There were no convertible bonds included in borrowings.

(ii) As at 31 December 2023, £1m (2022: £1m) of loans repayable, contingent on regulatory surplus emerging, was included in other creditors.

(iii) For financial liabilities designated as fair value through profit and loss there was no material impact on profit from movements in credit risk during 2023 and 2022.

Determination of fair value

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

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

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

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

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

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

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

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

The table below includes financial instruments carried at fair value analysed by level of the FRS 102.34 *Specialist Activities Financial Institutions* (FRS 102.34) paragraph 22 defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement. The Company's policy is to recognise transfers into and transfers out of levels at the end of each half year except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

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

Notes on the financial statements (continued)

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 year end they are classified as Level 1. Level 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and certain national government and corporate bonds.

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

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

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

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

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

- Debt securities which were either valued on a discounted cash flow method with an internally developed discount rate or using other valuation methodologies including enterprise valuation and estimated recovery (such as liquidators' reports). These include senior and junior notes backed by residential ground rents with a carrying value of £741m (2022: £941m) – Please see page 86 for more information on these assets. The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation. During the year, the methodology for valuing the securities was further enhanced to place focus on the use of comparable instruments or a comparable basket of securities to derive a credit spread for each in scope private debt investment. This approach aligns to views of best practice and considers key features of the investment being valued.
- Private equity and venture capital investments in both debt and equity securities which were valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
- Equity release mortgage loans are valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the discount rate (consisting of an observable risk free rate and an unobservable illiquidity premium of 3% (2022: 2%), the current property value, the assumed future property growth is now measured using a risk free curve (2022: 3%) and the assumed future annual property rental yields of 2% (2022: 2%). Significant assumptions for equity release mortgage assets within the valuation of the no-negative-equity guarantee (NNEG) include the expected annual increase in house prices as above and the implied in house price volatility of 11% (2022: 13%).

Notes on the financial statements (continued)

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

As at 31 December 2023	Fair Value £m	Held in Shareholder-backed fund £m	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on FRS 102 profit after tax £m
Investment property						
Property in use	6,079	550	Equivalent yield	Decrease by 50bps	649	58
				Increase by 50bps	(562)	(47)
			Estimated rental value	Decrease by 10%	(521)	(36)
				Increase by 10%	530	36
Property under development	135	—	Development cost	Increase by 10%	13	—
				Decrease by 10%	(13)	—
Equity release mortgages (i)	928	928	Illiquidity premium	Increase by 50bps	(61)	(46)
				Decrease by 50bps	66	50
			Current property value	Increase by 10%	44	33
				Decrease by 10%	(54)	(40)
			Assumed annual property growth rate	Increase by 100bps	109	82
				Decrease by 100bps	(154)	(116)
			Assumed annual property rental yield	Increase by 100bps	(77)	(58)
				Decrease by 100bps	72	54
Equity securities and portfolio holdings in unit trusts	6,953	1	Net asset value	Increase by 10%	695	—
				Decrease by 10%	(695)	—
Debt securities (ii)						
Private placement loans (iii)	4,218	2,344	Discount rate	Increase by 40bps	(178)	(108)
				Decrease by 40bps	193	117
Retail income strips	158	—	Discount rate	Increase by 50bps	(10)	(9)
				Decrease by 50bps	12	10
Unquoted corporate bonds	1,149	741	Broker quotes	Increase by 10%	121	61
				Decrease by 10%	(121)	(61)
Other investments (including derivative assets)						
Derivative assets	30	30	Discount rate	Increase by 50bps	(1)	(1)
				Decrease by 50bps	1	1
Other investments	10,615	1	Net asset value	Increase by 10%	1,061	—
				Decrease by 10%	(1,061)	—

i) The equity release mortgage loans of £928m as at 31 December 2023 were valued internally using discounted cash flow models. Future cashflows are estimated based on assumptions, including prepayment, death and entry into long-term care, and discounted using an appropriate discount rate, which references market rates for equity release mortgage loans.
The equity release mortgages have a no-negative equity guarantee (NNEG) that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against. The value of the NNEG, which is recognised as a deduction from the value of the loans, is based on a Black-Scholes option pricing valuation utilising a real-world approach and is estimated using assumptions, including future property growth rate and property price volatility.
ii) Debt securities have been adjusted to exclude assets held to cover linked liabilities.
iii) Included within private placement loans are senior and junior notes backed by residential ground rents with a carrying value of £741m (2022: £941m), of which £512m are held in the shareholder-backed fund (2022: £668m). In addition £499m (2022: £481m) of senior notes backed by residential ground rent assets are also held in the assets held to cover linked liabilities as shown in note 15. In aggregate the carrying value was £1,241m (2022: £1,422m). In November 2023, the Department for Levelling up, Housing and Communities, a

department of the UK Government, issued a consultation titled "Modern leasehold: restricting residential ground rent for existing leases". The consultation, which is now closed to comments, included five options for capping ground rents in existing leases. One of the potential options is to cap ground rents in existing leases at the nominal value of a peppercorn (peppercorn cap), which would eliminate materially the full value of the asset. We have been engaging with the UK Government and, together with other industry participants, have provided constructive responses to the consultation. However, the outcome of the consultation in terms of any proposed change in legislation is still uncertain.

The impact on the overall reported market value (£1,241m (2022:£1,423m)) from the uncertainty arising from the potential outcomes of the consultation have been reflected in the valuation through a ratings downgrade to all senior notes impacted from AA- to A+ and the application of an incremental illiquidity spread of 0.60% above the comparable spread implied by the rating to reflect the compensation that a market participation would require at reporting date due to the uncertainty in future values. Consequently, the risk premium on the residential ground rents as at 31 December 2023 ranges between 1.80% and 2.69% on the senior notes and between 3.81% and 4.49% on the junior notes. The impact of these assumption changes is a decline in the value of the residential ground rent portfolio of £170m, of which £121m relates to assets held in the shareholder-backed fund.

An increase in the illiquidity spread of 50 bps would result in the value of the assets decreasing by £100m, of which £70m would relate to the shareholder-backed fund. In the event of a ‘peppercorn cap’, the assets would fall to a value close to nil. All the senior residential ground rent notes in the portfolio are A rated and there is no evidence to suggest an underlying increase in the credit risk from a systematic inability of the tenants to repay the residential ground rents.

The corresponding impacts to long term business provisions and technical provisions for linked liabilities and profit after tax are disclosed in note 28 (E).

Notes on the financial statements (continued)

As at 31 December 2022	Fair Value	Held in Shareholder-backed fund	Most significant unobservable input	Sensitivity	Change in fair value	Impact on FRS 102 profit after tax
	£m	£m			£m	£m
Investment property						
Property in use	6,557	873	Equivalent yield	Decrease by 50bps	777	76
				Increase by 50bps	(666)	(62)
			Estimated rental value	Decrease by 10%	(537)	(42)
				Increase by 10%	582	43
Property under development	317	—	Development cost	Increase by 10%	32	—
				Decrease by 10%	(32)	—
Equity release mortgages (i)	901	901	Illiquidity premium	Increase by 50bps	(63)	(47)
				Decrease by 50bps	69	51
			Current property value	Increase by 10%	39	30
				Decrease by 10%	(48)	(36)
			Assumed annual property growth rate	Increase by 100bps	113	85
				Decrease by 100bps	(159)	(119)
			Assumed annual property rental yield	Increase by 100bps	(73)	(55)
				Decrease by 100bps	69	52
Equity securities and portfolio holdings in unit trusts	4,819	1	Net asset value	Increase by 10%	482	—
				Decrease by 10%	(482)	—
Debt securities (ii)						
Private placement loans	4,540	2,514	Discount rate	Increase by 40bps	(202)	(141)
				Decrease by 40bps	217	(202)
Retail income strips	161	139	Discount rate	Increase by 50bps	20	10
				Decrease by 50bps	(18)	(9)
Unquoted corporate bonds	1,292	487	Broker quotes	Increase by 10%	129	36
				Decrease by 10%	(129)	(36)
Other investments (including derivative assets)						
Derivative assets	26	26	Discount rate	Increase by 50bps	(1)	(1)
				Decrease by 50bps	1	1
Other investments	10,935	—	Net asset value	Increase by 10%	1,093	—
				Decrease by 10%	(1,093)	—

i) The equity release mortgage loans of £901m as at 31 December 2022 were valued internally using discounted cash flow models. Future cashflows are estimated based on assumptions, including prepayment, death and entry into long-term care, and discounted using an appropriate discount rate, which references market rates for equity release mortgage loans.
The equity release mortgages have a no-negative equity guarantee (NNEG) that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against. The value of the NNEG, which is recognised as a deduction from the value of the loans, is based on a Black-Scholes option pricing valuation utilising a real-world approach and is estimated using assumptions, including future property growth rate and property price volatility.
ii) Debt securities have been adjusted to exclude assets held to cover linked liabilities.

Notes on the financial statements (continued)

	31 December 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
With-profits				
Investment properties	—	—	5,664	**5,664**
Equity securities and portfolio holdings in unit trusts	54,485	3,122	6,952	**64,559**
Debt securities	11,292	16,933	2,440	**30,665**
Loans	—	30	538	**568**
Other investments (including derivative assets)*	272	2,559	10,613	**13,444**
Assets held to cover linked liabilities	27	697	404	**1,128**
Derivative liabilities	(59)	(999)	—	**(1,058)**
Total financial investments, net of derivative liabilities	**66,017**	**22,342**	**26,611**	**114,970**
Percentage of total	**57%**	**20%**	**23%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	5,239	69	—	**5,308**
Total investments net of derivative liabilities	5,239	69	—	**5,308**
Investment contract without discretionary participation features held at fair value	—	(6,228)	—	**(6,228)**
Total	**5,239**	**(6,159)**	**—**	**(920)**
Non-linked shareholder-backed				
Investment properties	—	—	550	**550**
Equity securities and portfolio holdings in unit trusts	—	—	1	**1**
Debt securities	2,057	4,136	3,085	**9,278**
Loans	—	—	1,274	**1,274**
Other investments (including derivative assets)*	—	163	31	**194**
Assets held to cover linked liabilities	452	1,769	1,355	**3,576**
Derivative liabilities	—	(1,501)	(13)	**(1,514)**
Total financial investments, net of derivative liabilities	**2,509**	**4,567**	**6,283**	**13,359**
Percentage of total	**19%**	**34%**	**47%**	**100%**
Company total				
Investment properties	—	—	6,214	**6,214**
Equity securities and portfolio holdings in unit trusts	54,485	3,122	6,953	**64,560**
Debt securities	13,349	21,069	5,525	**39,943**
Loans	—	30	1,812	**1,842**
Other investments (including derivative assets)*	272	2,722	10,644	**13,638**
Assets held to cover linked liabilities	5,718	2,535	1,759	**10,012**
Derivative liabilities	(59)	(2,500)	(13)	**(2,572)**
Total financial investments, net of derivative liabilities	**73,765**	**26,978**	**32,894**	**133,637**
Investment contract without discretionary participation features held at fair value	**—**	**(6,228)**	**—**	**(6,228)**
Total	**73,765**	**20,750**	**32,894**	**127,409**
Percentage of total	**58%**	**16%**	**26%**	**100%**

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

Notes on the financial statements (continued)

	31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
With-profits				
Investment properties	—	—	6,001	**6,001**
Equity securities and portfolio holdings in unit trusts	49,262	3,075	4,818	**57,155**
Debt securities	6,369	21,635	2,853	**30,857**
Loans	—	—	1,031	**1,031**
Other investments (including derivative assets)*	287	3,001	10,935	**14,223**
Assets held to cover linked liabilities	151	758	417	**1,326**
Derivative liabilities	(87)	(2,049)	—	**(2,136)**
Total financial investments, net of derivative liabilities	**55,982**	**26,420**	**26,055**	**108,457**
Percentage of total	**52%**	**24%**	**24%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	5,361	(2)	—	**5,359**
Total financial investments net of derivative liabilities	5,361	(2)	—	**5,359**
Investment contract without discretionary participation features held at fair value	—	(6,098)	—	**(6,098)**
Total	**5,361**	**(6,100)**	**—**	**(739)**
Non-linked shareholder-backed				
Investment properties	—	—	755	**755**
Equity securities and portfolio holdings in unit trusts	—	—	1	**1**
Debt securities	1,313	4,909	3,140	**9,362**
Loans	—	—	1,300	**1,300**
Other investments (including derivative assets)*	—	232	26	**258**
Assets held to cover linked liabilities	142	1,736	1,172	**3,050**
Derivative liabilities	—	(1,738)	(9)	**(1,747)**
Total financial investments, net of derivative liabilities	**1,455**	**5,139**	**6,385**	**12,979**
Percentage of total	**11%**	**40%**	**49%**	**100%**
Company total				
Investment properties	—	—	6,756	**6,756**
Equity securities and portfolio holdings in unit trusts	49,262	3,075	4,819	**57,156**
Debt securities	7,682	26,544	5,993	**40,219**
Loans	—	—	2,331	**2,331**
Other investments (including derivative assets)*	287	3,233	10,961	**14,481**
Assets held to cover linked liabilities	5,654	2,492	1,589	**9,735**
Derivative liabilities	(87)	(3,787)	(9)	**(3,883)**
Total financial investments, net of derivative liabilities	**62,798**	**31,557**	**32,440**	**126,795**
Investment contract without discretionary participation features held at fair value	**—**	**(6,098)**	**—**	**(6,098)**
Total	**62,798**	**25,459**	**32,440**	**120,697**
Percentage of total	**52%**	**21%**	**27%**	**100%**

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

Interest expense

The interest expense on financial liabilities not at fair value through profit and loss was nil for the year ended 31 December 2023 (2022: £7m).

B. Risk Management

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

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

Risk Type:	Definition:
Market risk	The risk of loss or adverse change in the health of the Company's business (including the with-profits fund estate) resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets, currencies, liabilities and financial instruments.
Credit risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Insurance risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from changes in the level, trend or volatility of mortality; longevity; morbidity; persistency; expense and margin pricing experience.
Corporate Liquidity risk	The risk that the Company and its businesses are unable to meet their financial obligations (e.g. claims, creditors and collateral calls) as they fall due because they do not have or are unable to generate sufficient liquid assets.

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

With-profits business

With-Profits Sub-Fund (WPSF) business

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) primarily arises through the effect that market, credit and insurance risks have on shareholder transfers from the WPSF.

The investment assets of the WPSF are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability not attributable to either policyholders or shareholders, in the normal course of events movements in its value would not be expected to affect shareholders' profit and equity.

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

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged on the shareholder balance sheet.

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

Defined Charge Participating Sub-Fund (DCPSF) business

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

Unit-linked business

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

Profits from unit-linked contracts primarily arise from the excess of charges to customers for management of assets, over expenses incurred. The charges incurred are sensitive to changes in the value of funds under management and are therefore dependent on the market price of assets and policyholder rates of exit. By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience. Amounts under unit-linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

Annuity and other shareholder business

The Company's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with assets of an appropriate duration. As a result, the sensitivity to market risk arising from movements in the value of these annuity liabilities and the corresponding matching assets is low. However, market risk can arise on any asset/liability duration mismatch and on assets held in excess of the liabilities which back the capital requirements of the annuity business. These excess assets are primarily debt securities.

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

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

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

C. Market Risk

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

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

- Interest rate risk: fluctuations in the level or volatility of interest rates or the shape or curvature of the yield curve or spread relationships.
- Inflation risk: fluctuations in actual or implied inflation rates.
- Equity risk: fluctuations in the level or volatility of equity investments.
- Property risk: fluctuations in the level or volatility of property investments.
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures.
- Alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above).

The primary market risks that the Company faces are equity risk, property risk, alternatives risk, interest rate risk and currency risk. Most of the assets the Company holds are investments that are either equity type investments and subject to equity price risk, property type investments and subject to property price risk or fixed income type investments, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. Each asset type may give rise to currency risk, where assets are held in overseas currencies. The amount of risk borne by the Company's shareholders depends on the extent to which its customers share the risk through the structure of the products.

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

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

Interest rate risk and inflation risk

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

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

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

The estimated sensitivity of the shareholder-backed business to a movement in interest rates of 1% and 2% as at 31 December 2023 and 2022 are as follows:

	2023				2022			
	Fall of 1%	**Rise of 1%**	**Fall of 2%**	**Rise of 2%**	Fall of 1%	Rise of 1%	Fall of 2%	Rise of 2%
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Carrying value of debt securities and derivatives	**1,506**	**(1,315)**	**3,264**	**(2,482)**	1,409	(1,234)	3,049	(2,330)
Technical provisions	**(1,109)**	**949**	**(2,417)**	**1,769**	(1,023)	886	(2,212)	1,658
Related tax effects	**(99)**	**92**	**(212)**	**178**	(97)	87	(209)	168
Net sensitivity of profit after tax and shareholders' funds	**298**	**(274)**	**635**	**(535)**	289	(261)	628	(504)

Material increases in inflation may increase our cost base and the amount the Company needs to set aside to meet its future obligations, negatively impacting profitability. Inflation risk is managed through closely matching linked liabilities and assets for annuity books and through investment in 'real' assets in the With-Profits Fund.

Equity and property risk

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

Notes on the financial statements (continued)

	2023		2022	
	Decrease of 20%	**Decrease of 10%**	Decrease of 20%	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**(110)**	**(55)**	(175)	(87)
Related deferred tax effects	**28**	**14**	44	22
Net sensitivity of profit after tax and shareholders' funds	**(82)**	**(41)**	(131)	(65)

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

In the equity risk sensitivity analysis shown above, the Company has considered the impact of an instantaneous 20% fall in equity markets. The Company believes a fall of greater than 10%-20% would be expected to occur over a greater period of time rather than instantaneously, during which time the Company would be able to put mitigating management actions in place.

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

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

	2023		2022	
	Decrease of 20%	**Decrease of 10%**	Decrease of 20%	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**181**	**97**	95	54
Related deferred tax effects	**(45)**	**(24)**	(24)	(13)
Net sensitivity of profit after tax and shareholders' funds	**136**	**73**	71	41

Currency Risk

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

As at 31 December 2023 the Company held 34% and 3% (2022: 33% and 3%) of its financial assets and financial liabilities, respectively in currencies, mainly US Dollar and Euro, other than the functional currency of the relevant business unit.

The financial assets, of which 84% (2022: 84%) are held by the with-profits fund, allow the Company to obtain exposure to foreign equity and debt markets.

The financial liabilities, of which 34% (2022 : 47%) are held by the with-profits fund, mainly relate to investment contracts without discretionary participation features, creditors and derivative liabilities.

D. Credit risk

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

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

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

Debt Securities and Other Fixed Income Securities

The following table summarises by rating the securities held by the Company as at 31 December 2023 and 2022.

	2023 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
With-profits	**3,414**	**9,622**	**6,809**	**6,942**	**770**	**3,107**	**30,664**
Assets held to cover linked liabilities	**284**	**1,184**	**1,928**	**1,033**	**36**	**—**	**4,465**
Non-linked shareholder-backed	**785**	**2,638**	**1,449**	**1,418**	**46**	**2,942**	**9,278**
Total debt securities and other fixed income securities	**4,483**	**13,444**	**10,186**	**9,393**	**852**	**6,049**	**44,407**

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

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

Debt securities with no external credit rating are classified as "other". Where no external ratings are available, internal ratings produced by the M&G plc group's asset management operations, which are prepared on a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2023 which are not externally rated, £4,048m (2022: £5,391m) were internally rated AAA to A-, £1,452m (2022: £2,114m) were internally rated BBB+ to B- and £549m (2022: £732m) were internally rated as below B- or unrated. The majority of the unrated debt security investments were held by the Company's with-

profits fund and relate to convertible debt and other investments which are not covered by rating analysts nor have an internal rating attributed to them.

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

Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions at 31 December 2023 of £6,192m (2022: £5,964m), 19% (2022 : 21%) of the balance relates to companies outside of the Group.

The following table summarises by rating the reinsurance asset held by the Company as at 31 December 2023 and 2022.

	2023 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
Reinsurance asset	—	433	680	—	—	44	1,157

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

Securities lending and reverse repurchase agreements

The Company has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements, depend on the quality of the collateral, calculated on a daily basis. The securities lent and securities subject to repurchase agreements are not derecognised from the Group's statement of financial position. Collateral typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2023, the Company has £4,899m (2022: £3,638m) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements was £5,148m (2022: £3,779m).

At 31 December 2023, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £9,445m (2022: £14,848m).
During 2023 and 2022 the Company did not take possession of any other collateral held as security.

Collateral and pledges under derivative transactions

At 31 December 2023, the Company had pledged £1,828m (2022: £2,556m) for liabilities and held collateral of £368m (2022: £1,215m) in respect of over-the-counter derivative transactions.

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

Collateral Pledged and Received for Reinsurance Contracts

The Company has entered into several reinsurance agreements where the Reinsurer has agreed to reinsure the Company in respect of the reinsurance claims in consideration of the Company agreeing to pay to the Reinsurer the reinsurance premiums and reinsurance fees. Exposure collateral calculations are performed on each agreement on either a quarterly or annual basis, with relevant collateral then being pledged or held by the Company. As at 31 December 2023, the Company had pledged exposure collateral of £231m (2022: £214m), relating to these agreements.

Notes on the financial statements (continued)

Collateral Pledges for Equity Release mortgages

As at 31 December 2023 the Company had pledged collateral of £298m (2022: £287m) consisting of debt securities for the deferred purchase consideration for the mortgages purchased from Santander.

E. Insurance Risk

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

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

For unit-linked business, by virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience. However, profits are sensitive to changes in expenses and, in the long term, persistency trends.

Longevity risk has been predominantly managed through:

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

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

The impact of these sensitivities on pre-tax profits are shown in the table below:

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	£m
1% decrease in assumed mortality rates	**(25)**	(29)
5 bps decrease in credit default assumptions	**51**	47
5% decrease in renewal expenses (excluding asset management expenses)	**13**	13
0.25% increase in improvements of longevity trend	**(34)**	(29)

The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £4m (2022: £2m). This analysis has been determined by varying the relevant assumption as at the reporting date while holding all other assumptions constant.

As stated on page 86, the UK Government's consultation on residential ground rents has had an impact on the value of the assets that back the long term business provision and the technical provisions for linked liabilities. The main impact has been through a change in discount rate which has resulted in the carrying value of the long term business provision and technical provision for linked liabilities decreasing by £67m. The net asset and liability impact (allowing for corresponding change in the fund for future appropriations of the With-Profit Fund) is to reduce profit after tax by £55m in 2023.

Notes on the financial statements (continued)

If the yield on the residential ground rents were to increase by 50bps to reflect a change in illiquidity spread, the carrying value of the long term business provision and technical provisions for linked liabilities for non-profit annuities will decrease by £32m, of which £22m would relate to the non-profit annuities in the shareholder-backed fund. The effect of the change in non-profit annuities liabilities in the with-profits fund would be directly offset by a corresponding change in the fund for future appropriations of the With-Profits Fund and therefore has no impact on the profit after tax. Overall, the increase in spread of 50bps would reduce the profit after tax by £37m.
In the event the the Government implements the peppercorn cap, the value of the insurance contract liabilities would be impacted due to a change in the overall portfolio yield on the writing down of the underlying residential ground rent assets. The impact would be dependent on replacement assets that are used to rebalance the portfolio.

With-Profits Fund liability sensitivity analysis

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

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

Non-economic sensitivities	**Year Ended 31 December 2023 £m**	Year Ended 31 December 2022 £m
10% increase in lapse rates	**92**	84
10% decrease in lapse rates	**(108)**	(58)
1% decrease in base mortality assumptions	**35**	42
0.25% increase in mortality improvements	**34**	38

A decrease in lapse rates increases the liability for traditional with-profits products as a result of the associated high cost of guarantees, but reduces the liability for PruFund products (which have a low cost of guarantees) by increasing charge income received.

F. Corporate Liquidity Risk

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

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

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

- liquidity risk policy, which sets out the approach to the management of treasury risk on an ongoing basis. Compliance with the policies is the subject of an annual attestation process;
- a Liquidity Contingency Plan, which sets out the procedures to be followed if a material liquidity risk event arises or is expected to arise;
- asset and liability management programmes, including monitoring of projected liability cash flows to achieve close asset-liability matching;

Notes on the financial statements (continued)

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

In addition, to manage liquidity risk in unit-linked funds which are inherently more illiquid, in particular property funds, deferral clauses are in place which allow the deferral of cash payments to withdrawing customers in extreme adverse liquidity scenarios.

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

Liquidity Analysis

(i) Contractual maturities of financial liabilities

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

2023	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**Total un-discounted cashflows**	**Total carrying value**
Financial Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Creditors arising out of direct insurance operations	101	—	—	—	—	—	101	101
Creditors arising out of reinsurance operations	196	—	—	—	—	—	196	196
Deposits received from reinsurers	—	111	—	—	—	—	111	111
Amounts owed to credit institutions	4,459	—	—	—	—	—	4,459	4,459
Other creditors	734	43	58	51	37	37	960	960
	5,490	**154**	**58**	**51**	**37**	**37**	**5,827**	**5,827**

Notes on the financial statements (continued)

2022	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted cashflows	Total carrying value
Financial Liabilities	£m	£m	£m	£m	£m	£m	£m	£m
Creditors arising out of direct insurance operations	103	—	—	—	—	—	103	103
Creditors arising out of reinsurance operations	177	—	—	—	—	—	177	177
Deposits received from reinsurers	—	146	—	—	—	—	146	146
Amounts owed to credit institutions	5,858	—	—	—	—	—	5,858	5,858
Other creditors	568	217	54	52	42	48	981	981
	6,706	**363**	**54**	**52**	**42**	**48**	**7,265**	**7,265**

ii) Maturity analysis of derivatives and investment contracts

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

2023	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**Total un-discounted value**	**Total carrying value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Derivative assets*	**616**	**505**	**217**	**22**	**115**	**380**	**1,851**	**1,354**
Derivative liabilities	**(465)**	**(827)**	**(895)**	**(114)**	**(757)**	**(2,074)**	**(5,129)**	**(2,572)**
Net derivative position	**151**	**(322)**	**(678)**	**(92)**	**(642)**	**(1,694)**	**(3,278)**	**(1,218)**

2022 (Restated)	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted value	Total carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets*	302	748	610	473	550	1,169	3,852	2,418
Derivative liabilities	(697)	(1,056)	(681)	(1,059)	(930)	(1,573)	(5,996)	(3,882)
Net derivative position	(395)	(308)	(71)	(586)	(380)	(404)	(2,144)	(1,464)

* Includes assets held to cover index-linked liabilities.

The amounts related to undiscounted values of derivative assets and liabilities were restated for the year ended 31 December 2022. The net position of £2,144m remained unchanged but the split between assets and liabilities was altered.

Notes on the financial statements (continued)

Most investment contracts have the option for the policyholder to surrender their contract, in part or in full. The contractual maturity of investment contract liabilities without dpf, with a value of £6,228m as at 31 December 2023 (2022: £6,098m) would be classed as 1 year or less. Such surrenders would in practice be matched, if necessary, by sales of the underlying assets.

However, in practice the Group's insurance and investment contract liabilities are expected to be held for the long-term. The table below therefore shows the expected maturity profile for investment contracts (both with and without dpf) on an undiscounted basis to the nearest million. This maturity profile has been based on future projections and is gross of reinsurance.

	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted value	Total carrying value
2023	£m	£m	£m	£m	£m	£m	£m	£m
Life assurance investment contracts	**9,781**	**31,789**	**30,428**	**21,849**	**15,099**	**21,126**	**130,072**	**80,531**
2022 (Restated)								
Life assurance investment contracts	9,721	32,105	31,036	23,456	17,441	26,330	140,089	84,977

The methodology used in determining the maturity profile for investment contracts has been refined in 2023. As a result the prior year note disclosure has been restated using the new approach to ensure consistency. The impact of the change is to reduce the level of assumed future returns, which are uncertain in nature, altering the total undiscounted value from £158,040m to £140,089m.

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

G. Derivatives and Hedging

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

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

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

The total fair value balances of derivative assets and liabilities are shown in note 14.

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

During 2013 the Company entered into a partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which has been extended subsequently (with the last extension in

2022 and some rebalance in 2023). The effect in 2023 is an unrealised loss of £9m (2022: unrealised gain of £121m) and a realised loss of £109m (2022: realised loss of £119m) charged to the non-technical account.

Since 2018 the Company has entered into hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, specifically with regard to the PruFund new business, as arise over the contract period of 10 years. The agreement terminated in 2023, resulting in a £9m realised loss in the non-technical account (2022: unrealised loss of £8m).

During 2019, and subsequently in each year to 2023, the Company’s shareholder fund entered into interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2023, realised losses on these instruments of £112m were recognised (2022: realised losses of £186m) and unrealised gains of £116m (2022: unrealised losses of £803m).

29. Capital Requirements and Management

The Company is regulated under Solvency II and supervised by the Prudential Regulation Authority. The Company manages Solvency II own funds as its measure of capital. As at 31 December 2023 estimated and unaudited Company Solvency II own funds are £9.2bn (2022: £9.4bn).

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

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

A. Regulatory capital position

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

The estimated and unaudited Solvency II capital position for the Company as at 31 December 2023 and 31 December 2022 is shown below:

	2023	**2022**
	Unaudited	Unaudited
	£bn	**£bn**
Solvency II Own Funds	9.2	9.4
Solvency II Capital Requirement (SCR)	6.0	6.3
Solvency II Surplus	3.2	3.1
Solvency II Coverage ratio	154%	150%

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management’s estimate of the impact of operating and market conditions.

As at 31 December 2023, the recalculated transitional measures align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position is the same as the position disclosed in the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report of the same date.

As at 31 December 2022, the recalculated transition measure did not align to the approved regulatory position and therefore the estimated and unaudited Solvency II capital position differed from the position disclosed in

the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report of the same date.

There has been a material reduction in risk margin, and therefore transitional measures, as a result of the PRA implementation of risk margin reforms at 31 December 2023. The risk margin reforms reduced the cost of capital percentage and increased the speed at which the risk margin runs off resulting in a material reduction in risk margin. This reduction in transitional measures is partially offset by the impact of the PRA approved removal of the financial resource requirement (FRR) test.

Reforms of the matching adjustment (MA) are expected to come into force as at 30 June 2024. The proposals include greater investment flexibility, revised MA eligibility rules, and more flexibility in processes. They also cover a requirement for senior manager attestations on the level of Fundamental Spread and MA, and changes to the way the MA is calculated (e.g. requiring a greater level of granularity in the calculation) and reported (e.g. the introduction of a new regular Matching Adjustment Asset and Liability Information Return).

Furthermore, the impact of the UK Government's consultation on residential ground rents (as mentioned in note 28, page 86) has been reflected in the capital position. The overall impact is a decrease in own funds due to the fall in the valuation of the underlying residential ground rent asset which is offset partly by a fall in the value of the technical provisions. In addition, incremental capital has been held in the SCR which reflects the possible outcomes set out in the consultation, the most extreme of which effectively results in total loss of future ground rent income (‘peppercorn scenario’). This has resulted in a reduction in surplus of £264m.

The consultation is now closed to further responses and the impact of any resulting legislative change will be considered in due course.

B. Shareholder Capital Position

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

The estimated and unaudited shareholder Solvency II capital position for the Company as at 31 December 2023 and 31 December 2022 is shown below.

	2023	2022
	Unaudited	Unaudited
	£bn	£bn
Shareholder Solvency II Own Funds	**6.8**	6.9
Shareholder Solvency II Capital Requirement (SCR)	**3.6**	3.8
Shareholder Solvency II Surplus	**3.2**	3.1
Shareholder Solvency II Coverage ratio	**190%**	183%

C. Meeting of capital management objectives

The Company manages its capital on a Solvency II basis to ensure that sufficient Own Funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the Solvency II balance sheet resilient to stresses that affect the Company's business.

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

In addition, projections are performed to understand how the Own Funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these

projections there are a number of actions available to management to strengthen the Own Funds position, including (but not limited to) changes to investment strategy, dividend policy and risk transfer.

30. Related Undertakings

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

The following is a list of related undertakings of the Company at 31 December 2023.

(i) Direct subsidiary undertakings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Caisson (Jersey) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Carraway Guildford General Partner Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
CJPT Real Estate Inc.	Ordinary Shares	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway JV Limited	Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cribbs Mall Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Edger Investments Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
EF IV Schoolhill GP Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Leadenhall Unit Trust	Units	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Manchester JV Limited	Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Minster Court Estate Management Limited	A Ordinary Shares and B Ordinary Shares	56%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	Ordinary Shares	99%	USA	300 E Lombard Street, Baltimore, MD 21202, USA
Optimus Point Management Company Limited	Ordinary Shares	52%	United Kingdom	Barratt House, Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPMC First Nominees Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Equity Release Mortgages Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Investment (Luxembourg) 2 S.à.r.l.	Ordinary shares	100%	Luxembourg	Citco Fund Services (Luxembourg) S.A., 20 Rue de la Poste, 2346, Luxembourg
PAP Trustee Pty Limited	Unclassified Shares	100%	Australia	Suite 201, Level 2, 5 Berry Street, North Sydney NSW 2060, Australia
Prudential Real Estate Investments 1 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prutec Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
RD Park (Hoddesdon Phase 1) Management Company Limited	Ordinary Shares	64%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Schoolhill Sarl	Ordinary Shares	100%	Luxembourg	20, rue de la Poste, Luxembourg
Smithfield Limited	£1.00 Ordinary Shares and $1.00 Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Three Snowhill Birmingham S.a.r.l.	Ordinary Shares	100%	Luxembourg	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Two Snowhill Birmingham S.a.r.l.	Ordinary shares	100%	Luxembourg	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Vanquish I Unit Trust	Units	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish II Unit Trust	Units	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish Properties LP Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
West Station SAS	Ordinary Shares	100%	France	8 Avenue Hoche, 75008, Paris, France
Westwacker Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Insurance

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential International Assurance plc	Ordinary Shares	100%	Ireland	Fitzwilliam Court, Leeson Cl, Dublin 2, Dublin, D02 TC95, Ireland
Prudential Pensions Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Pension

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

Holding company

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

Mortgage lending

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Lifetime Mortgages Limited	Ordinary & Preference Shares	100%	United Kingdom	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK

Notes on the financial statements (continued)

Service

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential International Management Services Limited	Ordinary Shares	100%	Ireland	Fitzwilliam Court, Leeson Cl, Dublin 2, Dublin, D02 TC95, Ireland

Dormant

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Manchester Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wessex Gate Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

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

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Aldwych LP	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
BWAT Retail Nominee (1) Limited	A Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	A Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford (Nominee A) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, Jersey, JE1 1ST, UK
Carraway Guildford (Nominee B) Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, Jersey, JE1 1ST, UK
Carraway Guildford Investments Unit Trust	Ordinary Shares	100%	Jersey	13 Castle Street, St Helier, Jersey, JE4 5UT, UK
Catalyst capital fund	Units	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
Catalyst Credit fund	Units	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
Centaurus Retail LLP	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
China Bond Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
CJPT Real Estate No. 1 Trust	Units	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	Units	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway Merchants Association Limited	Limited by Guarantee	20%	United Kingdom	Management Offices, The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Debt Investments Opportunities IV	Units	26%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Eastspring Investments SICAV-FIS Africa Equity FUND	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Elle 14 S.a.r.l	Ordinary Shares	45%	Italy	Via Alessandro Manzoni 38, Milan, 20121, Italy
Episode	Limited Partnership Interest	93%	Cayman Islands	c/o Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands
Fashion Square ECO LP	Limited Partnership Interest	50%	USA	1209 Orange Street, Wilmington, DE 19801, USA
Folios III Designated Activity Company	Ordinary Shares	49%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	Ordinary Shares	65%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird Limited Partnership	Limited Partnership Interest	50%	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird GP Limited	Ordinary Shares	50%	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	Ordinary Shares	50%	United Kingdom	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
HCR Canary Fund	Limited Partner	99%	USA	300 Atlantic Street, Suite 600, Stamford, CT 06901, USA
Infracapital Partners II LP	Limited Partnership Interest	26%	United Kingdom	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Partners IV SCSp	Limited Partnership Interest	50%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Infracapital Partners LP	Limited Partnership Interest	33%	United Kingdom	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
LB Investment Private Equity Real Estate Investment Fund No.10 (Centropolis)	Units	25%	Korea	20th floor, 136, Sejong-daero, Jung-gu, Seoul, Republic of Korea
LB Professional Investors Private Real Estate Fund No. 10 (Centropolis)	Units	25%	Republic of Korea	20th floor, 136, Sejong-daero, Jung-gu, Seoul, Republic of Korea
LF Prudential Risk Managed Active 4	Units	24%	United Kingdom	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
LF Prudential Risk Managed Active 5	Units	26%	United Kingdom	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
LF Prudential Risk Managed Passive Fund 1	Units	37%	United Kingdom	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	Ordinary Shares	98%	Ireland	35 Shelbourne Road, Ballsbridge, Dublin 4, D04 A4EO, Ireland
Luxembourg Specialist Investment Funds (2) FCP - M&G Private Equity Opportunities Fund	Units	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
Luxembourg Specialist Investment Funds (3) SICAV M&G Corporate Credit Opportunities ELTIF	Units	97%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (ACS) BlackRock Japan Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) BlackRock UK All Share Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) BlackRock US Equity Fund	Units	96%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G (ACS) China Equity Fund	Units	97%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) China Fund	Units	97%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Earnest Partners US Small Cap Value Fund	Units	99%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Granahan US Small Cap Growth Fund	Units	99%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Japan Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Japan Smaller Companies Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) UK Listed Equity Fund	Units	88%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) UK Listed Mid Cap Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (Lux) Global Funds - M&G (Lux) Asian Corporate Bond Fund	Units	96%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Funds - M&G (Lux) Asian Local Currency Bond Fund	Units	96%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Funds - M&G (Lux) Asian Total Return Bond Fund	Units	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Better Health Solutions Fund	Units	97%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Climate Solutions Fund	Units	92%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Diversity and Inclusion Fund	Units	86%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Emerging Markets Hard Currency Bond Fund	Units	91%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Global Artificial Intelligence Fund	Units	100%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G Lux Emerging Markets Bond Fund	Units	58%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Investment Funds (1) - M&G European Sustain Paris Aligned Fund	Units	63%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Global AI Themes Fund	Units	99%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Pan African Bond Fund	Units	100%	South Africa	PO Box 44813, Claremont, Western Cape, 7735
M&G SA Equity Fund	Units	94%	South Africa	PO Box 44813, Claremont, Western Cape, 7735
M&G (Lux) Europe ex UK Equity fund	Units	97%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Europe ex UK Index Fund	Units	97%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G (Lux) Pan European Smaller Companies fund	Units	97%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sterling Liquidity Fund	Units	80%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Asia Property Fund	Ordinary shares	44%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Investment Funds (10) - M&G Better Health Solutions Fund	Units	88%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G BlackRock Canada Equity Fund	Units	97%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G BlackRock UK 200 Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Climate Solutions Fund	Units	53%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Catalyst Sustainable Agriculture LP	Limited Partnership Interest	100%	United Kingdom	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Investment Funds (3) - M&G Dividend Fund	Units	48%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European High Yield Credit Investment Fund	Units	25%	Luxembourg	80, route d'Esch, L-1470, Luxembourg
M&G European Property Fund SICAV-FIS	Units	29%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G European Living Property Fund SCSP, SICAV-RAIF	Limited Partnership interest	71%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G European Value Add Partnership SCSp	Limited Partnership Interest	67%	Luxembourg	Rue de la Poste 20, 2346, Luxembourg
M&G Feeder of Property Portfolio	Units	56%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia General Partner Limited	Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 1 Limited	Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 2 Limited	Ordinary Shares	50%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Asia Pacific (ex Japan) Equity Fund	Units	85%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) BlackRock Asia Pacific (ex Japan) Equity Fund	Units	85%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) BlackRock Emerging Markets Equity Fund	Units	84%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) GSAM Global Emerging Market Equity Fund	Units	98%	United Kingdom	16, Boulevard Royal, L-2449, Luxembourg
M&G Funds (1) Invesco Global Emerging Markets Equity Fund	Units	97%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Lazard Global Emerging Markets Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G Funds (1) MFS Global Emerging Markets Equity Fund	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Sterling Investment Grade Corporate Bond Fund	Units	65%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) US Corporate Bond Fund	Units	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) US Short Duration Corporate Bond Fund	Units	74%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Wellington Impact Bond Fund	Units	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) - M&G Gilt & Fixed Interest Income Fund	Units	34%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) - M&G Global High Yield Bond	Units	53%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Global High Yield ESG Bond Fund	Units	40%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Positive Impact Fund	Units	29%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Episode Allocation Fund	Units	22%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) - M&G Global Convertibles Fund	Units	78%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (Lux) Investment Funds 1 - M&G Lux Emerging Markets Bond Fund	Units	58%	United Kingdom	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sustainable Emerging Markets Corporate Bond Fund	Units	21%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Real Estate UK Enhanced Value LP	Limited Partnership Interest	28%	United Kingdom	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UK Enhanced Value 1-A LP	Limited Partnership Interest	28%	United Kingdom	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Shared Ownership LP	Limited Partnership Interest	46%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Specialty Finance Fund 2	Limited Partnership	47%	Luxembourg	5, Heienhaff, L-1736, Senningerberg, Luxembourg
M&G Sustainable Loan Fund Limited	Shares	63%	Ireland	35 Shelbourne Road, Ballsbridge, Dublin, Ireland
M&G Investment Funds (4) - M&G Sustainable Multi Asset Fund	Units	37%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Sustainable Multi Asset Fund	Units	37%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Mortgage Income Fund (Under the umbrella structure - Luxembourg Specialist Investment Fund FCP-RAIF)	Units	62%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G UK Property Fund	Ordinary Shares	98%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Residential Property Fund	Limited Partnership Interest	28%	Luxembourg	16 Boulevard Royal, L-2449 Luxembourg
MCF S.r.l.	Ordinary shares	45%	Italy	Via Alessandro Manzoni 38, Milan, 20121, Italy.
NB Gemini Fund LP	Limited Partnership Interest	99%	Cayman Islands	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman
Old Kingsway LP	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
PPM America Private Equity Fund III LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund IV LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund V LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund VI LP	Limited Partnership Interest	40%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund VII LP	Limited Partnership Interest	46%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
Property Partners (Two Rivers) Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG
Prudential Greenfield LP	Limited partnership interest	100%	United Kingdom	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Prudential Loan Investments SCSp	Limited Partnership Interest	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100%	Luxembourg	5 Heienhaff, L-1736 Senningerberg, Luxembourg
Prudential UK Real Estate General Partner Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
responsAbility Sustainable Food – Asia II, SLP	Limited Partnership Interest	87%	Luxembourg	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Sustainable Food - Latam I, SLP	Limited Partnership Interest	99%	Luxembourg	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
Specialist Investment Funds (2) ICAV - M&G Real Impact Fund	Units	100%	Ireland	35 Shelbourne Road, Ballsbridge, Dublin D04 A4EO, Ireland

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Selly Oak Shopping Park Limited Partnership	Limited Partnership Interest	63%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital II WPLF LP	Limited Partnership Interest	100%	Guernsey	1 Carter Lane, London, EC4V 5ER, UK
Sky Fund V Onshore, LP	Limited Partnership Interest	26%	USA	559 Pacific Avenue, San Francisco, CA 94133, USA
SMLLC	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
SOFA Holding LP	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
St Edward Homes Limited	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Strand Partnership	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
StepStone Scorpio Infrastructure Opportunities Fund, L.P.	Limited Partnership Interest	100%	Cayman Islands	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
The Car Auction Unit Trust	Units	50%	Guernsey	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
The Project Hoxton LP	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Strand Property Unit Trust	Limited Partnership Interest	50%	Jersey	28 Esplanade, Jersey, Channel Islands, JE2 3QA, UK
The Two Rivers Trust	Ordinary shares	100%	Jersey	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey,UK
Two Rivers LP	Limited Partnership Interest	50%	United Kingdom	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Vanquish Properties (UK) Limited Partnership	Limited Partnership Interest	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Vanquish Properties GP Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish Properties GP Nominee 1 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish Properties GP Nominee 2 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish Properties GP Nominee 3 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish Properties GP Nominee 4 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
Vanquish Properties GP Nominee A Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey, UK
West Station 1 SCI	Ordinary Shares	100%	France	8 Avenue Hoche, 75008, Paris, France
West Station 2 SCI	Ordinary Shares	100%	France	8 Avenue Hoche, 75008, Paris, France

Service

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

31. Post balance sheet events

On 27 February 2024, the Company announced the 2023 annual bonus rates for the with-profits fund, declaring a distribution of £3.5bn. The Company also announced an additional bonus of 1.25% to enhance the unsmoothed value of plans for eligible customers with traditional and accumulating policies. It may be necessary to take back the additional bonus in order to protect the interest of all customers and the strength of the fund at a future date, although this is not expected to happen. For PruFund customers, additional surplus has been shared by increasing the unit price by 0.90%.

On 18 March 2024 the Company approved a final dividend of £333m to be paid to M&G plc. This is not recognised in the 2023 financial statements.