The Prudential Assurance Company Limited

Solvency and Financial Condition Report

31 December 2020

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Rounding convention
The information in the main body of the SFCR is presented in pound sterling and rounded to the nearest million, in line with the financial statements reported under UK GAAP. The information in the quantitative reporting templates ("QRTs") contained as an appendix to this document are presented rounded to the nearest thousand pound sterling. Therefore, in the main body of the report, rounding differences of +/- one million can occur.

Summary

Purpose

The purpose of the Solvency and Financial Condition Report ("SFCR") is to provide information required by the Solvency II regulatory framework in respect of The Prudential Assurance Company Limited ("PAC", "the Company") as at 31 December 2020. This report sets out aspects of the Company's business performance, system of governance, risk profile, valuation for solvency purposes and capital management. The SFCR has been prepared in accordance with the relevant Solvency II regulations.

This report has been prepared in compliance with the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009|138|EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ("Delegated Regulation"), as amended from time to time, and also the relevant Prudential Regulation Authority ("PRA") rules. The structure of this report follows the structure set out in Annex XX and discloses the information referred to in Articles 292 to 298 of the Delegated Regulation. The report also contains narrative information in quantitative and qualitative form supplemented, where appropriate, with quantitative templates.

Readers will be aware that the Solvency II regime was adopted into the United Kingdom ("UK") legislative and regulatory framework on 1 January 2016, while the UK was still a Member State of the European Union ("EU"). We remind readers that this report has been prepared in accordance with Solvency II as enacted under UK legislation in 2016 and as subsequently amended from time to time. Now that the UK has left the EU, and a new trade deal has been agreed, the UK is awaiting a declaration from the EU that its adoption of the Solvency II regime into UK law is equivalent to current EU requirements. Added to this, HM Treasury and the PRA have been consulting widely on potential reforms to Solvency II, and this process is ongoing. For our UK businesses, we will follow guidance from the PRA , as our regulator, as it becomes available.

Company background

PAC was founded in the UK in 1848, and is a provider of savings and retirement income products. The Company's biggest strength comes from providing investments that help its customers meet their long-term goals, whilst also protecting them against short-term market fluctuations.

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

The Company's core strengths in with-profits and financial products for retirement are underpinned by expertise in areas such as understanding life expectancy, managing investment risk and a range of investment assets.

Throughout 2020 the Company owned two insurance subsidiary undertakings Prudential Pensions Limited ("PPL"), and Prudential International Assurance plc ("PIA"). These transacted insurance business in the United Kingdom and across Europe.

The Company is a wholly owned subsidiary of M&G Group Regulated Entity Holding Company Limited. Ownership of the Company has been transferred from M&G plc to M&G Group Regulated Entity Holding Company Limited, effective from 23 July 2020. 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.

The Company consists of the With-Profits Fund and the Shareholder Fund. The With-Profits Fund is made up of three ring-fenced with-profits sub-funds: the With-Profits Sub-Fund ("WPSF"), the Scottish Amicable Insurance Fund ("SAIF") and the Defined Charge Participating Sub-Fund ("DCPSF") as shown in the table below.

Figure 1: Company Structure

The Prudential Assurance Company limited (PAC)					
Shareholder-backed business			**With-Profits Fund**		
Shareholder Fund		Non Profit Sub-Fund (NPSF) "0:100"	With-Profits Sub-Fund (WPSF) "90:10"	Scottish Amicable Insurance Fund (SAIF) "100:0"	Defined Charge Participating Sub-Fund (DCPSF) "100:0"
General Insurance Fund "0:100"	Other "0:100"				

The proportion of divisible profit attributable to with-profits policyholders in the WPSF is defined by the Articles of Association as being at least 90 per cent. Most of the With-Profits Fund business is written in the WPSF and for most policies is attributed in a 90:10 ratio between with-profit policyholders and shareholders. The shareholder profits arising from traditional with-profits business are recognised via a shareholder transfer, which 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.

PruFund is the Company’s market-leading customer proposition managed by the Company’s multi-asset management team. It is popular among UK retail investors for its established smoothing process. 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. Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Customer investment return is determined by an Expected Growth Rate ("EGR") which is declared each quarter. The shareholder transfer only crystallises at the point when a payout is made to the customer and is up to 1/9th of the difference between the customer payout and the premium(s) paid. Hedging of equity exposures is in place to partially mitigate and protect the value of such shareholder transfers.

The With-Profits Fund is the largest fund of its kind in the UK. It is invested across a broad range of assets and aims to provide steady returns to customers. The Company uses its bonus process to smooth some of the extreme highs and lows of investment performance. During 2020, investment returns for the With-Profits Fund were 1.7% before tax (2019: 11.5%), and over the last ten years the fund has delivered a cumulative investment return of 94.6% before tax.

The whole of the profit arising in SAIF, including profits or losses on its non-profit business, will be allocated to with-profits policyholders in SAIF (i.e. SAIF is a "100:0" sub-fund). SAIF is a sub-fund closed to new business that contains the bulk of the business originally written by the Scottish Amicable Life Assurance Society acquired by the Company in 1997. The profit in the

DCPSF which forms part of the Company's long term fund arises solely from investment performance and is entirely attributable to DCPSF policyholders (i.e. the DCPSF is a "100:0" sub-fund). See Section A.5.3.2 for detail on the merger of SAIF with the WPSF in 2021.
All the profits from shareholder-backed business which includes the Shareholder Fund and NPSF is attributable to shareholders (i.e. the Shareholder Fund and NPSF are "0:100" sub-funds). All the profits on business written by the Company's subsidiary insurance undertakings PPL and PIA are also attributable to shareholders.

Business and performance

COVID-19

2020 has seen the Company operate against an extremely challenging economic backdrop as we have all globally contended with the COVID-19 pandemic. Whilst the economic outlook remains uncertain, particularly once government support schemes are withdrawn, the rollout of the vaccination programmes worldwide has had a positive impact on market sentiment.

The COVID-19 pandemic has had an impact on some parts of the Company and is therefore discussed throughout this report within the relevant sections.

Performance of businesses

The Company's diverse business offering and disciplined financial management enabled it to deliver resilient financial performance in a challenging environment.

The Company uses 'adjusted operating profit before tax' as its measure of underwriting performance. For the year ended 31 December 2020, total adjusted operating profit before tax was £664 million (2019: £748 million). The adjusted operating profit consists of £251 million (2019: £242 million) relating to the shareholder transfer and associated hedges from the With-Profits Fund, £438 million profit (2019: £460 million) relating to the annuity business, and a loss of £25 million (2019: £46 million profit) on unit-linked and other business.

The 2020 with-profits shareholder transfer is £16 million lower relative to 2019 mainly due to adverse market conditions leading to a downward Unit Price Adjustment and volatile PruFund claim values which reduced over the year. Traditional with-profits business has larger funds under management relative to PruFund business and in 2020 generated the majority of the shareholder transfer. The business has seen a stable shareholder transfer relative to prior years.

The Company partially hedges movements in equity markets affecting the shareholder transfer. During 2020 there was a £57 million loss (2019: £82 million) on the derivative protection. The value of the shareholder transfer hedges losses reduced by £25 million partially due to the falls in equity markets.

For the annuity business, assumption changes contributed £184 million (2019: £166 million) to adjusted operating profit, of which £217 million (2019: £126 million) related to changes in the longevity assumption basis. Both current mortality rates and future improvements assumptions based on the Company's own calibration of Continuous Mortality Investigation ("CMI") 2018 model, have been updated during 2020. Further, a change in the proportion married assumption, reflecting that the number of first life annuitants who remain married reduces gradually over time, increased profits by £23.5m.

The annuities result includes a charge of £38 million (2019: £33 million) in relation to the regulatory provisions for the review of past annuity sales. The Company has agreed with the Financial Conduct Authority ("FCA") to review annuities sold without advice after 1 July 2008 to its contract based defined contribution pension customers and this review is now complete. In addition, the Company has been conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from the Company or another pension provider. The ultimate amount that will be expended by the Company on the review will remain uncertain until the project is completed.

The expected return on assets and release of margins contributed £188 million (2019: £216 million). Asset trading and the impact of changes in interest rates contributed £98 million (2019: £165 million). New business and other items contributed a profit of £9 million (2019: loss of £30 million).

Within unit-linked and other business, a loss of £25 million (2019: £46 million) was seen in the year mainly due to expenses exceeding income on these lines of business.

The UK GAAP profit on ordinary activities before tax is £1,311 million (2019: £1,047 million). The UK GAAP profit on ordinary activities before tax reflects the adjusted operating profit discussed above, as well as non-operating profit items consisting of the impact of short-term investment fluctuations, dividend income, impacts of business disposals and corporate transactions, and transformation and restructuring costs.

The Company's total non-operating result has increased by £348 million to a profit of £647 million in 2020 from a profit of £299 million in 2019. This is mainly due to gains on the partial hedge of the shareholder transfers and reduced restructuring and transformation and other costs, offset by a reduction in dividends received from subsidiaries and actuarial losses on defined benefit pension schemes (see A.3.1 and A.4.2 for further details).

Further information on adjusted operating and UK GAAP profits is provided in Sections A.2 and A.3.1, and the Solvency II position including capital generation is set out in Section E.

A full description of the Company's key metrics and further commentary on these results is contained within the Business and Financial Review and Supplementary Information of the Company's 2020 Statutory accounts.

System of governance

The Company's Board is collectively responsible for the long-term success of the Company and for providing leadership within a framework of effective controls. The control environment enables the Board to identify significant risks and apply appropriate measures to manage and mitigate them.

The Company's governance structures have been designed to ensure they suit the needs of the business and stakeholders.

The Board and its Committees operate under approved terms of reference which are reviewed on a periodic basis, which last took place in March 2020. The Board also undertakes an annual review of its performance and effectiveness which was last carried out in December 2020.

Further information on the Company's system of governance including information on the composition of its Board, key functions, risk management and internal control system is provided in Section B.

Risk profile

The Company generates value for shareholders by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. The Company retains risks within a clearly defined risk appetite, which contributes to value creation and provides the ability to withstand the impact of an adverse stressed outcome.

The Company defines 'risk' as the uncertainty that it faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success of the Company. As such, material risks will be retained selectively if there is value in doing so, and where it is consistent with the Company's risk appetite and philosophy towards risk-taking.

For retained risks, the Company ensures that it has the necessary capabilities, expertise, processes and controls to appropriately manage the exposure.

The impacts of COVID-19 have permeated throughout the Company's entire risk spectrum and while the Company's main risks remain broadly unchanged, current risk management priorities have been re-focused around operational, people, financial and investment performance risks in particular.

Further information on the main risks inherent in the business, how these risks are managed, and details of how the Company maintains an appropriate risk profile are provided in Section C. Risks covered include underwriting risk, market risk, credit risk, liquidity risk, operational risk, business environment and market forces risk, sustainability, investment performance and risk, people risk, regulation compliance and reputational risk. Sensitivity analysis of the Company's Solvency II coverage ratio to various stresses is provided in Section C.7.2.

Valuation for solvency purposes

For the purposes of Solvency II reporting, the Company applies the Solvency II valuation rules to value the assets and liabilities of the Company:

(i) As a general principle, technical provisions under Solvency II are valued at the amount for which they could theoretically be transferred immediately to a third party in an arm's length transaction. The technical provisions consist of a best estimate liability and the risk margin, reduced by the transitional measures on technical provisions ("TMTP") where relevant.

(ii) The assets and other liabilities are valued under Solvency II at the amount for which they could be exchanged between knowledgeable and willing parties in arm's length transactions. The assets and other liabilities are valued separately using methods that are consistent with this principle in accordance with the valuation approaches set out in the Solvency II regulations.

As at 31 December 2020 the Company's excess of assets over liabilities was £20.6 billion (2019: £20.4 billion), which is £14.5 billion higher than the value under UK GAAP. There are a number of valuation differences with the most significant being the treatment of the fund for future appropriations which consists of unallocated surplus of the With-Profits Fund (£15.7 billion). This is treated as a liability under UK GAAP but recognised as part of the excess of assets over liabilities in the Solvency II balance sheet.

There have been material changes to the Company's best estimate assumptions during the reporting period, particularly in relation to longevity assumptions. Further detail is provided in Section D.2.

Further information on the valuation of assets, technical provisions and other liabilities of the Company for solvency purposes is provided in Section D, including a discussion of the differences between Solvency II and the UK GAAP valuation bases.

Capital management

The Company manages its Solvency II own funds as its measure of capital. It manages its Solvency II capital to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements.

The own funds eligible to cover its solvency capital requirements ("SCR") and minimum solvency capital requirements ("MCR") are £13.6 billion (2019: £12.8 billion) and are all classified as Tier 1 unrestricted own funds. There are limits on the amount of own funds in different tiers that can be used to demonstrate solvency. Further details including restrictions on the type of own funds eligible to cover these requirements is contained in Section E.1.

The Company has been granted approval by the PRA to calculate its 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.

At 31 December 2020, the SCR was £10.0 billion (2019: £9.7 billion). The MCR is currently 25 per cent (2019: 25 per cent) of the SCR, £2.5 billion at 31 December 2020 (2019: £2.4 billion).

The Company's SCR and MCR have been met at all times throughout 2020. At 31 December 2020, the Company's Solvency II surplus was £3.6 billion (2019: £3.1 billion).

Additional information on the components of the Company's own funds and SCR is provided in Section E.

Shareholder and With-Profits Fund views of solvency

The With-Profits Fund view of the Solvency II capital position represents the standalone capital strength of the ring-fenced With-Profits Fund, taking into account the assets, liabilities, and risk exposures within that fund.

As the surplus in the With-Profits Fund is not available to meet losses elsewhere in the Company, the regulatory capital position limits the contribution of the With-Profits Fund to the Company own funds to the level sufficient to cover its SCR (i.e. a 100% coverage ratio), via a ring-fenced fund restriction. This treatment results in the regulatory solvency ratio of 136% being lower than for both the With-Profits Fund and the residual shareholder-backed business, as shown in Figure 2 below.

The numbers quoted in Figure 2 reflect the latest regulatory approved TMTP which was recalculated as at 31 March 2020.

Figure 2: Shareholder and With-Profits Fund views of the Solvency II capital position

Figures in £m		Shareholder view	With-Profits Fund view	Ring-fenced fund restrictions	Regulatory view[1]
31 December 2020	**Own Funds**	**8,718**	**11,896**	**(7,001)**	**13,613**
	SCR	**5,107**	**4,895**	**—**	**10,002**
	Surplus	**3,611**	**7,001**	**(7,001)**	**3,611**
	Solvency ratio (%)	**171 %**	**243 %**	**— %**	**136 %**
31 December 2019	Own Funds	8,235	12,196	(7,628)	12,803
	SCR	5,178	4,568	—	9,745
	Surplus	3,057	7,628	(7,628)	3,057
	Solvency ratio (%)	159 %	267 %	—	131 %

[1] The contribution of the With-Profits Fund to the regulatory solvency position is restricted to the own funds required to cover its SCR.

The Company uses the shareholder view of the Solvency II capital position as its main solvency metric to manage the business, as this is considered to provide a more relevant reflection of the capital strength of the Company. The shareholder Solvency II capital position and solvency ratio are calculated excluding the contribution to own funds and SCR from the ring-fenced With-Profits Fund when in surplus. This calculation results in the same Solvency II surplus of £3.6 billion as under the regulatory view, but provides a higher solvency coverage ratio of 159% than the regulatory solvency coverage ratio.

Development of Solvency II capital position during the reporting period

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

The Company retains a shareholder Solvency II surplus of £3.6 billion (2019: £3.1 billion). The Company's shareholder surplus has increased over 2020, which predominately reflects the expected return over the period and a series of management actions taken, including the impacts of trading in the annuity portfolio and the purchase of hedges, offset by the payment of the dividends to M&G plc (£0.5bn).

The Company retains a With-Profits Fund Solvency II surplus of £7.0 billion (2019: £7.6 billion). The Company's With-Profits Fund surplus has reduced over 2020, which predominately reflects the distribution of excess surplus in the with-profits inherited estate approved in Q1 which led to a £0.8 billion reduction in surplus, and increased cost of guarantees and options.

Further detail on the movement in the Company's Solvency II capital position over the period, split by own funds and SCR movements, is provided in Section E.

Reconciliation of the Solvency II capital position disclosed in the Statutory Accounts to the SFCR

A reconciliation of the estimated and unaudited Solvency II capital position published in the Company's 2020 Statutory Accounts to the Solvency II capital position incorporating the Company's ring-fenced funds, included in the quantitative reporting templates included in the Appendix to this document, is provided in Section E.

The main reconciling difference is to reflect that the results presented in the Company's statutory accounts assume TMTP which have been recalculated in line with management's estimate of operating and market conditions as at the valuation date. At 31 December 2020, this differed from the latest regulatory approved TMTP which was recalculated as at 31 March 2020. Unless stated otherwise, the Solvency II figures presented in this report, including the shareholder and With-Profits Fund views of solvency, assume the latest approved TMTP, so therefore will not reconcile to the information within the Company's statutory accounts.

A summary of the coverage ratios under each view of the Solvency II capital position within each document is presented below.

Figure 3: Solvency ratio disclosed within the Statutory Accounts compared to the SFCR at 31 December 2020

Figures in £m	Shareholder view	With-Profits Fund view	Regulatory view
As disclosed within PAC Statutory Accounts (recalculated TMTP)	169 %	242 %	135 %
As disclosed within PAC SFCR (latest regulatory approved TMTP)	171 %	243 %	136 %

Sensitivity of solvency to matching adjustments and transitional measures

The Regulatory Solvency Ratio is underpinned by the use of a matching adjustment to calculate the technical provisions on its annuity business and by transitional measures on technical provisions. Without these items the solvency ratio would change as set out in the table below.

Figure 4: Solvency Ratio without the matching adjustment and TMTP

Figures in £m	As reported	Without the matching adjustment	Without TMTP	Total excl. TMTP and MA
Regulatory Own Funds	13,613	12,042	12,369	10,798
Shareholder Own Funds	8,718	6,474	7,498	5,254
Regulatory SCR	10,002	13,337	10,241	13,577
Shareholder SCR	5,107	7,769	5,346	8,008
Regulatory solvency ratio	136 %	90 %	121 %	80 %
Shareholder solvency ratio	171 %	83 %	140 %	66 %

Annually, the Company prepares a plan which includes the projected development of the solvency position. The plan allows for the reduction to the TMTP over the 16 year amortisation period to 2032. The surplus generated from the in-force book is sufficient to offset the amortisation of the TMTP.

Additional information on the components of the Company's own funds and solvency capital requirement are also provided in Section E.

A Business and performance (Unaudited)

A.1 Business

A.1.1 Overview

Name and legal form

The Prudential Assurance Company Limited ("the Company") is a company limited by shares incorporated and registered in England and Wales.

The Company is a wholly owned subsidiary of M&G Group Regulated Entity Holding Company Limited. Ownership of the Company has been transferred from M&G plc to M&G Group Regulated Entity Holding Company Limited, effective from 23 July 2020. 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 ("the M&G plc Group" or "the Group").

The registered office of the Company is:

10 Fenchurch Avenue
London
EC3M 5AG

This SFCR covers the Company on a solo entity basis.

Supervisory authority and Group supervisory authority

The Company and the Group are supervised and authorised by the PRA, the Company's lead supervisor in accordance with the Financial Services and Markets Act 2000 ("FSMA"). The contact details are:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA
United Kingdom

External auditor

The Company is audited by KPMG LLP. The contact details are:

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Holders of qualifying holdings

As at 31 December 2020, M&G Group Regulated Entity Holding Company Ltd, incorporated and registered in England and Wales, is the only holder of qualifying holdings in the Company (being holdings of 10 per cent or more of the capital or voting rights).

A.1.2 Company structure

A.1.2.1 Material subsidiaries of the Company

The Company's material trading subsidiaries at 31 December 2020 are set out below:

	Main activity	Country of incorporation
Prudential Pensions Limited	Insurance	England and Wales
Prudential International Assurance plc	Insurance	Ireland

The Company has 100 per cent of the voting rights of the subsidiaries listed above. The percentage of equity owned is the same as the percentage of the voting rights held.

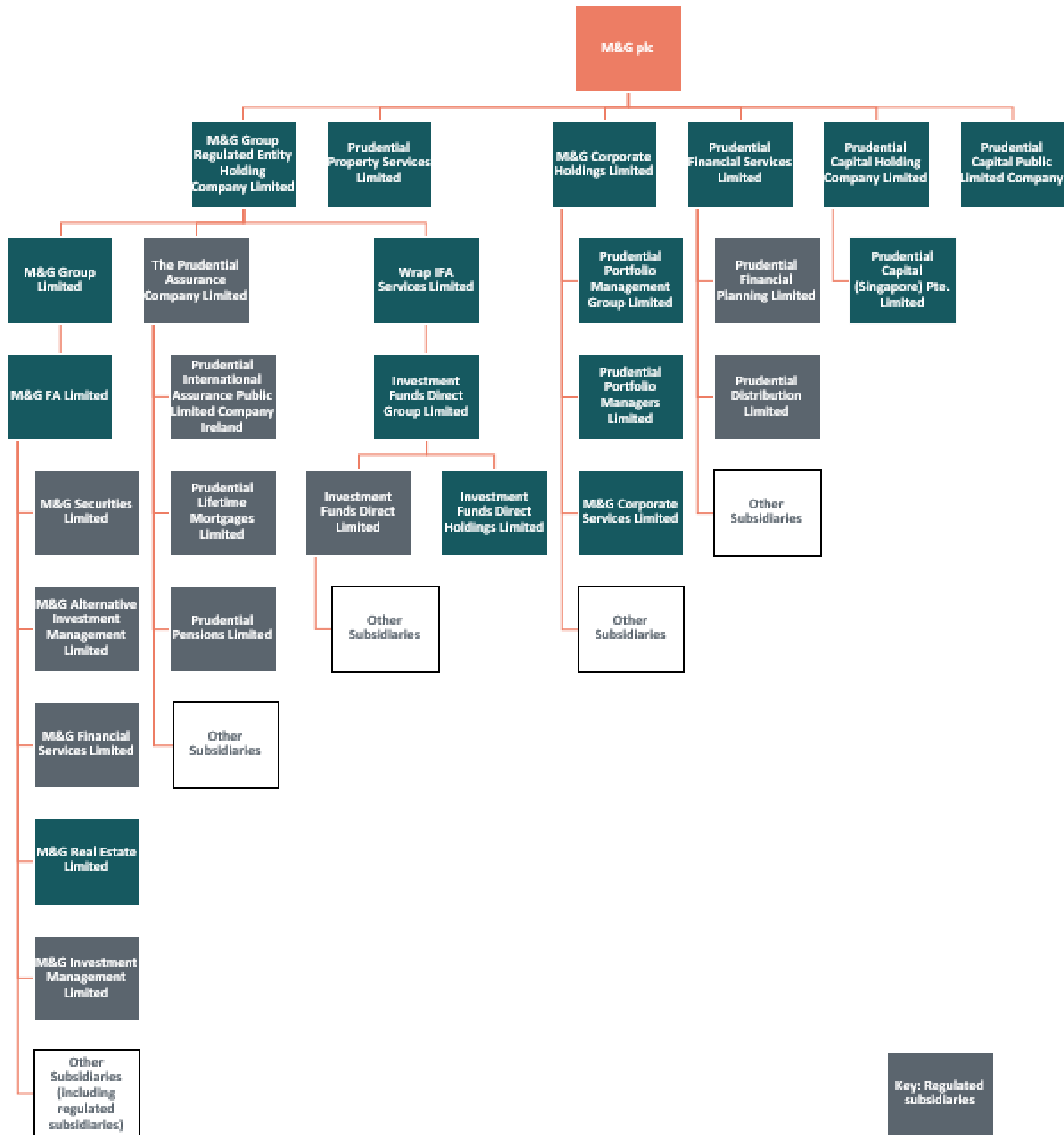
A complete list of the Company's related undertakings comprising subsidiaries, joint ventures, associates and other significant holdings is provided in Appendix A.

A.1.2.2 Legal structure of the Company and related undertakings

The Company is part of the Group and is the principal insurance company within the group forming a major part of the group's operations. An M&G plc Group SFCR will be submitted to the PRA in May 2021.

Figure 5 below shows, in a simplified form, the direct subsidiary undertakings of the ultimate parent company, M&G plc and its significant subsidiaries as at 31 December 2020.

Figure 5: Simplified structure of M&G plc as at 31 December 2020



A.1.3 Business and performance

A.1.3.1 Material lines of business and material geographical areas

The Company transacts long-term insurance business in the United Kingdom ("UK"). It also owns insurance subsidiary undertakings in the UK and in the Republic of Ireland.

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

The Company's UK insurance subsidiary, Prudential Pensions Limited mainly sells unit-linked products.

The Company's Irish subsidiary, Prudential International Assurance plc ("PIA"), is a leading insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus in 2020 has been the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe.

A.1.4 Significant business or other events that have a material impact on the Company over the reporting period

A.1.4.1 The COVID-19 Pandemic

The COVID-19 pandemic has created unprecedented challenges for businesses and governments everywhere. Millions of people around the world have been affected by economic hardship, illness and the loss of people close to them. In the financial markets, global investor confidence was badly shaken in the first half of 2020, resulting in sharp falls in equity markets. The Company responded quickly at the start of the pandemic to mobilise resources and stand up business continuity protocols and also established an Executive Solvency Monitoring Group to provide additional oversight of financial risks.

In the second half of the year, there has been a marked recovery in both bond and equity markets, bolstered by supportive economic policies and positive news on vaccines for COVID-19, resulting in an improved shareholder Solvency II coverage ratio of 171% as at 31 December 2020 (2019: 159%) and a regulatory Solvency II coverage of 136% (2019: 131%) after allowing for the payment of £497 million in dividends to shareholders. While the economic outlook continues to remain uncertain, particularly once government support schemes are withdrawn, the resilience of the Company's business model has been demonstrated by the demands of the COVID-19 pandemic and it continues at pace with its strategy.

The COVID-19 pandemic has had an impact on some parts of the Company and is therefore discussed throughout this report within the relevant sections.

A.1.4.2 United Kingdom's departure from the European Union ("Brexit")

In preparation for Brexit, on 1 January 2019 the Company transferred its long-term non-UK European business to PIA, a subsidiary of the Company which is based in the Republic of Ireland. Following these transfers the implementation of Brexit on 1 January 2021 has had no material impact on the Company's ability to serve its customers.

In the run up to, and immediately after 31 December 2020, potential impacts were monitored with no material issues identified. Monitoring will continue in 2021 noting that there are residual risks in respect of temporary equivalence arrangements and that discussions continue between the UK and EU with regards to financial services.

A.1.4.3 Part VII transfer of Rothesay Life reinsured annuities

On 14 March 2018, Prudential plc announced the reinsurance of £12,149m (Solvency II technical provisions as at 31 December 2017) of The Company's shareholder-backed annuity portfolio to Rothesay Life plc by way of a collateralised reinsurance arrangement followed by an insurance business transfer scheme (the "Scheme") under Part VII of Financial Services and Markets Act 2000. The terms of the reinsurance arrangement transferred substantially all of the economic risk and capital requirements associated with the Annuity Portfolio to Rothesay Life plc, subject to a residual counterparty credit risk attaching to reinsurance receivables.

On 17 May 2019, the independent expert who was appointed to report to the High Court concluded that the planned transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. PAC and Rothesay Life plc have successfully appealed that decision in the Court of Appeal. There will now need to be a further sanction hearing in the High Court to decide if the transfer should proceed. The date of the sanction hearing has not yet been set and the associated process has yet to be determined. The High Court's judgment has no direct impact on the reinsurance with Rothesay Life plc.

The Solvency II liabilities relating to the Company's total UK shareholder annuity portfolio as at 31 December 2020 were £29.4 billion (2019: £29.5 billion), of which £12.2 billion (2019: £12.4 billion) is reinsured by Rothesay Life.

A.1.4.4 Changes in longevity assumptions

Both current mortality rates and future improvements assumptions based on the Company's own calibration of Continuous Mortality Investigation ("CMI") 2018 model have been updated during 2020. Further, a change in the proportion married assumption, reflecting that the number of first life annuitants who remain married reduces gradually over time. These revised assumptions resulted in a £217 million reduction in shareholder non-profit annuity liabilities on a UK GAAP basis.

A.1.4.5 Provisions in relation to annuity sales practices

Other provisions include a provision for review of past annuity sales of £38 million (2019: £33 million). The Company has agreed with the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and this review is now complete. In addition, the Company will be conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from the Company or another pension provider. The ultimate amount that will be expended by the company on the review will remain uncertain until the project is completed.

A.1.4.6 With-Profits Fund excess surplus distribution

In February 2020 the Company announced plans to pay out £1 billion excess surplus in the With-Profits Fund to our policyholders over the coming years. This reduced the With-Profits Fund's Solvency II surplus by £755 million during 2020.

A.1.4.7 Dividends to parent companies

The Board decided to pay a total of £497 million in dividends to M&G plc over 2020. £410 million was declared on 4 March 2020 and the remaining £87 million was declared on 28 September 2020.

A.1.4.8 Strategic outsourcing

The Company continues to make good progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and bring greater stability. This involves modernising the business so that it is fit for the digital era through significant investment in new administration systems and digitalisation.

The transfer of a further 394,000 corporate and individual pensions was completed in 2020 in addition to 433,000 customers migrated in 2019 from a mix of complex legacy systems on to the strategic administration platform BaNCS managed by Diligenta, the UK subsidiary of Tata Consultancy Services, was a notable achievement in this area.

A.1.4.9 Transition of assets

During the final quarter of 2020, PAC transitioned c.£5.3bn assets, mainly comprising cash and equity instruments, into seven sub-funds of a newly created M&G Authorised Contractual Scheme taking the form of a co-ownership scheme. An Authorised Contractual Scheme ("ACS") fund is a UK tax transparent collective investment scheme.

The transition of the assets will continue into 2021 and involve the transition of further cash, equities and fixed income asset holdings into ACS, Luxembourg Fond commun de placement ("FCP") and UK OEIC funds. The transition is seeking to simplify the existing investment strategy, achieve lower costs by greater economies of scale, whilst protecting the interests of all groups of policyholders.

A.1.4.10 Delivering sustainability

M&G plc and its subsidiary entities, including the Company, have put sustainability at the forefront of strategy, from the impact the Company has on the planet and communities, to the opportunity to influence others through leading by example. In November 2020, M&G plc made company-wide commitments to both diversity, inclusion and climate change, including a pledge to reach carbon net zero as a corporate entity by 2030 and to achieve net zero carbon emissions on its total book of assets under management and administration by 2050 – in line with the Paris Agreement. As part of M&G plc, the Company shares the same

commitment for its investment portfolio, which is now informing the investment policy and asset allocation decisions of the Company for the With-Profits Fund and the pension savings and annuity books.

The Company has developed its with-profits proposition by leveraging its existing unique position, developing additional propositions to meet customer needs, including the planned launch of PruFund Planet, which aims to provide policyholders with a smoothed investment return whilst delivering positive environmental and societal impacts. The Company's with-profits proposition continues to provide its customers with a smoothed return, reducing the volatility of direct investing in the markets, none more so than in 2020, and providing access to a wide range of asset strategies.

In addition, towards the end of 2020, the With-Profits Fund decided to allocate £5 billion of Prudential customer savings to a new sustainability-oriented private assets strategy, including impact investing. The mandate will be managed by Catalyst, a new global private assets team set up by M&G and specialising in sourcing attractive sustainable and impact investment opportunities in companies making a positive difference to society and the planet.

A.1.4.11 Other events with a material impact

The Company's financial and solvency position were impacted by model improvements, changes in assumptions, management actions, and economic variances during the period. The material items are described in Sections A.2 to A.4 and Section E.

A.2 Underwriting performance

The Company uses UK GAAP to prepare its solo entity statutory financial statements, and IFRS to report the results of the Company to M&G plc for inclusion in the Group results.

The Company also uses certain financial measures that are not defined or recognised under UK GAAP including 'adjusted operating profit before tax which is management's alternative performance measure of profitability and is used for key decision making and the internal performance management of its operating segments. This metric has been used as the measure of underwriting performance discussed in this section.

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

Exceptional costs associated with fundamental one-off group-wide restructuring and transformation are not included in adjusted operating profit before tax.

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

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

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

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Company, including profits or losses arising on corporate transactions and profits or losses arising on discontinued operations.

The key adjusting items between UK GAAP profit before tax attributable to shareholders and adjusted operating profit before tax are shown in Section A.2.1 below, whilst an analysis of premiums, claims, expenses and investment return is given in Section A.5.2.

A.2.1 Adjusted Operating profit before tax overview

The year-end 2020 total adjusted operating profit before tax and the UK GAAP Profit before tax for the year, together with the key reconciling items, are summarised in the table below.

Figure 6: UK GAAP Profit before tax for the year -ended 31 December 2020

All figures in £m	2020	2019	Section
Total adjusted operating profit before tax	**664**	748	A.2.2
Short-term fluctuations in investment returns	**667**	217	A.3.1
Dividends from subsidiaries	**—**	53	A.4.2
Profit on disposal of business and corporate transactions	**—**	53	A.4.1
Restructuring, Transformation and other costs	**(20)**	(24)	A.4.1
UK GAAP Profit before tax attributable to shareholders	**1,311**	1,047	

The Company's total adjusted operating profit before tax of £664 million (2019: £748 million) was 11% lower than seen in 2019. This consists of £252 million (2019: £242 million) relating to the shareholder transfer and associated hedges from the With-Profits Fund, £438 million (2019: £460 million) relating to the annuity business, and a loss of £25 million (2019: £46 million profit) on unit-linked and other business.

The Profit after tax attributable to shareholders increased by £264 million to £1,311 million compared to £1,047 million for the year ended 31 December 2019 reflecting the fall in adjusted operating profit before tax of £84 million, a reduction in dividends from subsidiaries of £53 million and a £53 million profit on disposal of a business not repeated in 2020 . This was offset by a £450 million increase in short term fluctuations in investment returns and a £4 million reduction in restructuring costs.

Further detail on the adjusted operating profit before tax by segment is set out in Section A.2.2 below whilst the items excluded from adjusted operating profit before tax are described in Section A.3.1 (short-term fluctuations in investment returns), Section A.4.1 (profit/loss on disposal of businesses, restructuring costs) and Section A.4.2 (Investment in subsidiaries and dividends).

A.2.2 UK GAAP adjusted operating profit before tax analysed by Solvency II lines of business

Adjusted operating profit before tax, as discussed above, is allocated by material Solvency II lines of business as shown in the table below:

Figure 7: Adjusted operating profit before tax for the year-ended 31 December 2020

All figures in £m	2020	2019	Change
Insurance with-profits participation(1)	**308**	324	(5)%
Shareholder Annuities	**438**	460	(5)%
Other (comprising index-linked and unit-linked insurance, other life insurance and life reinsurance)(2)	**(82)**	(36)	(128)%
Adjusted operating profit before tax	**664**	748	(11)%

(1) Insurance with-profits participation comprises the shareholders' transfer from the With-Profits Fund of the Company

(2) Other comprises mainly hedging of current year shareholder transfer offset by losses on unit linked business.

The 2020 with-profits shareholder transfer is £16 million lower relative to 2019 mainly due to adverse market conditions leading to a downward Unit Price Adjustment and volatile PruFund claim values which reduced over the year. Traditional with-profits business has larger funds under management relative to PruFund business and in 2020 generated the majority of the shareholder transfer. The business has seen stable shareholder transfers relative to prior years.

For the Shareholder annuity business, assumption changes contributed £184 million (2019: £166 million) to adjusted operating profit before tax, of which £217 million (2019: £126 million) related to changes in the longevity assumption basis (See A.1.4.4 for details). Both current mortality rates and future improvements assumptions based on the Company's own calibration of CMI 2018 model, have been updated during 2020. Further, a change in the proportion married assumption, reflecting that the number of first life annuitants who remain married reduces gradually over time, increased profits by £24 million. The annuities result also includes a charge of £38 million (2019: £33 million) in relation to the regulatory provisions for the review of past annuity sales.

The expected return on assets and release of margins contributed £188 million (2019: £216 million). Asset trading and the impact of changes in interest rates contributed £98 million (2019: £165 million). New business and other items contributed a profit of £9 million (2019: loss of £30 million).

The Company partially hedges movements in equity markets affecting the shareholder transfer. The value of the shareholder transfer hedging losses reduced by £25m partially due to the falls in equity markets. The loss on derivative protection contributed £57m (2019: £82m loss) to the Other (comprising index-linked and unit-linked insurance, other life insurance and life reinsurance) result in 2020.

Unit linked business contributed a loss of £25 million (2019: £46 million profit) due to expenses exceeding income.

Further information on the Company''s performance is detailed in the 'Business review' of the Company's 2020 Annual Report and Accounts.

A.3 Investment performance

A.3.1 Short-term fluctuations

As explained in Section A.2 Underwriting Performance, the Company describes its UK GAAP performance by reference to adjusted operating profit before tax and non-operating profit.

UK GAAP adjusted operating profit before tax is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and assumed longer-term returns is reported within short-term fluctuations in investment returns.

Included in non-operating results are gains of £667 million as a result of short-term fluctuations (2019: gains of £217 million).

Short-term fluctuations consisted of gains on the partial equity hedge of shareholder transfers of £235 million (2019: loss of £167 million), gains on interest rate hedging of £118 million (2019: loss of £60 million) and annuity business gains of £287 million (2019: gains of £505 million).

Between 2018 and 2020 the Company entered into hedges against the market risk affecting future shareholder transfers from the with-profits sub fund, specifically with regard to the PruFund new business written between 2018 and 2020, as they arise over the contract period of 10 years. During 2020, the transaction resulted in a £26 million loss (2019: loss of £25 million).

During 2013 the Company entered into a partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which has been extended in 2019 and 2020. There was a non-operating profit of £235 million on this hedge during 2020 (2019: loss of £167 million).

There were further unrealised gains of £118 million (2019: loss of £60 million) in relation to valuation gains on interest rate hedging. The gains were a result of a 2019 interest rate overlay (IO) programme which was implemented to manage the Company's exposure to interest rate movements for shareholder-backed business on a Solvency II basis, following the disposal of

surplus assets within the Company's shareholder backed portfolios. The £118 million increase resulted from The Bank of England's decision to cut interest rates in the wake of the COVID-19 pandemic has had a positive effect on derivatives.

The capital gains on surplus assets and on shareholder fund assets of £432 million (2019: gains of £455 million) decreased by £23 million. This was as a result of lower unrealised capital gains on the surplus assets arising from a fall in yields of c.53bps in the long-term and shareholder funds. This has been partially offset by a c.6bps strengthening in short term credit allowances and emerging credit experience of £117 million.

The c.19bps decrease in the Life Time Mortgages (LTM) future house price growth assumptions has resulted in a lifetime mortgage / Equity Release Mortgage (ERM) asset reduction of £21 million. This is in anticipation that the house prices will fall in response to the COVID-19 pandemic, thereby negatively affecting the "no negative equity" guarantee that forms part of the value of the (ERM) junior note, which forms part of the surplus assets in the Long Term Fund.

The strengthening of gains on collateral held for the deferred consideration for mortgages purchased from Santander, £51 million (2019: gains of £36 million) were driven by increased unrealised gains on UK treasury bonds. The value of Santander Life Time Mortgages fell by £3 million reflecting the impact of the decrease in the expected house price inflation.

A.3.2 Investment management expenses

The total investment management expenses incurred by the Company's insurance operations, including those that were paid to the Company's asset management operations totalled £372 million (2019: £285 million).

The increase in investment management expenses has been driven mainly by an increased volume of transactions in 2020 compared to 2019.

An analysis of investment return in the income statement by asset class is given in Section A.5.2.4.

A.3.3 Investments in securitisations

Certain securities classified as asset-backed securities meet the definition of securitisation under Solvency II for the purpose of the Solvency II capital requirements calculation. Investments in securitisations are subject to specific spread stresses in the calculation in order to ensure that risks arising from securitisation positions are reflected appropriately.

At 31 December 2020, all of the £3,725 million of asset-backed securities (2019: £4,506 million) meet the definition of investments in securitisations.

A.4 Performance of other activities

This section describes other activities and the impact of non-operating items

A.4.1 Other non-operating items

Other non-operating items includes losses on disposal of businesses and corporate transactions, restructuring and other costs and discontinued operations.

For the year ended 31 December 2019, the adjusting items of £53 million resulted from the discontinued operations (Prudential Vietnam Finance Company Limited) sold during 2019. There were no equivalent adjusting items for the year ended 31 December 2020.

Restructuring and other costs primarily reflect the shareholder allocation of costs associated with the merger, transformation, rebranding and other change in control costs representing fundamental one-off Company-wide restructuring and transformation and are therefore excluded from adjusted operating profit before tax. Restructuring and other costs were £20 million for the year ended 31 December 2020 (2019: £24 million).

A.4.2 Investments in subsidiaries and dividends

There were no dividends (2019: £53 million) received from shareholder subsidiaries during the year.

A.4.3 Leasing

The Company's operating and finance lease arrangements relate principally to properties.

The Company holds investment properties which are leased out to earn a return. Further information on the Company's leasing arrangements is provided below.

The Company does not hold any individually material leasing arrangements.

A.4.3.1 Operating leases

The Company as a lessor

Investment properties principally relate to the Company's With-Profits Fund and are carried at fair value. The Company's policy is to let investment properties to tenants through operating leases.

The 2020 income statement includes rental income from investment properties of £442 million (2019: £554 million) and direct operating expenses including repairs and maintenance arising from these properties of £74 million (2019: £43 million).

The Company as a lessee

The Company leases office space in London and Reading under non-cancellable operating leases.

The London lease has run since 2002 and is due to expire in September 2022, however the lease has now been set aside and the right of use asset has been impaired accordingly. 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.

The total operating lease expense in 2020 was £4 million (2019: £3 million).

A.4.3.2 Finance leases

The Company as a lessor

As at 31 December 2020, investment properties of £33 million (2019: £33 million) are held under finance lease assets, within receivables.

The 2020 income statement includes finance income from investment properties of £2 million (2019: £2 million).

The Company as a lessee

The Company's portfolio of investment properties comprise both freehold and leasehold properties. As at 31 December 2020, investment properties of £2,924 million (2019: £3,477 million) are held under finance leases. These finance leases are

arrangements which grant very long leases with a large payment made upfront with minimal ground rent payable on an annual basis.

The 2020 income statement includes £4 million in respect of finance lease charges (2019: £6 million).

A.5 Any other information

A.5.1 Additional analysis of profits before tax by nature of revenue and charges

Total profit before tax attributable to shareholders for the year-ended 2020 was £1,311 million (2019: £1,047 million), representing adjusted operating profit of £664 million (2019: £748 million), as set out in Figure 6 and discussed in Section A.2.1, non-operating profit of £647 million (2019: profit of £299 million) which includes restructuring, transformation and other costs of £20 million (2019: £24 million) . Analysis of profit for the year is shown in Figure 8 below by nature of revenue and charges, on a UK GAAP basis.

Figure 8: Total revenue and charges for the year-ended 31 December 2020

All figures in £m	2020	2019
Gross premiums earned	**5,730**	11,063
Outward reinsurance premiums	**(904)**	(949)
Recaptured reinsurance premiums	**—**	1,086
Earned premiums, net of reinsurance	**4,826**	11,200
Investment return	**7,650**	16,479
Other income	**9**	2
Total revenue, net of reinsurance	**12,485**	27,681
Claims incurred and changes in other long-term business and technical provisions	**(12,215)**	(23,425)
Claims incurred and changes in other long-term business and technical provisions - reinsurers share	**1,354**	897
Change in technical provision for linked liabilities	**531**	119
Claims incurred and changes in other long-term business and technical provisions – Net of reinsurance	**(10,330)**	(22,409)
Movement in unallocated surplus of the With-Profits Fund	**266**	(2,959)
Net operating expenses	**(686)**	(767)
Investment expenses and charges	**(420)**	(435)
Other charges	**(4)**	(64)
Profit before tax (being tax attributable to shareholders' and policyholders' returns)	**1,311**	1,047
Tax credit attributable to policyholders' returns	**(244)**	(190)
Profit for the financial year	**1,067**	857

Other comprehensive income in 2020 totalled £50 million expense net of tax (2019: £Nil). These amounts primarily relate to actuarial gains and losses on defined benefit pensions obligations. These amounts are net of tax and after allocation to the unallocated surplus of the With-Profits Fund.

Annuity reinsurance recapture from Prudential Hong Kong Limited

The Company entered into a quota share reassurance treaty with PHKL in 2013 for 10.43% of the with-profit annuity book. In preparation for the demerger from Prudential plc, this was recaptured with effect from 1 October 2019. The Hong Kong treaty recapture was treated as an unwind of the original quota share contact. This resulted in a reduction to outward reinsurance premium expenses and a charge to reinsurers claims in the figures above, resulting in a loss of £24 million on a UK GAAP basis. The reinsurance recoverable and deposit-back liability have been removed from the balance sheet.

A.5.2 Premiums, claims and expenses

A.5.2.1 Comparison of earned premiums with the prior period

Figure 9: Premiums by Solvency II line of business for the year-ended 31 December 2020

	All figures in £m	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Accepted life insurance	Total
2020	Premiums earned - gross	**14**	**4,756**	**444**	**247**	**570**	**6,031**
	Outward reinsurance premiums	**(2)**	**—**	**(312)**	**(900)**	**(1)**	**(1,215)**
	Earned premiums, net of reinsurance	**12**	**4,756**	**132**	**(653)**	**569**	**4,816**
2019	Premiums earned - gross	16	9,411	474	418	1,051	11,370
	Outward reinsurance premiums	(2)	(1)	(368)	146	—	(225)
	Earned premiums, net of reinsurance	14	9,410	106	564	1,051	11,145

Gross premiums for the Company decreased from £11,370 million in 2019 to £6,031 million in 2020. There has been a significant reduction in premium volumes since last year mainly due to the impact of COVID-19 on the market, principally within the 'insurance with profit participation' line of business.

The gross earned premiums of £5,730 million for 2020 in Figure 8 above on UK GAAP basis excludes £301 million of premiums for investment contracts without discretionary participation features (as defined by FRS 103 insurance contracts) reflecting the deposit nature of these contracts. The premiums for these investment contracts without discretionary participation features are included in premiums written and earned under Solvency II. The gross premiums amount of £6,031 million, including these investment contracts, is analysed above in Figure 9.

Premiums classified above as 'Insurance with-profits participation' principally relate to PruFund business. There has been a significant reduction in premiums volumes since last year mainly due to the impact of the COVID-19 pandemic.

The increase in outward reinsurance premiums from £225 million in 2019 to £1,215 million in 2020 is primarily due to a large reinsurance premium refund of £1,086 million due to the Hong-Kong recapture, not repeated in 2020 as described in A.5.1.

A.5.2.2 Comparison of benefits and claims with the prior period

Figure 10: Benefits and claims by Solvency II line of business for the year-ended 31 December 2020 (with 31 December 2019 comparison)

	All figures in £m	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Accepted life insurance	Total
2020	Claims incurred and changes in other long-term business and technical provisions, gross of reinsurance	**(37)**	**(8,022)**	**(1,052)**	**(2,641)**	**(743)**	**(12,495)**
	Reinsurers share of claims incurred and changes in other long-term business and technical provisions	**34**	**1**	**647**	**1,447**	**(2)**	**2,127**
	Claims incurred and changes in other long-term business and technical provisions, net of reinsurance	**(3)**	**(8,021)**	**(405)**	**(1,194)**	**(745)**	**(10,368)**
2019	Claims incurred and changes in other long-term business and technical provisions, gross of reinsurance	2	(17,168)	(2,139)	(2,850)	(1,778)	(23,933)
	Reinsurers share of claims incurred and changes in other long-term business and technical provisions	15	4	1,150	368	—	1,537
	Claims incurred and changes in other long-term business and technical provisions, net of reinsurance	16	(17,164)	(988)	(2,482)	(1,778)	(22,396)

The Claims incurred and changes in other long-term business and technical provisions, net of reinsurance of £10,368 million differs from £10,330 million shown in the UK GAAP Revenue and Expenses analysed in Figure 8 above. The Claims incurred and changes in other long-term business and technical provisions Net of reinsurance under UK GAAP includes £21 million (2019: £20 million) of claims handling expenses and an adjustment for other charges of £49 million million (2019: £48 million). These amounts are not included in the benefits and claims net of reinsurance (£10,368 million) analysed above in Figure 10 on a Solvency II basis, which also includes £9 million (2019: £55 million) deposit accounting not included in Figure 8 on a UK GAAP basis.

Claims incurred and changes in other long-term business and technical provisions (gross of reinsurance) have reduced by 48% from £23,933 million in 2019 to £12,495 million in 2020.

The £11,438 million reduction in claims incurred and changes in other long term business provisions gross of reinsurance consists of a £9,146 million reduction in insurance with profit participation mainly due to negative investment returns and lower sales volumes in 2020 in contrast to positive investment returns in 2019.

The total of other life insurance and accepted life insurance of £1,939 million has decreased by £1,244 million since 2019 due to market movements, as well as reductions due to the run-off of the in-force business. The remaining £1,087 million movement is mainly related to index-linked and unit-linked insurance caused by negative investment returns.

A.5.2.3 Acquisition costs and other expenditure

Net operating expenses consist of acquisition costs £143 million (2019: £169 million) and administration expenditure £543 million (2019: £598 million). Investment expenses and charges are comprised of investment management expenses £372 million (2019: £285 million), plus interest on bank borrowings of £47 million (2019: £38 million) and investment return payable to reinsurers of £Nil (2019: £112 million).

Administration expenditure has decreased by £55 million from £598 million in 2019 to £543 million in 2020 mainly due to reduced transformation costs, operating expenses and project costs in 2020. The increase in investment management expenses is detailed in section A.3.2.

There was higher interest on borrowings mainly as a result of an increase in gilt rates affecting the interest on a deposit backed reinsurance arrangement.

A.5.2.4 Investment return by asset class

Figure 11: Investment return for the year-ended 31 December 2020 (with 31 December 2019 comparison)

Figures in £m	2020	2019
Income		
Investment properties	**442**	554
Loans	**158**	152
Equity securities and portfolio holdings in unit trusts	**1,584**	1,986
Debt securities	**1,975**	2,299
Other investments (including deposits)	**544**	672
Total income	**4,703**	5,663
Investment appreciation (depreciation) and other investment return		
Investment properties	**(493)**	(595)
Loans	**(19)**	(9)
Equity securities and portfolio holdings in unit trusts	**(982)**	6,645
Debt securities	**3,359**	3,609
Other investments (including deposits)	**1,082**	1,166
Total investment appreciation (depreciation) and other investment return	**2,947**	10,816
Total investment return	**7,650**	16,479

Investment return principally comprises interest income, dividends, and investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss. It also includes impairment losses relating to assets held at amortised cost.

Total income has decreased by £960 million from £5,663 million in 2019 to £4,703 million in 2020. Equity securities contributed a reduction of £402 million, investment properties decreased by £112 million and income from debt securities fell by £324 million.

Investment return from equity securities and portfolio holdings in unit trusts has reduced from a gain of £6,645 million in 2019 to a loss of £982 million primarily due to negative investment returns on equities in 2020 compared to positive investment returns in 2019 driven by valuation losses. Investment return from debt securities have also reduced but have remained positive in 2020 mainly due to net disposals in the year.

Other investments are carried at fair value through profit or loss and consist mainly of revaluation in subsidiaries and derivative movements.The increase of £84 million compared to 2019 is as a result of a £300 million increase in unrealised valuation gains on derivatives and a £45 million increase due to favourable exchange movements. This was partially offset by a £101 million decrease in the value of mortgage loans, £247 million decrease in the revaluation of subsidiaries and £79 million reduction in the value of Other financial investments.

A.5.3 Post balance sheet events

A.5.3.1 Dividends to parent companies

On 4 March 2021 the Company approved an interim dividend of £950 million to be paid to M&G plc. This is not recognised in the 2020 financial statements or the Solvency II position at 31 December 2020 as it is not considered a foreseeable dividend.

A.5.3.2 SAIF merger

SAIF is a separate With-Profits Sub Fund within the Company. On 1 April 2021, SAIF merged with the Company's main With-Profits Sub-Fund (WPSF) and the assets and liabilities of SAIF combined with the WPSF. SAIF policies will continue to participate in profits on a 100:0 basis with no shareholder profit transfers. This will not have a material impact on the Company's regulatory solvency position in the future as any financial impact will be limited to the With-Profits Fund which is subject to ring-fenced fund restrictions.

A.5.3.3 Future changes to UK corporation tax

On 3 March 2021, the UK Government announced a proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future when the change is substantially enacted. It is expected that, in line with the rate increase proposed, there will be an increase to the Company's effective tax rate for periods from 2023 onwards. It is considered that there will not be a significant impact on the deferred tax assets and liabilities as a result of this proposal.

B System of governance (unaudited)

B.1 General information on the system of governance

B.1.1 Overview

The PRA requires that firms have in place an effective system of governance which provides for the sound and prudent management of the business. The system of governance must include an adequate, transparent organisational structure with clear allocation and appropriate segregation of responsibilities.

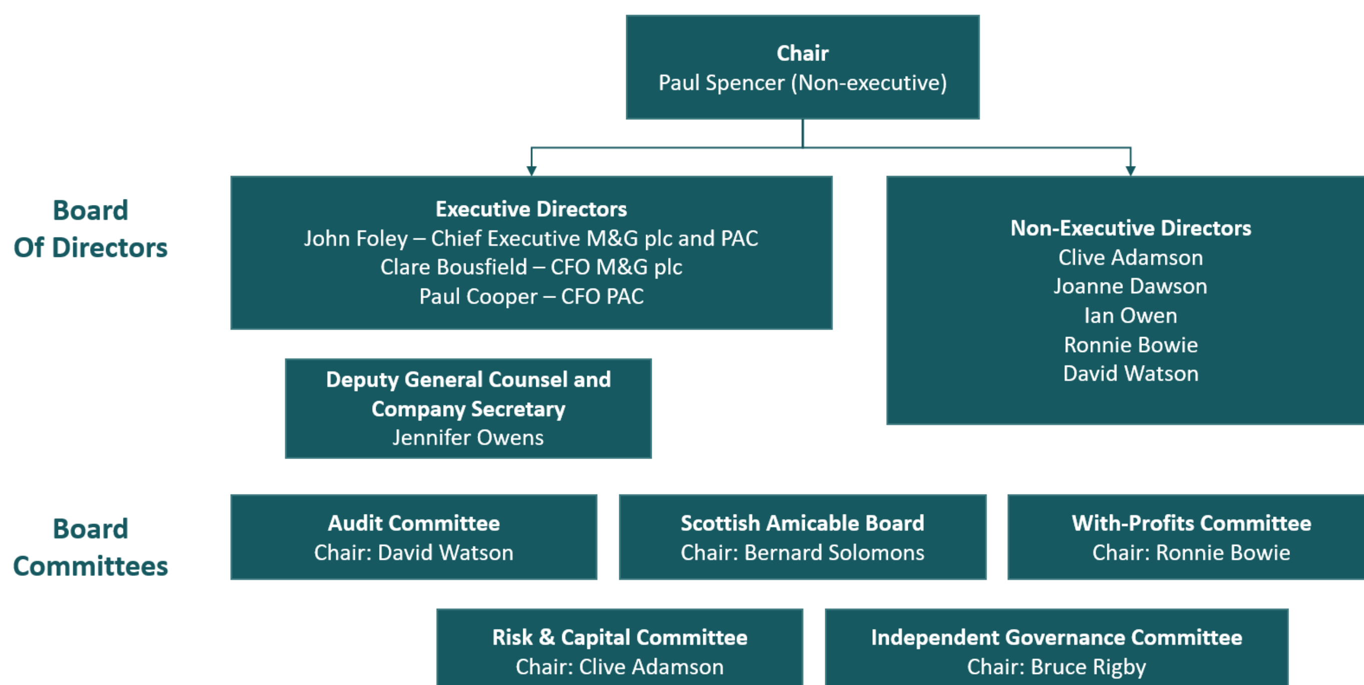
The Company's Board is collectively responsible for the long-term success of the Company and for providing leadership within a framework of effective controls. The control environment enables the Board to identify significant risks and apply appropriate measures to manage and mitigate them. The Company's governance structures have been designed to ensure they are aligned to the needs of the Company and its stakeholders, and fully comply with the UK Corporate Governance Code.

The Board is authorised to exercise all the powers of the Company subject to complying with the Group Governance Framework ("GGF"). The GGF details the Group's approach to governance, risk management and internal controls, including policies that apply to the conduct of the Company and its employees, taking into account statutory, regulatory and other relevant matters. Compliance with the GGF, including the Risk Management Framework ("RMF") is attested to annually.

B.1.2 Board and Senior Management

The Company's Board members and its Committees are set out in Figure 12 below.

Figure 12: Company Board and Board Committees as at 31 December 2020



Note: Ronnie Bowie replaced Paul Spencer as Chair of the Board on 5 February 2021. Ronnie Bowie stepped down as Chair of the With-Profits Committee on 5 February 2021 and Robert Talbut became Chair of the With-Profits Committee on 2 March 2021. Joanne Dawson resigned from the Board on 31 March 2021.

The Board comprises nine members:

- an Independent Non-Executive Chair, Paul Spencer;
- five Independent Non-Executive Directors ("NEDs"): Clive Adamson, Joanne Dawson, Ian Owen, Ronnie Bowie and David Watson. Clive Adamson and David Watson serve as the independent Chairs of the Board Risk and Capital Committee ("BRCC") and Board Audit Committee ("BAC") respectively; and
- three Company executive directors, namely, the Group Chief Executive, who is also the Chief Executive of the Company, the Chief Finance Officer ("CFO") of M&G plc and the CFO of the Company.

The Board considers all its NEDs to be independent and has complied with the requirements of the corporate governance code in relation to the balance of Executive Directors and NEDs on the Board and its Committees. The NEDs are responsible for both supporting and overseeing executive management whilst, as members of a unitary board, sharing in the wider duty to promote the success of the Company and to ensure the Company continues to meet its Threshold Conditions (minimum conditions requiring to be met to undertake its regulated activities).

The appointment of independent NEDs on the Board recognises the Company's obligation, as a regulated entity, to take decisions independently in the interests of the safety and soundness of the Company and its customers, as well as to meet relevant legal and governance responsibilities.

Given the importance of the Company to the Group's overall business Clive Adamson (Independent NED and Chair, M&G plc Risk Committee) also serves as a director of the Company. M&G plc Executive Directors, John Foley and Clare Bousfield, serve as directors of both M&G plc and the Company.

The Board operates within the overall ambit of the GGF, which sets out the respective roles and responsibilities between the Group and the entities, allowing for the appropriate management of potential conflicts of interest, as well as the required interactions and two way flow of information, including requirements as to the upward and downward escalation of relevant issues. The membership of the Board and their roles as at 31 December 2020 is detailed in Figure 13 below.

Figure 13: Composition of the Board as at 31 December 2020

Board Members	Role
Paul Spencer	Chairman and Independent NED (SMF 9) (resigned from the board on 5 February 2021)
John Foley	Director and Chief Executive M&G plc and the Company (SMF 1 and SMF 3)
Clare Bousfield	Director and CFO M&G plc (SMF 3 and SMF 7)
Paul Cooper	Director and CFO (SMF 2 and SMF 3)
Clive Adamson	Independent NED and Chairman of the BRCC (SMF 10)
Joanne Dawson	Independent NED (Notified NED) (resigned from the board on 31 March 2021)
Ian Owen	Independent NED (Notified NED)
Ronnie Bowie	Independent NED (Notified NED) (became Chairman from 5 February 2021)
David Watson	Independent NED and Chairman of the BAC (SMF 11)

Key Function Holders

John Foley, the Chief Executive of M&G plc, is also the Chief Executive (SMF 1) of the Company. As a Solvency II entity, the Company is required to identify its Key Functions and name Key Function Holders ("KFHs"), the senior managers within the Company in charge of those Key Functions. The Company's KFHs are set out below:

- Actuarial - Jonathan Hughes (SMF 20)
- Compliance - David Nancarrow (SMF 16)
- Distribution - David Macmillan (SMF 18)
- Finance - Paul Cooper (SMF 2 and SMF 3)
- HR - Irene McDermott Brown (SMF 7)
- Internal Audit - Karen Connell (SMF 5)
- Investments - David King (SMF 18)
- Operations - Roddy Thomson (SMF 24)
- Risk - Guy Barton (SMF 4)

Note: Karen Connell, as at 31 December 2020, is on maternity leave and her role is covered by Ian Robinson.

Material changes to the system of governance

No material changes have been made to the system of governance during 2020.

B.1.3 Responsibility of the Board and Board Committees

The Board and its Committees operate under approved terms of reference which are reviewed on a periodic basis, which last took place in March 2021. The Board also undertakes an annual review of its performance and effectiveness which was last carried out in December 2020.

The Board

The Board responsibilities are detailed in Figure 14 below.

Figure 14: Board responsibilities

Responsibility	Terms of Reference
Culture, Values Strategy, Budgets and Business Plans	• approving the Company's strategy, long-term objectives, annual budgets and business plan prior to their submission to M&G plc; • monitoring implementation of the Company's strategy and long-term objectives, annual budgets and business plan as approved by the M&G plc Board, and overseeing any corrective action taken by the Company; and • ensuring policy, practices and behaviours are aligned to the Group culture, values and risk appetite
Structure and Capital	• approving, subject to the GGF, the following matters: ◦ material changes to the Company's corporate structure, including decisions to cease operations in parts of the Company or to extend activities into new business or geographic areas; ◦ material changes to the Company's capital structure, including reduction of capital, share issues and the re-organisation or restructuring of capital; ◦ the raising of, or committing to, external finance and financing programmes; and

Responsibility	Terms of Reference
Financial Reporting and Dividends	• approving the Company's Annual Report and Accounts; • approving the payment of dividends; • ensuring the Company adopts the Group's accounting policies for the purpose of Group reporting; • endorsing the proposed appointment, reappointment or removal of the Company's external auditor; and • regularly reviewing the overall financial condition of the Company and its subsidiaries, and any relevant credit ratings and regulatory capital requirements.
Internal Control and Risk Management	• ensuring an effective system of internal control and risk management is in place, maintained and reviewed annually; • ensuring the overall risk appetite and tolerance of the Prudential entities adheres to the Group risk framework, policies and limits; • approving the Company's risk appetite and risk framework and policies within the limits set out above; and • overseeing and approving, where applicable, material disclosures to, and regular reporting required by, regulators.
Board and other appointments	• taking the following actions, each in accordance with the Material Subsidiary Corporate Governance Manual: ◦ implementing changes to the structure, size and composition of the Board and membership, including the chairmanship of its Committees; ◦ approving the appointment and removal of Directors; • ensuring, in conjunction with the CEO, that there is a succession planning process in place for executive directors and senior management; and • ensuring an effective process for the ongoing refreshment of NEDs.
Governance	• ensuring the Company adheres to the Group's governance policies; • ensuring that an evaluation of the Board's own performance, that of its Committees and of all Directors is undertaken annually in accordance with the Material Subsidiary Corporate Governance Manual and that an appropriate plan of action is adopted to address matters identified in the evaluation; • authorising any actual or potential conflict of interest situation applying to any director; and • authorising the Company Secretary to arrange for all directors to obtain, at the Company's expense, appropriate external professional advice where necessary.
Remuneration	• appointing a designated non-executive member of the Board to attend M&G plc Remuneration Committee meetings; • reviewing and confirming support for the Group Remuneration Policy, as it applies to PAC Personnel; • reviewing the report prepared by the Risk Function for the M&G plc Risk Committee in relation to proposed risk impact on remuneration, as it applies to PAC Personnel which duty may be carried out by a committee of the Board; and • resolve conflicts between the Remuneration Committee and the Board with respect to the remuneration of PAC Personnel
Delegation of Authorities	• delegating authority to a number of standing and ad hoc committees of the Board and regularly reviewing the terms of reference for, and reports from, the Committees, in adherence with the Material Subsidiary Corporate Governance Manual; and • the CEO of the Company has responsibility for the operational management of the Company and its subsidiaries, and may sub-delegate authority as they determine.
With-Profits	• ensuring that the interests of the with-profits policyholders are appropriately considered in relation to matters affecting with-profits policyholders as a whole or as separately identifiable groups of policyholders; and • receiving advice from the With-Profits Committee ("WPC") to ensure compliance with the Company's Principles and Practices of Financial Management ("PPFM").
Investment Strategy	• inputting into the development of, and approving, the investment strategy relevant to the Prudential entities in the context of M&G plc's business strategy; and • monitoring the implementation of the Company's investment strategy relevant to the Prudential entities, and overseeing any corrective action taken by the Company.

Note: Prudential entities means the following entities in the business related to the Company: Prudential Pensions Limited (PPL), Prudential Distribution Limited (PDL), Prudential Financial Planning Limited ("PFPL"), Prudential Life Time Mortgages Limited ("PLML"), Scottish Amicable Life Assurance Society ("SALAS"), Prudential UK Services Limited ("PUKSL") and such other entities as updated from time to time.

Board Committees

The Board has established a number of committees which form the independent oversight of the GGF by the NEDs. The terms of reference for each of the Board's Committees are documented formally, approved by the Board and updated as necessary. Each Committee Chair provides regular reports to the Board on the matters covered at each Committee meeting.

The role of each principal Committee of the Board, together with details of the current Chair, are summarised in Figure 15 below.

Figure 15: Summary of the role of Board Committees as at 31 December 2020

Committee	Role of Committee
Board Audit Committee	**Chair : David Watson** The BAC assists the Board in meeting its responsibilities in respect of PAC, PPL, PLML, PDL and PFPL (collectively the 'Companies'), in particular, for the integrity of the Companies' financial statements, for the effectiveness of the Companies' internal control and risk management systems, and for monitoring the effectiveness and objectivity of the internal and external auditors. The BAC's membership is wholly independent.
Board Risk and Capital Committee	**Chair : Clive Adamson** The BRCC's role is to assist the Board in meeting its responsibility for overseeing the effectiveness of risk and capital management for all financial and non-financial risks faced by the Company. The BRCC's membership is wholly independent.
With-Profits Committee	**Chair: Ronnie Bowie** The WPC acts in an advisory capacity to inform the decision making of the Board and of each of its relevant subsidiaries, to ensure that the interests of with-profits policyholders are appropriately considered within the Company's governance structures and to consider issues affecting with-profits policyholders as a whole or as separately identifiable groups of policyholders. The WPC's membership is wholly independent.
Independent Governance Committee ("IGC")	**Chair: Bruce Rigby** The IGC acts in an advisory capacity, solely in the interest of pension scheme members, and to assess, raise concerns and report on the value for money of the Company's contract-based defined contribution workplace pension schemes. This focuses on the quality of the schemes and ongoing review of compliance with regulatory and legislative requirements. The majority of the IGC's members are independent.
Scottish Amicable Board ("SAB")	**Chair: Bernard Solomons** The SAB manages the business of the Scottish Amicable Funds, transferred to the Company as part of the transfer of business from the Scottish Amicable Life Assurance Society. A majority of the SAB members are independent.

Note: As discussed in Section A.1.4.4, on 1 April 2021 it is the intention that SAIF will merge with the PAC WPSF and the assets and liabilities of SAIF will be combined with the WPSF. Ronnie Bowie stepped down as Chair of the With-Profits Committee on 5 February 2021 when he was appointed to Chair of the Board. Robert Talbut became Chair of the With-Profits Committee on 2 March 2021.

The key functional control areas of Risk, Internal Audit, Compliance and Actuarial report to Board Committees in accordance with each Committee's terms of reference. It is the responsibility of the BAC to review the resources of Internal Audit and Compliance through its review of annual plans and progress of their delivery during the year. The Actuarial function reports annually to the BRCC on the activities undertaken over the year and the Risk function reports on its activities on an ongoing basis to the BRCC. Further information on the key functions is given in Sections B.3-B.6.

B.1.4 Board Remuneration

Remuneration Committee and strategy

The M&G plc Board has established a Remuneration Committee to ensure alignment of the Remuneration Policy and structures across the Group, including for the Company, with the Group's business strategy, risk management policies and appetite limits, conduct, culture, and behaviours, sustainability and long-term interests of customers and shareholders. A NED from PAC attends the Remuneration Committee on an ad-hoc basis to represent PAC.

The Remuneration Committee's responsibilities include, but are not limited to:

- establishing, approving and maintaining the principles and framework of the remuneration policies of the Group and ensuring compliance with those policies; and
- determining the design, implementation and operation of remuneration arrangements, including, where relevant, benefits and pension arrangements, for the Chair, the Directors, members of senior management, "identified staff" for all remuneration regulations that apply to the Group, including Material Risk Takers and other individuals identified as Solvency II Staff[1] under remuneration regulations that apply to the Group, and individuals whose total annual remuneration exceeds an amount determined by the Remuneration Committee from time to time.

[1] The PRA has defined these as Board members, Executive Committee members, Senior Manager Functions, Material Risk Takers

The Group's remuneration strategy and policy is to have in place remuneration structures and processes that adhere to the following principles:

- promote the long-term success of the Group and its companies;
- attract, motivate and retain the best talent to help ensure the continued growth and success of the Group as a separately listed company;

- support the Group's purpose and values to build a safe, respectful and inclusive culture through remuneration policies and schemes that promote and reward good conduct and behaviours for the benefit of our customers and colleagues;
- align the interests of the Executive Directors, Senior Managers and employees with the interests of current and future shareholders and other stakeholders;
- strike an appropriate balance between short-term and long-term performance with strong linkage to Group performance, effective risk management, management of conflicts of interest, customer outcomes, the culture and values of the Group and long-term shareholder value creation;
- are simple and transparent, both externally and to colleagues; and
- are compliant with relevant remuneration regulation requirements.

The Group's Remuneration Policy was adopted in 2019 and is reviewed annually by the Company and Remuneration Committee.

Remuneration architecture

Remuneration structures are aligned to the Group's purpose and values, with clear linkage to the successful delivery of the Group's short and long-term strategic goals. Both fixed and variable remuneration is assessed against market data and internal benchmarks on an annual basis. Total remuneration is balanced so that the fixed component represents a sufficiently high proportion to avoid employees being overly dependent on the variable components, mitigating the risk of inappropriate behaviours to the detriment of customer outcomes.

Variable remuneration may comprise short-term incentives (i.e. annual bonus, sales incentives for sales staff) and long-term incentive plan ("LTIP") awards.

Short-term incentives are determined by reference to a combination of financial and non-financial measures and individual performance objectives reflecting the level, nature and scope of an individual's role and the practice in the market in which the Group operates. Individual incentive outcomes must transparently reflect individual performance in accordance with the Group's performance management policy and process, adherence to risk management policies and conduct and behaviour, including reference to customer impacts and culture/values. The Group operates a discretionary short-term incentive policy, including the possibility of not paying an incentive, based on financial, non-financial and individual objectives criteria.

Short-term incentives are subject to the Group's deferral policy, with deferred awards granted over M&G plc shares and subject to malus during the vesting period.

The Group does not allow the award of discretionary pension benefits. The Group's defined benefit schemes are closed to new members.

Remuneration for NEDs and the Chair

The remuneration of NEDs is determined in accordance with the Company's Articles of Association. Levels of remuneration for the Chair and all NEDs reflect the time commitment and responsibilities of the role.

All NEDs receive a basic fee for their duties as a Board member. The basic and any additional fees payable are periodically reviewed against market data, the time commitment and other requirements of the role. NEDs are not eligible to participate in short-term and long-term incentive plans and do not receive a pension allowance or participate in employee pension schemes. Travel and business expenses incurred in the normal course of business, for example, in relation to attendance at Board and Committee meetings, are met by the Company, including any tax liabilities arising in relation to such business expenses.

Remuneration governance

Governance processes provide robust and independent oversight of reward and effective management of any potential conflicts of interest. The design and operation of all remuneration policies and incentive schemes must be aligned with the Company's risk management principles and policies through the appropriate use of performance measures and targets and the discretion to adjust outcomes to reflect risk, compliance and conduct events.

The M&G plc Risk Committee provides independent input to the Remuneration Committee to help with the assessment of scheme design and outcomes to ensure that they are consistent with these principles and policies. A formal risk and compliance report, compiled by the Chief Risk and Resilience Officer ("CRRO") and approved by the M&G plc Risk Committee is submitted to the Committee annually to provide an assessment of:

- The appropriateness of scheme design for the coming year; and
- The effectiveness of the risk and control environment, material events and specific conduct and compliance issues over the 1 and 3 year performance periods of awards to enable the Remuneration Committee to determine if the outcome of schemes is appropriate or if any adjustments should be applied at scheme or individual level.

This report also includes formal input from PAC via a risk and compliance report, compiled by the CRO and approved by the BRCC. Input from the report is also used to assess whether there have been any events that warrant the consideration of malus and/or claw back on previously determined awards.

B.1.5 Material transactions with directors and shareholders

Transactions with directors

In addition to remuneration for their role on the Board, executive officers and directors of the Company may, from time to time, purchase insurance or asset management products marketed by the Company and other companies within the Group in the ordinary course of business on the same terms as those prevailing at the time for comparable transactions with other persons.

In accordance with the Companies Act 2006, directors are required to disclose any transactions that may represent a conflict of interest to their roles. In 2020, no such transactions have been disclosed.

Transactions with shareholders

Transactions with shareholders are described in Section A.1.4.7.

B.2 Fit and proper requirements

The Company ensures that Senior Managers are fit and proper to undertake their role through the implementation of a Fit and Proper Policy. The Fit and Proper Policy applies to:

- all persons approved by the PRA and/or Financial Conduct Authority ("FCA") as holding SMFs, including approved NEDs;

- all persons defined as KFHs and notified to the regulator;
- all persons defined as standard NEDs and notified to the regulator; and
- all persons defined as holding a Certification Function.

There is an annual certification exercise to demonstrate compliance with the GGF, which includes the Fit and Proper Policy, and the system of internal control.

B.2.1 Fit and proper criteria

All individuals to whom the Fit and Proper Policy applies fulfil the following requirements:

- competence and capability, i.e. that they have the necessary skills to carry out the function they are to perform;
- financial soundness; and
- propriety, including adherence to conduct rules.

There are five conduct rules which apply to all staff:

- acting with integrity;
- acting with due skill, care and diligence;
- being open and cooperative with regulators;
- paying due regard to the interest of customers; and
- observing proper standards of market conduct.

There are an additional three conduct rules that apply to SMFs, requiring Senior Managers to:

- take reasonable steps to ensure that the business of the firm within the function is controlled effectively;
- take reasonable steps to ensure that the business of the firm within the function complies with relevant regulatory requirements and standards; and
- ensure that where responsibilities are delegated, the delegation is to an appropriate person and is effectively overseen.

There is a further rule which applies to SMFs and NEDs, requiring any information of which the PRA or FCA would reasonably expect to be notified, to be appropriately disclosed.

B.2.2 Fit and proper assessments

The Company has processes for assessing the fitness and propriety of persons covered under the Fit and Proper Policy, in order that:

- during the recruitment phase and before any regulatory application is made an assessment of the person's fitness is conducted, including:
    - professional and formal qualifications;
    - knowledge and relevant experience;
    - basic criminology disclosure ("DBS") check;
    - credit check; and
    - regulatory references.
- the ongoing fitness and propriety of relevant individuals is assessed (at least annually), including:
    - self-disclosure questionnaires;
    - sample DBS/credit checks (ensuring full coverage on a rolling three year cycle);
    - an assessment of competency and capability to fulfil role; and
    - an assessment of compliance with the conduct rules.

The Company will notify the PRA and FCA of any change in the fit and proper status of SMFs (including, should instances arise, where individuals have been replaced because they are no longer fit and proper), and of any breaches to conduct rules by SMFs and certified individuals.

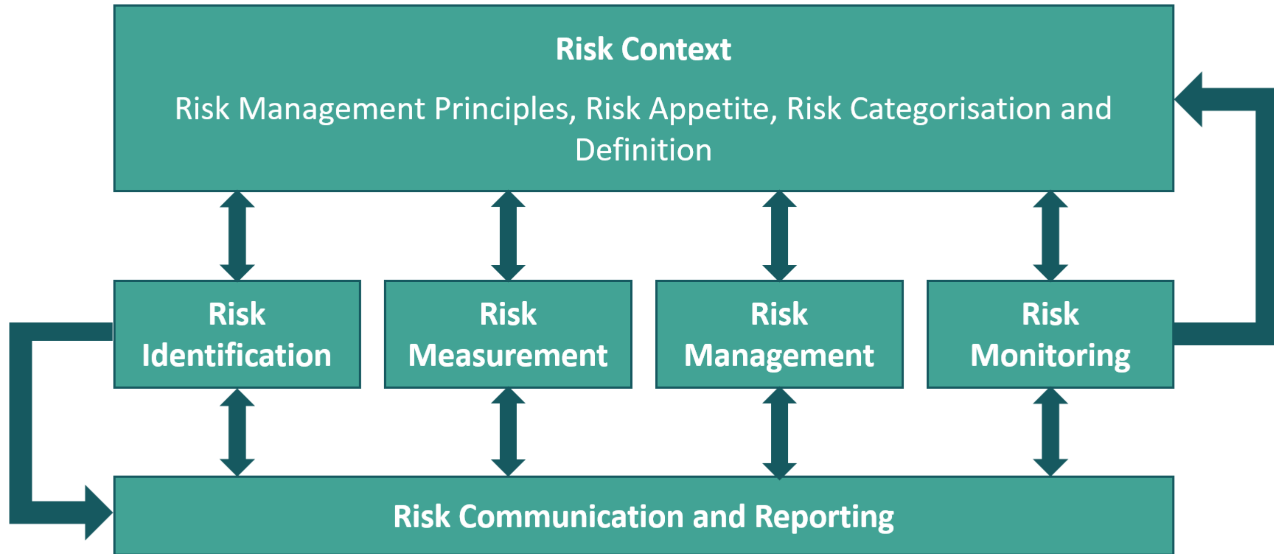
B.3 Risk management system including the Own Risk and Solvency Assessment

B.3.1 Risk governance, culture and the risk management cycle

Risk is defined as the uncertainty the Company faces in successfully implementing its strategies and objectives. This includes all internal and external events, acts or omissions that have the potential to threaten the success of the Company or the interests of its customers. As part of the Group's business operations, the Company take on risks on behalf of shareholders and customers. The Company generates shareholder value by selectively taking 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.

To assist the Board in discharging its responsibilities, the Group has implemented a comprehensive approach to identifying, measuring, managing, monitoring and reporting risks ("the risk management cycle"), supported by an embedded risk culture and strong risk governance. This is set out in the Group's RMF. The RMF is designed to manage risk within agreed appetite levels which are aligned to delivering the Group and Company strategy for shareholders and customers.

Figure 16: Risk Management Cycle



The key components of the RMF are described below.

B.3.1.1 Risk culture

Culture is a strategic priority of the Board, which recognises the importance of good culture in the way that the Company does business. Risk culture is a subset of broader organisational culture, which shapes the organisation-wide values that are used to prioritise risk management behaviours and practices.

The responsibility for instilling an appropriate corporate and risk culture within the Company lies with both the Group and Company Boards which, together with senior management, promotes a responsible culture of risk management in four main ways:

- by the leadership and behaviours demonstrated by management;
- by requiring individuals to take responsibility for managing risk;
- by building skills and capabilities to support risk management; and
- by emphasising the importance of risk management in business decisions.

B.3.1.2 Risk committees

The Company's risk governance comprises the organisational structures, reporting relationships, delegations of authority and roles and responsibilities that the Company establishes to make decisions and control activities on risk-related matters. This encompasses individuals, key functions and committees involved in the management of risk.

The BRCC supports the Board in relation to these matters by providing leadership, direction and oversight of the Company's overall risk appetite in addition to guidance on risk tolerance and strategy. The Committee oversees and advises the Board on the current and potential future risk exposures of the Company, ensuring compliance with the RMF, monitoring its effectiveness and adherence to the various risk policies. The BRCC also supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk. The BAC assists the Board in meeting its responsibilities for the integrity of the Company's financial reporting, including its obligations for the effectiveness of the Company's internal controls and risk management systems. The responsibilities of the BRCC and BAC are set out in Figure 15 in Section B.1.3.

In addition, there are various executive risk forums to ensure risk issues are considered and escalated appropriately. In particular, the Executive Risk Committee ("ERC"), is responsible for reviewing and considering specific risk and compliance matters and collectively offering its approval or providing support or advice to the CRO and the Chief Compliance Officer ("CCO"). This includes oversight of the RMF and risk and compliance policies, the ORSA, and validation of the Internal Model. In addition, the committee provides oversight and monitoring of key risk exposures against appetite and the internal control environment.

Matters are escalated to the BRCC by the Committee's Chairs, the CRO and CCO, if appropriate to do so.

The system of internal control, including risk management, is based on the principles of 'Three Lines of Defence': 1) risk identification and management, 2) risk oversight, advice and challenge, and 3) independent assurance.

First line business areas identify and manage risks and are overseen by the second line Risk and Compliance functions. The second line Risk and Compliance functions are structurally independent of the first line, providing risk oversight, advice and challenge, as well as compliance and monitoring and assurance. Third line Internal Audit is empowered by the BAC to audit the design and effectiveness of internal controls, including the risk management system.

Figure 17: Three Lines of Defence

Line of Defence:	1LOD	2LOD	3LOD
Responsibility:	Risk Identification and Management	Oversight, Advice and Challenge	Assurance
	Be Accountable	Be Objective	Be Independent
Activity:	• Identify, own, manage and report risks • Execute business plan and strategy • Establish and maintain controls • Stress / scenario modelling • Operate within systems and controls • Ongoing self-assessment of control environment effectiveness	• Owner of Risk and Compliance Framework • Stress / scenario setting and oversight • Regulatory liaison • Proactive and Reactive Advice and guidance • Risk and Compliance monitoring and assurance of 1LOD activities • Risk and Compliance reporting	• Independent assurance of 1LOD and 2LOD • Independent 3LOD thematic reviews and risk and controls assessment

B.3.1.3 Risk categorisation and policies

The RMF is structured around a set of defined risks which serves as a reference point for the Group-wide application of the risk management cycle, in terms of risk policies, standards, risk appetite statements, limits and controls. Risk categories are prescribed at a minimum of two levels across the risk universe, and are consistent with the set of model inputs ("risk drivers") used in the Solvency II Internal Model. Risk policies are in place for all material risk categories.

Risk policies set out specific requirements to be applied in the management of each risk type. Policy requirements are typically principles based, and seek to address fundamental concepts rather than operational procedures. This allows business users to determine how to comply with the requirements in the most appropriate way for their part of the business commensurate with the level of risk. Risk policy requirements are attested to as part of the GGF and RMF annual attestation exercise.

B.3.1.4 Risk appetite and limits

The Group's risk appetite and tolerance to take on risk is specified through risk appetite statements and limits that are aligned to, and reviewed with respect to, its business model and strategy. Risk appetite is the amount and type of risk the Group, including the Company, is willing to accept in pursuit of its business objectives.

The Group has established aggregate risk appetite statements and limits for capital (regulatory and economic), liquidity and dividend volatility. The capital risk appetite is supported by a solvency intervention ladder which sets out management actions for implementation or consideration at different levels of regulatory solvency. Both the Group and the Company's expected ability to stay within appetite is assessed during the annual business planning process, with the actual position monitored and managed regularly throughout the year.

Risk appetite statements and accompanying limits are also in place for significant individual risks, including a comprehensive Group Approved Limits Framework ("GALF"). In combination, the individual appetite statements and limits are set such that the Group operates in line with the aggregate approved risk appetite statements even when the individual limits are fully utilised.

Risk exposures are monitored against appetite, both at individual and aggregate level, to ensure compliance with the GALF which, together with limit utilisation, form a core element of risk reporting to Board and Executive Risk Committees. Prescribed forward looking indicators are used to help inform whether a risk may move outside of limit together with appropriate management actions.

B.3.1.5 The risk management cycle

As set out in Figure 16 , the risk management cycle is the ongoing process of identifying, measuring, managing, monitoring and reporting the risks to which the business is exposed in the context that it operates.

(i) Risk context

The Company articulates risk management principles, and sets the risk appetite statements, limits and triggers by which risk will be assessed and managed to set the context for risk management throughout the organisation. When establishing the context, the Company considers both the external and internal environment.

(ii) Risk identification

Risk identification is derived through a number of processes, in particular the annual top-down, emerging and bottom-up risk identification processes supported by an annual exercise of stress and scenario testing to assess the magnitude of risks. Each of these is designed to identify and assess risk from a different perspective to form an overall understanding of the Company's risk profile and how it has and is expected to evolve.

(iii) Risk measurement

Risks are measured using appropriate metrics as defined in the setting of risk appetite limits and indicators. Point-in-time measures are supplemented by quarterly sensitivities and stress and scenario testing. Reverse stress testing is also used to provide management with information on the resilience of the Company's balance sheet and sustainability of its profitability.

Operational and organisational risks are less easily quantifiable; however, a risk incident ("Notifiable Events") process is in place to ensure that risk events are identified, assessed and managed in a timely manner. For all material incidents (whether losses, gains or near misses), a lessons learnt exercise is carried out.

(iv) Risk monitoring

Risk monitoring is an ongoing process to track the status of risks and is undertaken by both risk owners and through oversight and assurance activities undertaken by the Risk, Compliance and Internal Audit functions (for example, limits and transactions monitoring, assurance and lessons learned reviews, model validation reviews, risk deep dives and regulatory compliance monitoring).

(v) Risk management

Risks are evaluated, treated and managed against the defined risk appetite limits and indicators in order to establish whether the business is operating within risk appetite. Where risk appetite is exceeded, or close to being exceeded, management are expected to take action to appropriately treat the risk through mitigation, transfer, or avoidance, or to formally accept the risk. Key investment decisions and projects are subject to detailed risk reviews and go/no go decisions which fully consider all relevant risks and Risk's risk opinion. The resilience of the business and its ability to respond to and recover from major incidents is also regularly tested.

(vi) Risk communication and reporting

To ensure timely and appropriate decision making, the Board, its Committees and senior management are provided with accurate and timely risk reports and management information, including:

- regular management information driven off and aligned to the top-down risk identification process, prepared by the Risk function on behalf of the CRO, which is presented to the Board and Executive Risk Committees to enable oversight of such risks on an ongoing basis; and
- Own Risk and Solvency Assessment ("ORSA") reporting, further details of which are contained in Section B.3.4.

Further information on the management of significant risks to which the Company is exposed is set out in Section C.

B.3.2 The Risk function

Within the Three Lines of Defence model, the Risk function is part of the 2nd line and is responsible for risk oversight. The Risk function assists the Board to formulate and implement the approved GALF, risk management plans, risk policies, risk reporting and risk identification processes. Whilst the 1st line has responsibility for identification and management, any risks taken are constrained within clear parameters set by Risk. The Risk function also monitors and assesses the risk taking activities of the 1st line, challenging, where appropriate, the actions taken to manage and control risks and approving any significant changes to controls.

The Risk function's responsibilities include, but are not limited to:

- coordinating the identification and assessment of key risks to establish the risk profile used as a basis for setting qualitative risk appetite statements and quantitative limits, and the management information received by Risk Committees and the Board;
- independently monitoring and reporting that risk exposures are managed within appetite and limits and in line with specified parameters and policies, with regular Risk MI, including on Top Risks, to relevant Boards and Committees;
- providing overall coordination and oversight of risk management processes and systems;
- supporting the Board and management in embedding and maintaining a supportive culture in relation to risk management;
- testing the Group's internal controls and procedures for financial reporting;
- overseeing and validating that the development of the Internal Model is within the framework of model governance and remains fit for purpose;
- providing input and review of public and regulatory disclosures;
- performing the ORSA, risk assessing the business plan, undertaking stress and scenario testing including Reverse Stress Testing, and informing the key areas of risk based decision making; and
- considering material findings from regulatory reviews and interactions with regulators which impact on risk governance or risk management processes.

In order to fulfil these responsibilities, the Risk function liaises with other functions (including Actuarial, Internal Audit and Compliance), to provide technical expertise and advice throughout the risk management cycle. The Risk function is also subject to an annual effectiveness review.

B.3.3 Internal model

The Solvency II Internal Model is a key risk management tool and refers to the systems and processes used to identify, monitor and quantify risks for the purpose of calculating the Solvency II capital requirement ("SCR", "Pillar I") and management's own assessment of economic capital ("ECap", "Pillar II") requirements.

To ensure that the Internal Model is, and continues to be, suitable to support this assessment of risk and capital, the Company has implemented a governance and control framework in relation to:

- **model use**: to provide assurance that the model is widely used in the business, playing an important role in the system of governance and decision-making processes;
- **model change**: where changes to the Internal Model are required (e.g. due to a new risk or in response to regulatory feedback or a change in industry practice), these are implemented in a consistent and controlled manner with consideration of any potential implications;
- **model documentation**: the Internal Model documentation outlines the data, methodology, assumptions and judgements within the model, including highlighting the circumstances where the Model does not work effectively. This allows those relying on the model output to determine whether the key features of the model are reasonable; and
- **model validation**: to confirm that the capital requirements resulting from the Internal Model remain appropriate and provide assurance as to the reliability of the Internal Model to senior management and the Board. The Model Risk and Validation team within the Risk function provides independent assurance that the Internal Model remains fit for purpose and compliant, in all material respects, with all applicable rules through a risk-based programme of assurance activity, which also acts as an incentive for the model's ongoing improvement.

The Internal Model Governance Framework is implemented in accordance with the Internal Model Risk Policy which, in turn, is aligned with the relevant requirements of the Solvency II Directive. Further policies, operational standards and governance committees support the application of the Internal Model Risk Policy.

The Internal Model Governance Oversight Committee ("IMGOC") and the Technical Actuarial Committee ("TAC") have responsibility for ensuring that the Internal Model is, and continues to be, suitable to support the assessment of risk and capital and that it complies with all regulatory requirements. The IMGOC is responsible for the overall governance and oversight of the Internal Model. The TAC is responsible for setting the methodology for valuing the Group's capital requirements and for informing decisions on assumptions. The IMGOC and TAC report to the ERC and are chaired by the Prudential UK CRO and Chief Actuary respectively and report to the Board and Risk Committees as necessary on matters relating to the Internal Model.

There have been no material changes to the Internal Model Governance Framework over 2020.

B.3.4 Own Risk and Solvency Assessment

The ORSA is the Company's ongoing process for identifying, assessing, controlling, monitoring and reporting the risks to which the business is exposed, and of assessing the own funds necessary to ensure that the Company's solvency needs are met at all times. Risk appetite and limits are the key controls that apply on the current and future risk profile, as a result of the Company's strategy and business plan, and ensure that the Company complies with its solvency requirements on a continuous basis under a reasonable range of scenarios. This process is documented and evidenced through an ORSA report.

The entirety of the ORSA processes are undertaken at least annually with a subset (in particular, those making up the risk management cycle) performed on a continuous basis as part of normal day-to-day risk management activity. An ad hoc ORSA may be triggered by a material change in the Company's risk profile with specific circumstances that could trigger an ad hoc ORSA being set out in the ORSA Policy. Where a trigger is activated, the CRO will decide on which ORSA processes are required to be performed and reported, including whether a revised ORSA Report, or equivalent, is required.

The ORSA report includes a current and forward looking assessment of both the capital and solvency position as well as the risk profile of the Company providing the means to understand the links between strategy, risk and capital. It combines the analysis performed by, and the outcomes of, the ongoing risk and capital management processes that are embedded and which have been reviewed by various Board and Executive Committees. It also provides a quantitative and qualitative assessment of the Company's risk profile and solvency needs on a forward looking basis incorporating the Company's strategy and business plan, including appropriate stress and scenario testing (including reverse stress testing). The scope of the ORSA report covers all the known risks of the Company.

The Risk function is responsible for the preparation of the ORSA report with input from key stakeholders as set out in Figure 18 below. Embedding of the ORSA drives the top-down understanding of risks to the Company and ensures the central focus of the Internal Model in decision making.

Figure 18: High level overview of ORSA responsibilities

Stakeholder	Roles/ Responsibilities
Board	Ownership and oversight of ORSA processes; steer the processes and embed the outcomes of the processes into the overall decision making framework; approve the ORSA report.
BRCC	Approve the proposed ORSA stress and scenario testing, and review and recommend the ORSA report to the Board for approval.
ERC	Review the proposed ORSA stress and scenario testing and the ORSA report prior to submission to the BRRC.
Prudential UK CRO	Ownership of the ORSA report.
Risk	Preparation of the ORSA report, in collaboration with functional areas.
Finance	Preparation of quantitative inputs to the ORSA report.

B.4 Internal control system

B.4.1 Overview

The Company's system of internal control, as set out in the GGF, has a key role in the management of risks that are significant to the fulfilment of its business objectives. The purpose of the internal control system is to set the parameters and procedures that ensure the effectiveness and efficiency of operations, the reliability of reporting (both internal and external) and that help deliver the business strategy in a controlled way, meeting regulatory and other requirements. The key elements of the internal control system are:

- **matters reserved for the Board**: approval of strategic decisions, subject to the GGF, including approving the Company's risk strategy, together with the setting of risk appetites and tolerances, is reserved for the Board;
- **management/delegated Authority**: the Company is managed in accordance with the authority delegated by the Board;
- **lines of responsibility**: Senior Managers have clearly defined lines of responsibility for their function and delegated authority;
- **appropriate recording**: transactions are appropriately recorded to permit the preparation of reliable financial statements;
- **financial reporting control procedures and systems**: the internal control over financial reporting environment includes procedures and systems which are regularly reviewed;
- **protection of assets**: the assets of the Company and its customers are appropriately protected;
- **financial crime (fraud and money laundering)**: financial crime is prevented or detected; and
- **risk management**: the risks to which the Company is exposed are identified and managed.

In December 2019 a new Group-wide Integrated Control Framework was approved by the Board with the aim of implementing a single consistent enterprise-wide control framework with enhanced analytics and a clear focus on the most material controls. The framework is underpinned by industry-leading Governance, Internal Audit, Risk and Compliance software and an enhanced Operational Risk Framework, which establishes requirements for Risk & Control Self-Assessments ("RCSA") to be completed and

reviewed on at least a quarterly basis throughout the Group. This Framework is supported by the Group-wide “I Am Managing Risk” campaign.

The BAC supports the review of the adequacy and effectiveness of the internal control systems. This review is supported by the assurance work carried out by Internal Audit, Risk and Compliance.

B.4.2 Compliance function

Like the Risk function, the Compliance function is structurally independent of the 1st line. It provides dedicated support for and coordination of regulatory interactions across the business. The function also provides guidance, advice and feedback on regulation (current and future developments), as well as setting and advising on compliance standards and implementing a framework to ensure that conflicts are adequately identified, managed and overseen by the business. Routine monitoring and deep dive activities are carried out to assess compliance with regulatory principles, rules and expectations. The Compliance function reports to the DPPR, with the annual Compliance Plan and required resources agreed by the BAC.

The GGF includes the Regulatory Compliance Risk Policy, Conduct Risk Policy and the Conflicts of Interest Policy, which set out the principles and minimum requirements by which the Company conducts its business and the management of any conflicts of interest. Compliance policies are reviewed and attested to annually.

The policies support the implementation of the Group’s risk management principles through requirements to:

- have an effective risk culture, promote appropriate conduct and deploy adequate and appropriate training, skills and resources in respect of regulatory compliance risk management;
- maintain an appropriate and transparent organisational structure with clear allocation of responsibilities and delegated authorities for the management of regulatory compliance risk;
- operate an effective risk management cycle to identify, measure, manage, monitor and report on regulatory compliance risks on an on-going basis;
- consider risk for individual conduct risks, as well as the conduct risk profile in aggregate;
- embed conduct risk management within the culture and thinking of all employees;
- maintain a business that is compliant with applicable laws and regulatory rules and principles, such as Treating Customers Fairly and FCA principles for business;
- ensure that the Group complies with new regulations that result from regulatory and business changes;
- maintain honest, constructive and open relationships with governments and regulators; and
- identify, report and manage conflicts of interest to protect the interests of the Group’s customers, clients, investors, employees and the Group.

B.5 Internal Audit function

Internal Audit operates as the 3rd line of defence in the Three Lines of Defence model, providing independent and objective assurance to the Board and Executive management on the adequacy of the design and effectiveness of the organisation’s systems of internal control, including risk management, governance and operational processes, thereby helping the Board and Senior Management protect the assets, reputation and future sustainability of the Company.

Internal Audit is not restricted in scope in any way, is empowered by the BAC to audit all parts of the Company and has full access to any of the organisation’s records, physical properties and personnel as necessary to discharge its responsibilities. In executing its responsibilities Internal Audit adheres to:

- the Institute of Internal Auditors requirements as set out in the Institute of Internal Audit’s 'Code of Ethics' and 'International Standards for the Professional Practice of Internal Auditing';
- the Chartered Institute of Internal Auditor’s guidance on ‘Effective Internal Audit in the Financial Services Sector’ ("CIIA Code") as well as the European Confederation of Institutes of Internal Audit ("ECIIA") principal requirements for Internal Audit Functions in Insurance Companies under the Solvency II framework;
- the International Association of Insurance Supervisors ("IAIS") Core Principles;
- the requirements for Internal Audit Functions set out in the Solvency II Directive 2009/138/EC (Level 1 text) Article 47 and Delegated Regulation (EU) 2015/35 (Level 2 text) Article 271; and
- the requirements of the Senior Managers and Certification Regime ("SMCR") and the Group’s Fit and Proper Policy.

Internal Audit has sufficient standing and authority within the Company to carry out its activities, supported by the following reporting lines in place to maintain Internal Audit’s independence and objectivity in the discharge of its responsibilities:

- in accordance with the Internal Audit Charter, the Company has an Internal Audit team, led by the Prudential UK Audit Director who reports to the Chief Audit Officer ("CAO") as functional head. The CAO has direct access to the Chair of the M&G plc Board and Chair of the M&G plc Audit Committee and will periodically meet with the M&G plc Audit Committee without the presence of management;
- the Prudential UK Audit Director reports audit related matters to the BAC and communicates directly with the Committee through attendance at its meetings and periodically assesses and reports on the continued adequacy of the function's mandate, independence, objectivity, authority, responsibility and technical experience to enable it to accomplish its objectives;
- the Prudential UK Audit Director is empowered to attend and observe all or part of the Company’s Executive Committee and Board meetings and any other key management decision making committees and activities as appropriate;
- the Chief Operations Officer for Internal Audit, who is independent of the Prudential UK audit delivery team, monitors and evaluates the function’s adherence with all relevant Internal Audit standards of practice and audit methodology. The results of these assessments are presented directly to BAC. An independent external assessment of the Internal Audit function is performed every 5 years in line with Internal Audit standards;
- the assessment of the adequacy and effectiveness of the Risk, Compliance and Finance functions is within the scope of Internal Audit. As such, Internal Audit is independent of these functions and is neither responsible for, nor part of, them;

- all Internal Audit personnel exhibit the highest level of professional objectivity in carrying out their duties, make a balanced assessment of all relevant circumstances, remain impartial and seek to avoid any professional or personal conflict of interest. Internal Audit has no direct operational responsibility or authority over any business activity or personnel outside of the function; and
- like all areas, Internal Audit maintains a conflicts of interest register. Potential conflicts are recorded and monitored by the Chief Operations Officer for Internal Audit, including a quarterly review of reported conflicts to assess appropriate management oversight.

B.6 Actuarial function

The Chief Actuary for the Company, which is a PRA SMF role under the SMCR, is also the Actuarial Function Holder for the Company. The Chief Actuary team within the Risk function, and specified individuals within the wider business, are responsible for carrying out the tasks of the Actuarial function on behalf of the Chief Actuary.

The need for, and the scope of, the Actuarial function is defined in Article 48 of the Solvency II Directive. This sets out the tasks that the Actuarial function is responsible for. In addition to the tasks defined in Article 48, the Chief Actuary provides advice to the Prudential UK CRO in relation to a number of risk management responsibilities, in particular, relating to the calibration and calculation of the SCR. This ensures that the Actuarial function is embedded in the key stages of the risk management system in relation to the calculation of capital requirements. The primary activities undertaken by the Actuarial function to meet its responsibilities are summarised below.

Valuation of technical provisions
The Finance function proposes the valuation methodology and assumptions, and calculates the technical provisions. The Chief Actuary reviews the valuation methodology and assumptions, the models and data used in the calculation of the technical provisions and the resulting technical provisions and advises the BAC and BRCC accordingly. The report to these committees constitutes a component report of the overall Actuarial Function Report.

Underwriting
The Chief Actuary reviews and advises on all aspects of the underwriting arrangements on an ongoing basis. In addition, the Chief Actuary carries out an annual review of such arrangements focusing on different aspects each year, depending on previous reviews, recent business activities and any particular issues that they wish to review further. The Chief Actuary provides an annual report to the BRCC expressing an opinion on the underwriting policy, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Reinsurance arrangements
The Chief Actuary reviews and advises on the reinsurance arrangements on an ongoing basis. In addition, the Chief Actuary carries out an annual review of the reinsurance policy, focusing on different aspects each year, depending on previous reviews, recent business activities and any particular issues that they wish to review further. The Chief Actuary provides an annual report to the BRCC expressing an opinion on the adequacy of the reinsurance arrangements, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Capital requirements
The Finance function proposes the valuation methodology and assumptions and calculates the SCR. The Chief Actuary reviews the valuation methodology and assumptions and the resulting SCR and advises the BAC and BRCC accordingly. The Chief Actuary also chairs the TAC, the internal management committee with responsibility for internal capital model methodology and assumptions.

Actuarial function report
The Actuarial function provides a written report to the BRCC, at least annually, to document the tasks that have been undertaken by the Actuarial function and their results, to identify any deficiencies and provide recommendations as to how such deficiencies should be remedied. This report summarises the tasks described above and highlights the key areas of focus following the Actuarial function’s activities each year.

B.7 Outsourcing

The Company continues to rely upon third party suppliers and outsource partner arrangements, allowing it to focus on its core business strengths, reduce costs and manage its delivery risks. The Company recognises that the use of third party supplier and outsource partner arrangements can impact its risk profile, for example, where a material third party fails to provide a service, and there is the subsequent potential for significant interruption to business operations, poor customer outcomes, liability for losses and costs, reputational damage and regulatory breaches. The Company retains ultimate responsibility for any activity that is supplied or outsourced.

Outsourcing partners, in the UK and India, provide various business operations, including a significant part of the back office and customer facing operations as well as a number of IT support functions, systems and services, and investment operations.

Services provided by other entities within M&G plc for the Company include fund/asset management provided by M&G Investments and treasury services provided by PruCap. A range of services (including finance and capital management, compliance, risk, HR, actuarial, internal audit and IT services) are also provided across the Group on a shared service basis.

A Third Party Risk Management Policy is used to manage third party risk across the Group. The approach set out in the policy addresses third party risks through the framework of a risk management lifecycle, including requirements to:

- consistently identify and categorise areas of third party risks;
- incorporate third party arrangements into strategic and operational business planning;
- consistently assess third party risks in line with applicable policies, standards and procedures;
- utilise scenario analysis to assess the impact and consequences of third party failures on operational resilience and continuing viability, with risk assessments linking the potential impact of risks to customer outcomes;
- monitor the third party risk profile relative to risk appetite;
- disclose applicable third party risks in financial reporting and to other relevant stakeholders; and
- regularly inform relevant Boards and Risk Committees of the aggregated third party risk profile, policy compliance and associated regulatory requirements.

B.8 Any other information

The BAC has considered the outcome of the risk management and internal control effectiveness review for 2020 which covered all material controls, including financial, operational and compliance controls, and the impact of the COVID-19 pandemic on the control environment. The review identified a number of actions to further enhance the risk management system and strengthen the overall control environment, with a particular focus on further embedding the new consolidated risk and control frameworks put in place across the Group over 2020.

The BRCC and BAC collectively monitor outstanding actions and embedding plans in these and other areas, and ensure sufficient resource and focus is in place to resolve such actions within a reasonable timeframe.

C Risk profile (unaudited)

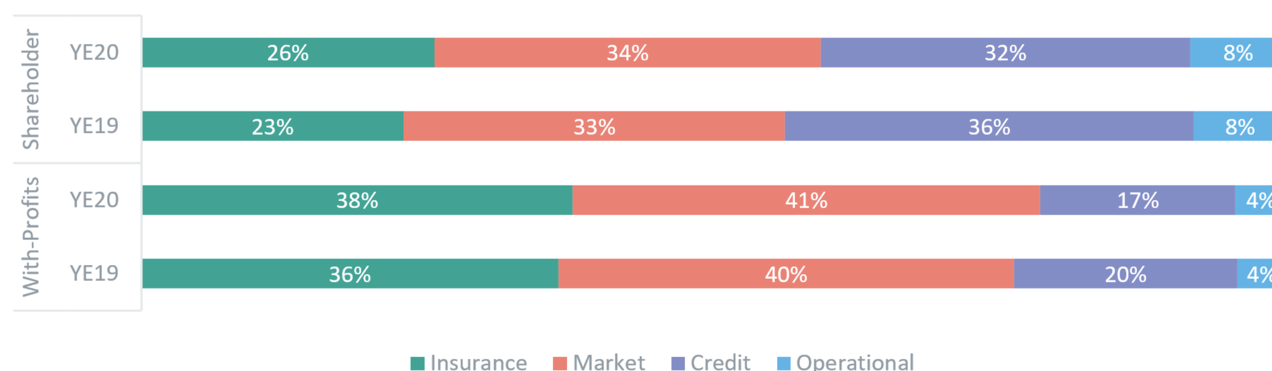
Under the Solvency II regime, companies are required to calculate capital requirements in line with Solvency II regulations. Companies are also required to form their own internal assessment of the capital needed to ensure that they can meet liabilities as they fall due, allowing for the risks that they retain ("ECAP", "Pillar II"). For the Company, the Solvency II regulatory capital requirements are more prudent than the internal assessment.

The Company's Solvency II Pillar 1 valuation is produced for the Company as a whole (the regulatory basis). However, for internal business and risk management purposes, separate valuations are produced for the Company's shareholder-backed business and the business in the ring-fenced With-Profits Fund.

The Company's Solvency II capital requirements are calculated using its Internal Model, which is based on the Group's assessment of the risks it faces.

The chart below show the undiversified SCR by risk category as at 31 December 2020 and 31 December 2019 for shareholder-backed and policyholder-backed business. Detailed information on the SCR allocation is set out in Section E.2.

Figure 19: Comparison of undiversified SCR as at 31 December 2020 and 31 December 2019



The chart above shows that for shareholder business the highest proportionate exposure is to market risk, predominantly arising in relation to the shareholder's interest in the With-Profits Fund. There is also a significant exposure to credit risk, primarily arising from fixed income investments held to back the annuity business. The With-Profits Fund also has material exposure to market risk arising from the investments held for the with-profits business including a significant allocation to equities and property. The With-Profits Fund also has significant insurance risk exposures, primarily longevity risk, persistency risk and expense risk.

The key risk exposures are discussed in the following sections:

- Underwriting risk, often described as insurance risk, which includes longevity, persistency and expense risk (refer to Section C.1);
- Market risk, which includes equity, interest rate and currency risks (refer to Section C.2);
- Credit and counterparty risk (refer to Section C.3);
- Liquidity risk (refer to Section C.4);
- Operational risk (refer to Section C.5); and
- Other material risks (refer to Section C.6).

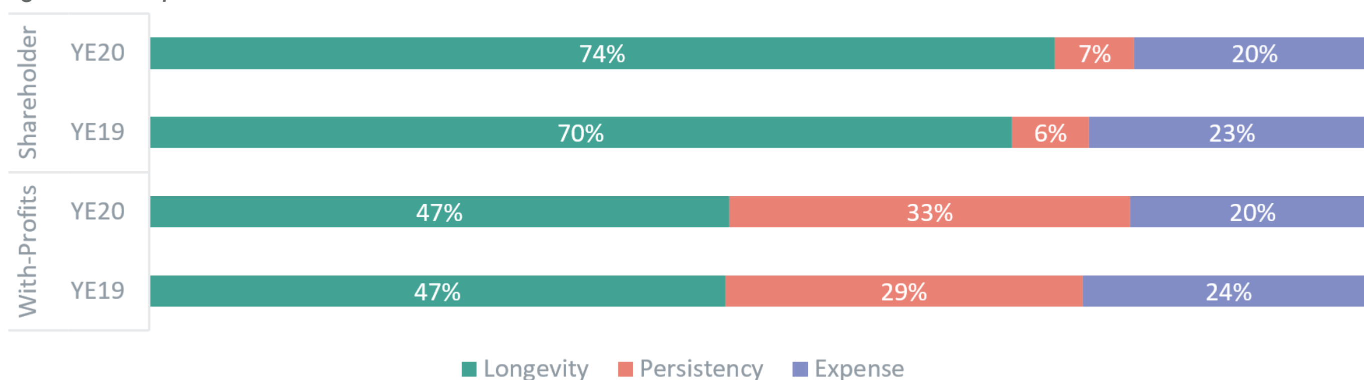
C.1 Underwriting risk

C.1.1 Risk exposure

Underwriting risk refers to the risk of loss or of adverse change in the financial situation of the business, or that of customers and clients, resulting from changes in the level, trend, or volatility of longevity, persistency, expense, mortality and morbidity experience.

The chart below set out the Company's exposures (as a % of the underwriting risk undiversified SCR) to each of these risks. Mortality and morbidity risk accounts for an immaterial proportion of the SCR and so has been grouped under the longevity risk category. The changes in with-profit proportionate exposure are related to a number of factors including changes in the in-force business profile due to new business and lapse experience, as well as changes in market conditions.

Figure 20: Comparison of undiversified insurance risk SCR as at 31 December 2020 and 31 December 2019



For measures of underwriting risk, the undiversified SCR is used as a key assessment of the size of the underwriting risk the business is exposed to under severe ("1 in 200 year") stresses, regular stress and scenario tests also applied to the key financial exposures to understand the sensitivity of the overall Solvency II balance sheet to individual and combined insurance risks. This is further supported by solvency monitoring and experience analysis.

Longevity

Longevity risk i.e. the risk of unexpected changes in the life expectancy (longevity) of policyholders, arises primarily in relation to the Company's in-force annuity book and is a material risk for both the shareholder-backed business and With-Profits Fund. However, the Company has materially reduced its shareholder exposure to longevity risk in recent years by entering into a number of reinsurance arrangements, including the 2018 reinsurance arrangement with Rothesay Life covering annuity liabilities of £12.2 billion as at December 2020 (2019: £12.4 billion). Further information on the Rothesay Life reinsurance arrangement is provided in Section A.1.4.3.

The With-Profits Fund's exposure to longevity risk primarily arises from non-profit annuity business and with-profits (deferred and immediate) annuity business.

An increase in mortality experience may be expected over the short term due to the COVID-19 pandemic, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, the longer term implications for mortality rates amongst the annuitant population are not yet clear, increasing uncertainty in the Company's assumptions.

Persistency risk

The Company is exposed to persistency risk, i.e. the risk of unexpected changes in policyholder rates of exit. The shareholder exposure arises in relation to transfers from the With-Profits Fund. An increase in policyholder exits reduces the value of these transfers.

The With-Profits Fund is 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 volumes have been dominated by business without material guarantees and consequently, the With-Profits Fund will become increasingly exposed to increases in policyholder exits.

Persistency risk, in particular policyholder rates of exit and fund flows, was impacted in 2020 by COVID-19. However, the impact of the pandemic on persistency experience, particularly on longer term trends, will take time to emerge and will likely depend on economic impacts and therefore increases uncertainty in the Company's assumptions.

Expense risk

The Company is exposed to expense risk, i.e. the risk that expenses (including future expense inflation) could be higher than anticipated. However, this risk is expected to decrease as base costs are reduced as a result of the change programme, a major Group-wide programme of investment to improve processes and systems.

For the With-Profits Fund, expense risk arises where fixed expense charges may not be sufficient to cover actual expenses for the non-guaranteed PruFund business.

C.1.2 Risk mitigation

Underwriting risk is managed in line with requirements set out in the Savings and Investment Risk policy, which also defines the Company's risk appetite in relation to insurance risk. This includes specific risk mitigation activities to capture unique features of individual risks.

Longevity risk is predominantly managed through:

- regular reviews of best estimate assumptions, supported by detailed assessment of actual mortality experience versus the best estimate assumptions;
- longevity research; and
- longevity reinsurance arrangements assessed against principles and guidance provided by the Reinsurance Policy and the Reinsurance Appraisal Framework.

Other underwriting risks such as persistency risk and expense risk are also subject to regular reviews and actions, with frequency and intensity proportionate to the materiality of the risk.

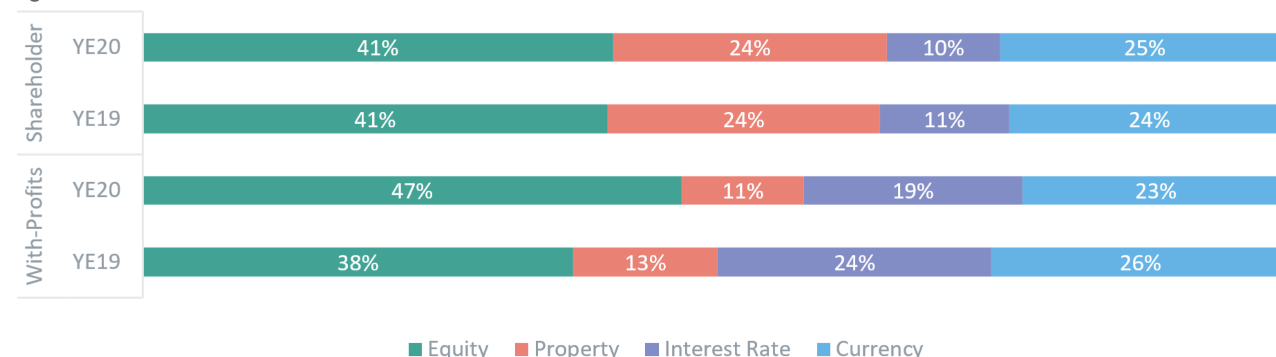
C.2 Market risk

C.2.1 Risk exposure

Market risk refers to the risk of loss or adverse change in the financial situation of the business or that of customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities. The key types of market risk for the Company are equity risk, property risk, interest rate risk and currency risk.

The chart below set out the Company's exposures (as a % of the undiversified SCR) to each of these risks. The increase in undiversified equity risk capital for with-profits business reflects an increase in net exposures to equity-like holdings, including collective investment schemes.

Figure 21: Undiversified market risk SCR as at 31 December 2020



Market volatility was heightened during 2020 largely due to the impact of the COVID-19 pandemic, with the risk of further market volatility remaining as the pandemic continues. However, the risks are well understood, and closely managed and monitored.

For measures of market risk, the undiversified SCR is used as a key assessment of the size of the market risk the business is exposed to under severe ("1 in 200 year") stresses. Regular stress and scenario tests is also applied to the key financial exposures to understand the sensitivity of the overall Solvency II balance sheet to individual and combined market risks. This is further supported by solvency monitoring and experience analysis. Furthermore, there is regular monitoring of the impact of market movements on the solvency position relative to risk appetite.

For shareholder transfers from the With-Profits Fund the key types of market risk are equity, property, interest rate and currency risks. For unit linked contracts and fee income on third party customer funds the value of the charges is dependent on the assets under management and therefore is exposed to equity, property, interest rate and currency risks based on the underlying fund investments. Additional market risk exposure arises from interest rate and property risk relating to the non-profit annuity book and the 'no negative equity' guarantee on lifetime mortgage loans. The Company is responsible for ensuring the defined benefit staff pension schemes (which are closed to new members) remain adequately funded to meet their expected future liabilities and are therefore exposed to the risk of additional deficit funding contributions which in turn exposes the Company to market risks on the invested assets and changes in the discount rate for liabilities.

The With-Profits Fund is also exposed to market risks as, for example, adverse changes in the value of the assets backing the policyholder asset shares may lead to an increase in the expected cost of policyholder guarantees. This risk is largely borne by the With-Profits Fund itself, though shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk. The With-Profits Fund is also exposed to market risk in respect of its annuity book and in particular interest rate and property risk.

C.2.2 Risk mitigation

The Company operates a robust market risk framework (defined at the Group level) which supports the effective risk management of market risk and includes:

- a market risk policy, appetite statements and risk limits and triggers (including relevant governance, processes and controls) covering key market risk exposures (e.g. interest rate sensitivity);
- asset and liability management programmes, including monitoring of projected liability cash flows to achieve close asset/ liability matching;
- a quality of capital framework for the Company, which defines a set of principles for determining the optimal asset features to back components of the Company's shareholder balance sheet;
- a framework covering the triggering of an application to recalculate the Solvency II TMTP, which mitigates changes in risk margin due to interest rates (amongst other factors);
- monitoring of the impact of market movements on the solvency position relative to risk appetite;
- regular reviews of strategic asset allocations ("SAA"'), investment and hedging strategies;
- use of derivatives to hedge equities, interest rates and currency risks where appropriate; and
- investment constraints and limits set out in Investment Management Agreements ("IMAs") and Fund guidelines, which are subject to periodic review.

C.3 Credit risk

C.3.1 Risk exposure

Credit risk refers to the risk of loss or adverse change in the financial situation of the business, or that of 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).

The current uncertain economic environment, particularly resulting from COVID-19, has led to a heightened risk of the downgrade of assets backing the annuity portfolios. Although adverse credit experience has been muted during 2020, there remains the risk of a material deterioration in credit conditions due to the effects of the pandemic, in particular following the removal of government support.

For measures of credit risk, the undiversified SCR is used as a key assessment of the size of the credit risk the business is exposed to under severe ("1 in 200 year") stresses, with regular stress and scenario tests also applied to the key financial exposures to understand the sensitivity of the overall Solvency II balance sheet to individual and combined credit risks. This is supported by regular counterparty monitoring including assessments of credit ratings and stress and scenario testing, with particular focus on the potential impact of higher than expected downgrades and credit spread widening, to support the Group's understanding of the key drivers of its credit risk exposure. This is further supported by solvency and experience analysis, and additional individual and combined stress and scenario testing. Regular measurement and monitoring of individual credit risk exposures against individual limits is also conducted.

Invested credit risk

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

There are also substantial volumes of similar assets held in the With-Profits Fund, the risk of which is largely borne by the with-profits policyholders (and the With-Profits Fund inherited estate, i.e. the assets in the fund in excess of that amount which the Company expects to need to fulfill its obligations to policyholders), but which, as described above, can impact the Company by reducing the size of shareholder transfers and, in extremis, requiring capital support.

Counterparty risk

The Company is also exposed to counterparty risk primarily through the use of reinsurance for risk reduction, derivative for risk reduction and efficient portfolio management, and from placing cash with counterparties.

Rothesay Life in particular is a significant counterparty for the Company, following the reinsurance of some of the company's annuity liabilities valued at £12.2 billion as at 31 December 2020 (2019: £12.4 billion). An application to complete a Part VII transfer of these liabilities to Rothesay Life, which would substantially eliminate this counterparty exposure, was initially rejected by the High Court. Rothesay Life and the Company have successfully appealed this decision; the date for a further sanction hearing is as yet unknown.

The Company's reinsurance counterparty exposure to Rothesay Life is fully collateralised with assets that must meet certain eligibility criteria and are held in a custody account.

C.3.2 Risk mitigation

The Company operates a robust credit and counterparty risk framework (defined at the Group level) which includes:

- credit risk policy, standards, appetite statements, limits and triggers (including relevant governance and controls);
- investment constraints and limits on the asset portfolios, in relation to credit rating, seniority, sector and issuer, via IMA, SAA and the Large Risk Approval Process;
- monitoring of current exposures in relation to appetite, limits and triggers and a range of forward-looking indicators, with reporting to and oversight by relevant Committees;
- investment constraints on counterparties in particular for derivatives, reinsurance and cash (Reinsurance Counterparty Framework, Large Risks Approval Process, Counterparty Rating and Limits Framework);
- robust credit rating processes; and
- ad hoc deep dive reviews.

C.4 Liquidity risk

C.4.1 Risk exposure

The Company is exposed to two types of liquidity risk:

- treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and other corporate costs as they fall due); and
- fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund. This risk relates to third party funds managed on behalf of customers and clients.

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

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

- 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.

The primary measurement of liquidity risk is through regularly monitoring liquidity coverage ratios against the Company's liquidity risk appetite. These consider whether liquidity is sufficient to meet requirements under plausible adverse scenarios comprising both idiosyncratic factors and systemic market factors.

The Company has maintained liquidity buffers in excess of their defined risk appetite limits throughout 2020.

C.4.2 Risk mitigation

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

- liquidity risk policies, which set out the approach to the management of both treasury and fund liquidity risk;
- a Liquidity Risk Management Plan which sets out potential actions to consider to support the liquidity position;
- 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;
- monitoring of exposures, under base and stress scenarios, against specific triggers and limits for the with-profits, annuity and unit linked funds for a range of time horizons; and
- additional monitoring and controls to satisfy Solvency II matching adjustment requirements, including an annual reverse stress test exercise, and an Eligible Collateral Coverage Ratio, reported quarterly, which captures the increased risk that collateral requirements cannot be met due to matching adjustment constraints.

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

Customers are impacted by the suspension of the M&G Property Portfolio as announced on 4 December 2019 and PPL's M&G Pooled Pensions UK Property Fund remains in deferral since May 2019. Throughout 2020, both fund teams made substantial progress in raising cash through asset sales. Asset disposals are in line with both funds' respective strategies, with an aim to return to normal operation as soon as possible. Fund liquidity is expected to remain a key theme as regulatory and market developments impact funds' investments in unquoted and hard to trade assets.

C.4.3 Expected profit included in future premiums

The Company is required to calculate and report the expected profit included in future premiums ("EPIFP") included within its own funds. This calculation requires an assessment of the impact of an increase in insurance liabilities (excluding the risk margin) if future premiums relating to in-force business were not received, regardless of the legal or contractual rights of the policyholder to discontinue the policy. The calculation is carried out at the level of homogeneous risk groups.

At 31 December 2020, EPIFP was £44.7 million (2019: £76.0 million).

C.5 Operational risk

C.5.1 Risk exposure

Operational Risk is defined as the risk of financial and non-financial impact (for example, regulatory and reputational) resulting from inadequate or failed internal processes, or from personnel and systems, or from external events, excluding external events covered under Business Environment Risk (as detailed in Section C.6.1). Operational failures can also give rise to financial risk exposures, for example through process failures in the management of market and credit risk.

The Company does not actively seek to take operational risk to generate returns, instead it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities. Operational risk is primarily measured and monitored through the Risk and Controls Self Assessment ("RCSA") process as part of the Integrated Control Framework, which provides a Group-wide framework to assess inherent and residual risk exposure and the effectiveness of operational controls within the Company.

To the extent that operational risks cannot be full mitigated, the Company holds capital against operational risk within the Internal Model SCR calculation. On an annual basis the Company, assesses 'Extreme but Plausible' operational risk scenarios to determine the required level of operational risk capital. These scenarios represent issues which, although very low likelihood, have the potential to create extreme losses through a single event or a significant increase in frequency of event. Outputs for each scenario are then consolidated, taking into account the probability that not all scenarios will occur together, to provide an overall view of the Operational Risk capital requirement across the Company.

The most recent assessment of this nature suggests the key operational risk scenarios across the Group are in respect of Business Process Execution Errors, Technology Failures and Regulatory Compliance.

Operational Resilience is the preparedness and ability to anticipate, prevent, respond to, recover and learn from operational disruptions (whether unforeseen or not). The Company's operational resilience has been tested by COVID-19 throughout 2020 with impacts continuing to be pro-actively managed. Business continuity and resilience plans were implemented in February 2020 to ensure the safety and well-being of colleagues and continuity of services to customers and clients including the implementation of working from home for the vast majority of colleagues. Whilst no new operational risks have been identified, risk priorities have changed with increased focus on: outsourcing oversight, engagement and monitoring; data security and privacy; cybercrime attacks and fraud attempts; market volatility and internal controls. Regular reporting, via a Group Internal Critical Controls Dashboard has been prepared monthly with summaries being presented to the Board Committees to provide visibility of the evolving position and the operation of key controls in each business area.

Key operational risk exposures include, but are not limited to the following:

Technology and data risk

The Company has a high dependency on technology and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact the Company's ability to operate effectively. Furthermore, regulatory scrutiny of, and reputational damage from, issues arising from the processing of customer data, and the security and resilience of technology and processes are expected to remain high.

Third party suppliers

As detailed in Section B.7, like many of its peers, the Company is increasing dependent on third parties for critical activities such as customer engagement, investment management, fund administration and technology. Serious failings in the delivery and/or persistent underperformance of third party supplier arrangements could impact the delivery of services to customers. Concentrations of operational risk can arise where there is a key dependency or a single (or small number) of vendors to provide critical services.

Change risk

There are a number of significant change and transformation programmes underway to deliver the Company's strategy for growth, improve customer experiences and outcomes, strengthen resilience and control environment and support scalable growth. A failure to deliver these programmes within timelines, scope and cost may impact the business model and ability to deliver strategy.

C.5.2 Risk mitigation

The operational risk profile of the business continues to evolve in line with the Company's strategy and the business environment in which the Company operates. The Company manages and mitigates operational risk via the following methods:

- an Integrated Control Framework and operational risk framework and system that delivers processes and tools to identify, assess, manage and report operational risk exposures;
- additional policies, standards and procedures which cover specific operational risk exposures, such as technology risk, change risk and third party risk;
- internal and external incident lessons learned reviews;
- corporate insurance programmes to limit the financial impact of operational risks;

- regular testing of elements of the business continuity and disaster recovery plans;
- strong project governance (including oversight) with reporting and escalation of risks to management and the Board;
- metrics to monitor and report on the delivery, costs and benefits of transformation programmes and regular deep dive assessments are conducted on transformation programmes, individually and collectively; and
- implementation of the operational resilience framework, including the Group Operational Resilience Policy. This involves:
    - defining key business services with articulation of the end-to-end process, and value chain of activities, which make up such services;
    - determining appropriate impact tolerances for the key business services;
    - enhancing the testing of such services to assess, and where necessary enhance, the ability of the services to withstand and absorb operational disruption; and
    - operating on the presumption that operational disruptions will occur, it is not 'if' but 'when'.

C.6 Other material risks

C.6.1 Business environment and Market forces risk

Changing customer preferences and economic and political conditions, could adversely impact the Company's ability to deliver its strategy and have implications for the profitability of its business model. The markets in which the Company operates are highly competitive whilst customer needs and expectations are changing rapidly. Economic factors, including those resulting from Brexit and the COVID-19 pandemic, may impact the demand for products and the ability to generate an appropriate return. In addition, increased geopolitical risks and policy uncertainty may impact the Company's products, investments and operating model.

PruFund, accounts for a high proportion of total sales and there is a heavy reliance on the intermediated channel for sales of savings solutions. This heightens the exposure to changing economic conditions and customer preferences with the Company's success dependent upon capacity to anticipate and respond appropriately to such external influences.

Competition is expected to intensify in response to consumer demand, technological advances, the need for economies of scale, regulatory actions and new market entrants.

The Company conducts an annual strategic planning process, which is subject to oversight by the Risk function and the Board, and results in an approved strategy. The process considers the potential impact of the wider business environment and, throughout the year, the Company monitors and reports on the delivery of the plan.

The Company continues to diversify its savings and investments business to respond to developing customer needs in terms of products, distribution and servicing, and a significant digital transformation programme is being undertaken to deliver a more diversified distribution strategy.

C.6.2 Sustainability

Stakeholders increasingly expect the Company to meet the needs of the present without compromising the ability of future generations to meet their own needs. In addition sustainability, including issues concerning the climate, diversity and inclusion, corporate governance and biodiversity, is crucial to the success of the Company and that of the companies in which the Company invests. A failure to address and embed sustainability within the Company's products, business and operating model could adversely impact profitability, reputation and plans for growth.

Sustainability risks, along with other risk types, are identified, assessed and managed under the Risk Management Framework. Consideration of ESG Risk is built into the decision making processes and a requirement of key strategic board risk assessment papers. Climate Change Risk is being integrated into the Company's scenario analysis process with both top down and bottom up consideration over a range of time horizons.

C.6.3 Investment performance and risk

The investment objectives and risk profiles of funds and segregated mandates are agreed with customers. A failure to deliver against these objectives (including sustained underperformance of funds), maintain risk profiles that are consistent with customers' expectations, or ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for larger funds or a range of funds then profitability, reputation and plans for growth may be impacted. Fund liquidity will remain a key theme as regulatory and market developments impact funds' investments in unquoted and hard to trade assets. The impact of the COVID-19 pandemic may continue to cause sharp movements in market values, interest rates, dividend levels, rental income and defaults, all of which could adversely impact investment performance and fund flows. While market volatility persists and customer confidence remains low, there is a risk of further deterioration of fund flows.

For asset owner investments a dedicated Investment Office 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.

C.6.4 People Risk

The success of the Company is highly dependent on the ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support the business strategy and culture.

As part of a large and listed public company, and as the Company continues to implement its change programme and respond to the COVID-19 pandemic, people risk and associated reputational impact is heightened in a number of areas including pay practices, staff workloads and morale, the conduct of individuals or groups of individuals and industrial relations (internally and that of key third party providers).

The HR Framework includes policies for Diversity and Inclusion, Employee Relations, Talent and Resourcing, Remuneration, and Performance and Learning. The framework is designed to align staff objectives and remuneration to business strategy and culture.

The management and Board receive regular reporting on people issues and developments, for example, the succession plans for critical talent, the management of industrial relations, pay, culture and diversity. The Company conducts regular surveys to better understand colleagues' views on the Company's business and culture, the findings of which drive actions to improve the experience of staff. The Risk function has also begun monitoring and reporting a series of indicators of behavioural risk.

The COVID-19 pandemic led to a rapid scaling up in remote working capacity and capability which has placed significantly greater reliance on virtual environments and introduced changes in working practices. This has heightened risks in areas including staff morale and well-being. These, and other risks, are being monitored and managed through bespoke incident management procedures with staff safety and well-being at the forefront of the Company's response to the pandemic.

C.6.5 Regulatory compliance

The Company operates in highly regulated markets and interacts with a number of regulators across the globe, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of national and international regulatory initiatives in progress, with a continuing focus on solvency and capital standards, conduct of business and systemic risks. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, fines and restrictions on operations or products.

Accountability for compliance with regulatory and legal requirements sits with senior management. The Compliance function supports the Company by co-ordinating regulatory activities, including interactions with regulators, recognising the obligation of the Company to meet its distinct regulatory requirements and to take decisions independently in the interests of their customers.

The function provides guidance to, and oversight of, the Company in relation to regulatory compliance and conflicts of interest, and carries out routine monitoring and deep dive activities to assess compliance with regulations and legislation. National and global regulatory developments are monitored and form part of the Company's engagement with government policy teams and regulators, which includes updates on responses to the changes.

C.6.6 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 therefore have an adverse impact on revenues and cost base, the ability to attract and retain the best staff and could also result in regulatory intervention or action.

The Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks utilising 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. Champions also support the Company in creating processes that include full consideration of reputational risks in key decisions.

COVID-19 and the ongoing socio-political climate, together with an increase in activities being undertaken by the business means that we could face an increasing range and severity of reputational events. A number of factors mean that such pressures will increase, including the greater focus of customers, regulators and investors on ESG issues and social media providing the means for opinions to be stated and shared instantaneously.

C.7 Any other information

C.7.1 Special Purpose Vehicles

There are no special purpose vehicles that fall into the definition under Article 211 of the Solvency II Directive.

C.7.2 Risk sensitivity

Stress and scenario testing is embedded in the RMF. It is performed in order to:

- assess the Company's ability to withstand significant deterioration in financial and non-financial conditions, including environmental impacts such as climate change;
- provide feedback to decision making processes by identifying areas of potential business failure;
- demonstrate to stakeholders that the Company has adequate capital and liquidity levels;
- demonstrate that the Company has appropriate and plausible management actions available to cover potential losses incurred during extreme, but plausible events; and
- assist in the monitoring of adherence to the Company's risk appetite.

To evaluate the Company's resilience to significant deteriorations in market and credit conditions and other shock events, the quantifiable risks facing the Company, as described in the sections above, are assessed via stress scenarios of varying severities. In addition, annually the Company derives a reverse stress test which gives the directors an understanding of the type and strength of scenario expected to result in the own funds falling below 100% of the SCR. The Company also maintains a Risk Appetite Framework which includes an assessment of the Company's ability to withstand a specified level of shock and still cover its SCR.

Mitigating management actions designed to maintain or restore key capital, liquidity and solvency metrics to the Company's approved risk appetite are available to the Company in times of stress. As such, these actions will be available in the scenarios tested and will assist in maintaining the viability of the Company over the plan period.

Stress tests are performed both with and without any allowance for the TMTP, granted by the PRA, being recalculated. Stress tests are performed separately for the Company's shareholder-backed business and the With-Profits Fund.

The methodology and assumptions applied to calculate the balance sheets in the stress scenarios are broadly consistent with those applied when valuing the reported balance sheet. However, the movement in stressed own funds is calculated using the proxy models within the Solvency II Internal Capital Model (ICM) rather than the full valuation models. The methodology and assumptions are subject to some accepted limitations with the stress testing methodology reviewed and approved on an annual basis to ensure it remains appropriate.

Sensitivity Analysis

The Company's estimated shareholder, With-Profits Fund and regulatory views of the Solvency II capital position, under a range of sensitivities are shown below as at 31 December 2020.

Figure 22: Impact of sensitivities

	Solvency II sensitivities	Shareholder Fund Solvency £m	Shareholder Fund Solvency Ratio (%)	With-Profit Fund Solvency £m	With-Profit Fund Solvency Ratio (%)	Regulatory Solvency £m	Regulatory Solvency Ratio (%)
31 December 2020	**Base surplus (regulatory approved TMTP)**	**3,611**	**171 %**	**7,001**	**243 %**	**3,611**	**136 %**
	Base surplus (recalculated TMTP)[1]	**3,499**	**168 %**	**6,968**	**242 %**	**3,499**	**135 %**
	20% instantaneous fall in equity markets	**2,989**	**160 %**	**6,491**	**229 %**	**2,989**	**130 %**
	50 basis points reduction in interest rates	**3,321**	**160 %**	**7,214**	**243 %**	**3,321**	**131 %**
	100 basis points increase in credit spreads	**3,040**	**163 %**	**6,421**	**237 %**	**3,040**	**132 %**
	20% credit asset downgrades	**3,157**	**161 %**	**6,788**	**238 %**	**3,157**	**131 %**
	20% instantaneous fall in property values	**3,095**	**161 %**	**6,844**	**239 %**	**3,095**	**131 %**
31 December 2019	Base surplus[2]	3,057	159 %	7,628	267 %	3,057	131 %
	20% instantaneous fall in equity markets	2,605	152 %	7,391	266 %	2,605	127 %
	50 basis points reduction in interest rates	2,929	153 %	7,938	264 %	2,929	128 %
	100 basis points increase in credit spreads	2,555	152 %	7,025	261 %	2,555	127 %
	20% credit asset downgrades	2,733	152 %	7,424	260 %	2,733	127 %
	20% instantaneous fall in property values	2,691	153 %	7,515	266 %	2,691	128 %

[1] This is different from the 169% presented in Figure 3 due to a late adjustment relating to liabilities in respect of Prudential Lifetime Mortgage Limited's ("PLML").

[2] At 31 December 2019 the regulatory approved TMTP and the recalculated TMTP were the same, having both been recalculated at 31 December 2019.

All sensitivities are presented relative to the recalculated TMTP reported results, and allowing for a further recalculation of TMTP, which would be subject to PRA approval.

A description of each sensitivity is as follows:

- The equity sensitivity reflects a 20% instantaneous fall in all global equity markets.
- The interest rate sensitivity reflects a 50 basis points reduction in the gross redemption yield on all fixed interest securities and the real yield on all variable securities. A 50 basis point reduction in all points of all swap curves which form the basis of the valuation interest rates. The adjustment for credit risk is unchanged from that allowed for in the base results.
- In the credit spread sensitivity corporate bond yields for A rated investments have increased by 100 basis points. The yields for other corporate bonds have increased by a proportion of 100 basis points where the proportion is equal to the base spread for the relevant rating divided by the base spread for the A rated bonds. There is no change in gilt and approved security yields and there is no change to the default assumptions or ratings.
- The credit asset downgrade stress reflects a full letter downgrade on 20% of all assets for which the credit rating is a determinant of the capital requirements.
- The property sensitivity reflects a 20% instantaneous fall in all global property markets, including both residential and commercial exposures.

Shareholder sensitivities

The scenario assessments for the shareholder-backed business make no allowance for any management actions.

The results from stress testing show that the Company's shareholder business remains exposed to market risks including through downwards interest rate movements, equity and property shocks, and to credit risk through downgrades in the credit portfolio and/or spread widening. The exposures largely arise in respect of the non-profit annuity business and the shareholder transfers. In practice, a number of these exposures could occur together.

However, consideration of the coincidence of risks through combined and reverse stress testing has shown that it would take a strong market event including credit shocks to reduce the capital coverage ratio below 100%. At 100% capital coverage, the Company would still have sufficient capital to withstand a 1 in 200 year event.

The Company's shareholder business is also exposed to insurance risks through, in particular, longevity and expenses.

With-Profits Fund sensitivities

The analysis for the With-Profits Fund allows for predetermined management actions but does not reflect all possible management actions which could be taken in future.

The results from stress testing show that the Company's With-Profits Fund is also exposed to market risks through downwards equity movements and property shocks, and to credit risk through downgrades in the credit portfolio and/or spread widening.

In practice, a number of these exposures could occur together. Consideration of the coincidence of risks through combined stress testing has shown that it would take a extremely strong market event including credit shocks to reduce the capital coverage ratio below 100%.

The Company's With-Profits Fund is further exposed to insurance risk through longevity, expense and persistency risk.

A range of additional stress and scenario testing are also run as a matter of course to support understanding of the key drivers of the Company's material risk exposures. The Company has the ability to call down support under a Parental Support Agreement with M&G plc under certain defined circumstances providing additional solvency protection.

C.7.3 Risk concentration

The Company's review of significant risk concentration encompasses a review of its exposure to various balance sheet asset classes, individual counterparties, groups of interconnected individual counterparties, specific geographical areas, industry sectors and currencies.

The Company complies with the Group's Global Counterparty Limits Framework which limits significant concentration risks arising from various balance sheet asset classes. These asset classes are assigned a notional weighting derived to reflect the relative riskiness of each asset class.

The Company also has in place a process whereby invested credit and counterparty credit risk outside the scope of the Group's Limits is limited on a single name basis. Under this process, the Group CRRO's approval is required for the undertaking of new or additional exposure greater than predefined thresholds. These thresholds are defined for the Company and vary by asset class/ counterpart exposure and by credit rating. Timebound exemptions from these thresholds may be approved by the CRRO based on the merits of the individual cases.

As at 31 December 2020, the four largest counterparties the shareholder-backed business had exposure to are:

- Rothesay Life;
- United Kingdom of Great Britain and Northern Ireland government;
- European Investment Bank; and
- Jetty Finance DAC.

As at 31 December 2019, the four largest counterparties the shareholder-backed business had exposure to were:

- Rothesay Life;
- United Kingdom of Great Britain and Northern Ireland government;
- European Investment Bank; and
- Jetty Finance DAC.

As at 31 December 2020, the four largest counterparties the With-Profits Fund had exposure to are:

- United Kingdom of Great Britain and Northern Ireland government;
- Citigroup Inc;
- Barclays PLC; and
- JP Morgan Chase & Co.

As at 31 December 2019, the four largest counterparties the With-Profits Fund had exposure to were:

- United Kingdom of Great Britain and Northern Ireland government;
- Citigroup Inc;
- Banco Santander SA; and
- United States of America.

C.7.4 Prudent Person Principle

The Prudent Person Principle requires that the Company only makes investments on behalf of customers that a "prudent person" would make. In order to comply with this principle, the Company has to be able to identify, understand, measure and monitor any risks arising from its investment portfolios, as well as demonstrate that it carries out these activities appropriately.

Risk factors relevant to investment strategy are detected via a number of different processes, principally through the Company's risk identification process. These risk factors are overseen primarily under the RMF alongside other well established investment processes (e.g. such as the SAA), ensuring that the Company's investment risks are managed effectively and efficiently, and within risk appetite. The Framework focuses on the integrity and effectiveness of the investment processes, governance and controls, as well as appropriateness of resourcing and compliance of processes with applicable regulatory requirements (including the Prudent Person Principles set out in the Solvency II Directive).

The Company outsources investment management to both intra-group and external asset managers. That business is governed by a common governance framework. The following information provides details on the approach the Company applies to the Prudent Person Principle when making investment decisions:

- Group policies provide a group-wide framework for the oversight of financing and investment activities. They are designed to provide general, prudent and principle-based guidance for both shareholder-backed business and business written in the With-Profits Fund. In particular, they are designed to ensure that investment decisions are taken with appropriate cognisance and consideration of the risks involved, with clear sight of the customer outcome objectives, and robust challenge;
- the Savings and Investment Risk Policy covers all aspects of overseeing investment risk across the Group, specifically setting out the group-wide framework for management and oversight of investment performance and investment related risk which includes minimum standards, controls and requirements for risk management. It aims to ensure that all Group entities have appropriate procedures in place to manage, monitor and report on the investment risk that they have taken on both for individual risks and in aggregate;
- the Asset Owner Investment Policy and Asset Owner ESG Investment Policy together cover the asset owner specific aspects of investment risk, specifically setting out the framework for management and oversight of investment performance and investment related risk which includes minimum standards controls and requirements for risk management;
- the framework is supported by further documents including specific policies that cover credit, market, insurance, liquidity, operational and investment risk as well as lower level operating standards and approved limits. From time to time, additional relevant risk factors may be identified through the Group's risk identification processes. These will be taken into account as appropriate depending on their nature, level of materiality and transience, and will be monitored;

- detailed Asset Owner Execution and Order Handling policies exist in relation to trading operations and set out the framework under which customer outcomes are achieved to ensure full compliance with all local regulations. These are supplemented by asset class procedures that detail operational controls; and
- the Company oversees its asset managers through monitoring compliance with IMAs and investment mandates. These are structured in order to ensure that, in line with the Prudent Person Principle, appropriate activities for identifying, understanding, measuring and monitoring relevant risks are carried out. Where these activities are carried out on a delegated basis by an asset manager, the Company carries out due diligence to confirm that the level of compliance with the requirements of the Prudent Person Principle remains appropriate. The Company updates and maintains IMAs and investment mandates in line with changes in investment strategy.

The Company has reviewed its Prudent Person Principle approach to ensure its ongoing adequacy in light of the PRA's Supervisory Statement (SS1/20 Solvency II: Prudent Person Principle) setting out the Regulator's expectations relating to a firm's investment strategy, investment risk management, and governance system.

D Valuation for solvency purposes

This section provides a description of the bases, methods and main assumptions used in the valuation of assets (Section D.1), technical provisions (Section D.2) and other liabilities (Section D.3) under Solvency II and an explanation of differences to values in the UK GAAP financial statements.

Recognition of assets and liabilities under Solvency II is the same as for UK GAAP, except for contingent liabilities which are recognised as liabilities under Solvency II if material. However, the measurement of these assets and liabilities can differ under the two metrics.

The 31 December 2020 Solvency II balance sheet incorporates no changes to the recognition of assets and other non-insurance liabilities, compared to the 31 December 2019 Solvency II balance sheet.

The 2020 balance sheet valued under both UK GAAP and Solvency II basis, together with a reconciliation of the key differences is summarised in Figure 23 below, whilst further details of the valuation of specific types of assets and liabilities is contained in Sections D.1 to D.4.

Figure 23: Solvency II and UK GAAP balance sheets for the year-ended 31 December 2020

Figures in £m	Statutory accounts - UK GAAP	Unit Linked and Scope (note a)	Other Presentational (note b)	Valuation and Recognition (note c)	2020 Solvency II	2019 Solvency II
Assets						
Deferred acquisition costs	19	—	—	(19)	—	—
Defined benefit pension asset	40	—	—	—	40	28
Investments & deposits (other than participations) (1)	150,764	(21,021)	(6,176)	—	123,567	129,982
Participations	5,497	21,021	(1,049)	—	25,469	22,695
Reinsurance recoverable	17,510	—	—	326	17,836	18,060
Cash and cash equivalents	3,930	—	(1,570)	—	2,360	1,495
Assets held for index-linked and unit-linked contracts	13,896	—	(6,596)	—	7,300	7,911
Loans and mortgages	3,816	—	14,899	59	18,774	15,536
Other assets (2)	1,793	—	493	(4)	2,282	2,309
Total assets	197,266	—	—	362	197,628	198,016
Liabilities						
Unallocated surplus of the With-Profits Fund	15,672	—	—	(15,672)	—	—
Technical provisions	163,658	—	—	(163,658)	—	—
Best estimate	—	—	—	164,103	164,103	164,713
Risk margin	—	—	—	1,358	1,358	1,457
Provisions other than technical provisions	79	—	—	—	79	159
Defined benefit pension liability	106	—	—	—	106	28
Deferred tax liabilities	699	—	(38)	—	661	797
Debts owed to credit institutions	3,237	—	96	—	3,333	3,676
Financial liabilities other than debts owed to credit institutions	124	—	9	(106)	27	46
Derivative liabilities	3,093	—	—	—	3,093	1,812
Other liabilities (3)	4,464	—	(67)	(145)	4,252	4,897
Total liabilities	191,132	—	—	(14,120)	177,014	177,585
Excess of assets over liabilities	6,134	—	—	14,482	20,614	20,431

(1) The breakdown of these Investments are detailed further in D.1.2.3. figure 27.

(2) Other assets include Property, plant and equipment held for own use, Insurance and intermediary receivables and Reinsurance receivables and Receivables (trade, not insurance). The breakdown of these are detailed in D1.2.7 figure 25.

(3) Other liabilities includes, Deposits from reinsurers, Insurance and intermediaries payable, Reinsurance payables, Payables (trade, not insurance). The breakdown of these are detailed in Section D.3.2.3, figure 30.

Notes:

(a) *Unit Linked and Consolidation differences* - The main differences include a reclassification of £21,021 million of collective investment in which the Company's holdings exceed 20% which are classified as participations under Solvency II.

(b) *Other presentation differences* - primarily represent the differences in valuation methods under UK GAAP and on a Solvency II basis. The comparison of excess of assets over liabilities on a Solvency II basis to UK GAAP is set out within Section E.1.4.

i. £1,570 million reduction in cash and cash equivalents in respect of certain amounts that are presented as deposits, debt or collective investments under Solvency II.

ii. £6,596 million relating to assets held by the index-linked funds which are presented together in a single line on the UK GAAP statutory accounts balance sheet rather than within each individual asset/liability category. These amounts reported as index-linked funds for the statutory accounts do not meet the Solvency II definition of index-linked and accordingly are reported in the various individual asset and liability categories.

iii. £14,899 million within loans and mortgages mostly relates to the movement of reverse repos which are treated as investments for UK GAAP in the table above but moved to loans and mortgages for Solvency II.

(c) *Recognition and valuation differences*: represents the impact on the balance sheet of changes in value and presentation of the policyholder assets and liabilities before any restrictions are applied.

The main differences in technical provisions between the UK GAAP financial statements and Solvency II are:

i. UK GAAP recognises £15,672 million surplus assets in with-profits funds as "Fund for future appropriations" on the balance sheet, but for Solvency II they are not included as a liability within the technical provisions.

ii. The UK GAAP liabilities do not include an explicit risk margin as the allowance for risk is included within the non-economic assumptions. The risk margin (£4,133 million) is explicit under Solvency II, but is partially mitigated by allowance for transitional measures (i.e TMTP) which smooths the impact from the previous Solvency I regime. The risk margin net of TMTP is £1,358 million at 31 December 2020.

iii. £445 million increase in technical provisions and £326 million increase in reinsurance recoverables from differences in the assumptions and methodology under UK GAAP and Solvency II. See Section D.2.1.4 for further details. Valuation differences for participations, loans and mortgages and other assets are explained in Section D.1.2.4. The valuation differences for reinsurance recoverables are explained in Section D.2.1.4. Valuation differences for technical provisions, best estimate and risk margin are explained in Section D.2.1. Valuation differences for deferred tax liabilities and other liabilities are explained in Section D.3.2.

D.1 Valuation of assets for Solvency II

D.1.1 Determination of fair value

Within the Solvency II balance sheet, assets are valued using valuation methods that are consistent with the valuation approach set out in the Solvency II Directive. There have been no significant changes in the valuation basis of assets in the Solvency II balance sheet in 2020. The overall principle when valuing assets and liabilities under Solvency II is to use the assets fair value.

When valuing assets and liabilities in accordance with Solvency II, the valuation hierarchy set out below is followed:

(a) Quoted market prices in active markets for the same assets or liabilities

As the default valuation method, assets and liabilities are valued using quoted market prices in active markets for the same assets or liabilities, where available.

The investments of the Company which are valued using this method include exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and certain national government and corporate bonds.

At 31 December 2020 £99.4 billion (2019: £107 billion) of financial assets were valued using this approach.

(b) Valuation methods using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences

Where quoted market prices in active markets for the same assets or liabilities are not available, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect factors specific to the asset or liability such as condition or volume or level of activity in the markets.

There are a limited number of financial assets valued in this manner. At 31 December 2020 £0.8 billion (2019: £0.7 billion) of financial assets valued using this approach, primarily foreign exchange forwards.

For (a) and (b), the Company applies a number of criteria in determining whether a market is considered 'active'. These include, but are not limited to, consideration of whether there is observable trading activity, a price or consensus price on the measurement date.

Where assets cannot be valued based on quoted market prices in active markets of the same or similar assets, alternative valuation methods are used, as described in (c) and (d) below.

(c) Alternative valuation methods - using inputs that are observable in the market

Where possible, the alternative valuation method uses significant inputs into the valuation that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices). At 31 December 2020 £35.6 billion (2019: £33.1 billion) of financial assets were valued using this approach. Where we have observable inputs, we use the observable price and do not adjust further for the effect of future uncertain events.

A significant proportion of the Company’s assets in this category are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or quotes from third-party brokers. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain third-party broker quotes.

When prices are not available from pricing services, quotes are sourced directly from brokers. The Company seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation.

In these instances, prices are derived using internal valuation techniques including those as described below, with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. The input assumptions are determined based on the best available information at the measurement dates.

The majority of such securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. 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 in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to judgement.

d) Alternative valuation methods - inputs not based on observable market data

Investments valued using valuation techniques with inputs not based on observable market data 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. These principally include 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 which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

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 that 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 any 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 a significant volume 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 models above involve judgement over future events for example credit ratings and future house price growth.

As at 31 December 2020, the Company held £33.3 billion of assets, net of liabilities (2019: £31.5 billion of assets net of liabilities), at fair value which were valued in this manner.

Included within these net assets and liabilities are:

- £0.4 billion holding in an investment fund that invests in a portfolio of buy-to-let mortgages and other loans financed largely by external third-party (non-recourse) borrowings. The Company's exposure is limited to the investments held by the WPSF, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.
- £8.1 billion of investment properties, which are externally valued by professionally qualified external valuers using the Royal Institution of Chartered Surveyors ("RICS") 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 that are virtually identical to the 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.
- Private placement loans with a value of £9.3 billion: these loans are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a credit spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the discount rate applied.
- Income strips with a value of £0.4 billion: the income strips are valued using a discounted cash flow model where the discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the discount rate applied.
- Unquoted corporate bonds valued using broker quotes of £2.7 billion, which are sensitive to those quotes.
- Equity securities and pooled investment funds with a value of £10.3 billion: these investments predominantly comprise interests in partnerships, venture capital funds and private equity funds as well as investments in property funds which are exposed to bespoke properties or risks. The private equity and venture capital investments in both debt and equity securities 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 investment funds that are managed on behalf of third parties.
- Equity release mortgage loans of £1.7 billion as at 31 December 2020 and a corresponding liability of £0.4 billion which were valued internally using discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values.

The most significant unobservable inputs relate to the discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yield.

The Company regularly assesses asset valuation uncertainty, with formal reporting of the range of uncertainty for each asset class including asset whose values are not based on observable market data. This is discussed further in Section D.4. The analysis performed for recent periods has demonstrated that the fair values used by the Company lie within a reasonable range.

The majority of the unobservable assets are held in the Company's With-Profits Fund, and therefore a change in value does not directly impact the solvency of the company since the contribution from Ring Fenced Funds is restricted.

D.1.2 Valuation bases under Solvency II compared with UK GAAP

This section describes the main areas of difference between the Solvency II and UK GAAP asset values. Further details of the UK GAAP valuation approaches are described in the Company's 2020 statutory accounts.

To ensure comparisons are on a like-for-like basis, any UK GAAP amounts quoted in this section are shown after allowing for presentational changes noted in Figure 26, to align them with the amounts reported under the Solvency II balance sheet headings. As such the UK GAAP amounts may differ from that disclosed in the Company's statutory accounts.

D.1.2.1 Deferred acquisition costs

Deferred acquisition costs are recognised at cost less amortisation under UK GAAP in the Company's statutory accounts but have no value for Solvency II purposes.

D.1.2.2 Deferred tax assets

Deferred tax assets, other than the carry forward of unused tax credits and losses, are calculated based upon the differences between the values given to assets and liabilities for tax purposes and their values in the Solvency II balance sheet. The principles of UK GAAP are applied to calculate the extent of deferred tax applicable to those value differences. Changes in the valuation of underlying assets or liabilities will give rise to a change in deferred tax balances. Recoverability is assessed on the basis of the balances held and consideration is given to the probability of taxable profit being available against which the underlying recoverable can be offset.

There is no deferred tax asset on the Solvency II balance sheet as at 31 December 2020.

D.1.2.3 Investments (other than participations)

Investments (other than participations) comprise the following asset classes as included in the Solvency II balance sheet:

Figure 24: Investments (other than participations) for the year-ended 31 December 2020

Figures in £m	2020	2019
Property (other than for own use)	**8,081**	8,733
Equities	**34,005**	35,919
Bonds	**60,417**	66,032
Collateralised securities	**3,724**	4,506
Collective investment undertakings	**10,437**	9,767
Derivatives	**5,557**	3,845
Deposits other than cash equivalents	**1,346**	1,180
Total	**123,567**	129,982

All of these categories of investments are valued at fair value on both the Solvency II balance sheet and the Company's UK GAAP financial statements.

D.1.2.4 Holdings in related undertakings including Participations

Article 13 of the Solvency II Directive defines a 'participation' as the ownership, direct or by way of control, of 20 per cent or more of the voting rights or capital of an undertaking. Undertakings will also be treated as participations where significant influence is effectively exercised by the parent.

Under Solvency II rules the adjusted equity method is applied to all investments in subsidiary undertakings. The adjusted equity method is based on the excess of assets over liabilities for each subsidiary, with the subsidiaries' individual assets and liabilities valued in accordance with the Solvency II Directive. Where the related undertaking is an insurance undertaking technical provisions are valued in accordance with Articles 76 to 85 of the directive.

Included within the value of participations is the impact of transitional measures, as applicable to participations which are insurance undertakings. These items are covered further in Section D.2.4.

The value of related undertakings at 31 December 2020 shown in the Solvency II balance sheet was £123,567 million (2019: £129,982 million) which is £27,197 million lower (2019: £20,790 million lower) than the equivalent contribution of these undertakings to UK GAAP shareholders' equity. The majority of this difference arises from the collective investment in which the Company's holdings exceed 20% which are classified as participations where the amount registered under SII is £21,021 million lower than its contribution to UK GAAP shareholders' equity. £6,176 million relates to assets held by the index-linked funds which are presented together in a single line on the UK GAAP statutory accounts balance sheet rather than within each individual asset/ liability category.

As part of the Group's Target Investment Model, the existing fund structure for the Company's investments is being rationalised into a common set of around 50 building blocks pooled from the c.550 base funds. Ahead of 31 December 2020, a new M&G plc legal framework has been created to implement part of the structure by launching an Authorised Contractual Scheme (ACS) with 7 sub-funds. Using this ACS the previously discrete funds have started to be pooled. As at 31 December 2020, £5,274 million of assets, mainly comprising cash and equity instruments, had been transferred to the newly created ACS.

D.1.2.5 Assets held for index-linked and unit-linked contracts

These assets are held to cover linked liabilities where the policyholders bear the investment risk of the assets. Under both UK GAAP and Solvency II these assets are recorded in aggregate as a single line entry on the balance sheet. The individual assets and non-insurance liabilities of the linked business are valued in accordance with the Solvency II principles set out in this section.

The difference between UK GAAP and Solvency II relates to the different definitions of index-linked between the two bases. For Solvency II reporting, business is only classified as index-linked where the policyholder bears the risk and not where risks are borne by the shareholder. For UK GAAP all index-linked business is classified as index-linked business, irrespective of the sharing of risks. There is also a difference in relation to investment contracts without discretionary participation features, where amounts due from reinsurers are reported as reinsurance under Solvency II but as investments under UK GAAP.

D.1.2.6 Loans and mortgages

Loans and mortgages include interests in residential and commercial mortgage portfolios, the Company's loans to individuals (e.g. policy loans) and other loans, as well as reverse repos.

Under UK GAAP, these loans are accounted for at amortised cost net of impairment, except for equity release mortgages which have been designated at fair value through profit or loss as the loan portfolio is managed and evaluated on a fair value basis.

Under Solvency II all loans and mortgages are valued at fair value. Loans and mortgages are not actively traded, and the valuation is therefore determined by discounting the cash flows expected to be received. Section D.1.1(d) provides further detail on the approach, for those loans and mortgages where the valuation relies upon inputs that are not based on observable market data.

D.1.2.7 Other assets

Other assets comprise the following asset classes as included in the Solvency II balance sheet:

Figure 25: Other assets at 31 December 2020

Figures in £m	2020	2019
Insurance and intermediaries receivables	**18**	19
Reinsurance receivables	**18**	153
Receivables (trade, not insurance)	**2,238**	2,136
Other	**8**	1
Total	**2,282**	2,309

The residual other assets in the Solvency II balance sheet are measured at fair value determined using alternative valuation methods that are market consistent and represents the realisable value of individual assets on transfer to third party. If the UK GAAP value is a good proxy for fair value no adjustment is made.

D.1.2.8 Leasing

The Company's operating and finance lease arrangements relate principally to properties. Further information on the Company's leasing arrangements is provided in Section A.4.3.

D.1.2.9 Pension Benefit Surplus

The Pension benefit surplus is £40 million (2019: £28 million) in Solvency II.

For the Prudential Staff Pension Scheme pension benefit surplus is valued in accordance with IAS 19 under both UK GAAP and Solvency II. The Company can only recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. Pension benefit surplus (or deficit) is described further in Section D.3.2.6.

D.2 Technical provisions

To the extent these disclosures relate to the risk margin, TMTP and/or the SCR, they are not subject to audit and have not been audited.

D.2.1 Overview

As a general principle, technical provisions are valued at the amount for which they could theoretically be transferred to a third party in an arm's length transaction. The technical provisions consist of the best estimate liability (BEL) and the risk margin, reduced by the TMTP where relevant.

D.2.1.1 BEL

The BEL corresponds to the probability-weighted average of future cash flows, taking account of the time value of money (i.e. the expected present value of future cash flows), using the risk-free interest rate term structure published by the PRA, (prior to 31 December 2020 the technical information was obtained from the European Insurance and Occupational Pensions Authority) with allowance for a matching adjustment where relevant. The calculation of the best estimate liability is based upon up-to-date and credible information and realistic assumptions (derived from data analysis and expert judgement) and is performed using appropriate actuarial and statistical methods. The cash flow projections used in the calculation of the best estimate liability take account of all the cash in- and out-flows required to settle the insurance obligations over their lifetime. The cash flows included in the best estimate liability calculation are derived after applying Solvency II "contract boundary" rules, which determine whether future cash flows can be recognised as part of the in-force business. The best estimate liability is calculated before deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately.

The “contract boundary" rules define:

- When a policy is first included in the cash flows;
- Which premiums should be allowed for in the cash flows; and
- When a policy should no longer be included in the cash flows.

D.2.1.2 Risk Margin

The risk margin is calculated in line with Solvency II requirements, and aims to ensure that the total technical provisions are equivalent to the cost of ceding the insurance obligations to a third party. The calculation assumes a 6 per cent per annum cost of capital and applies to non-hedgeable risks only, with no diversification between the risks in different legal entities.

This calculation includes simplified methods and requires assumptions as to the run-off profile of non-hedgeable capital requirements for each material line of business, rather than a full projection of solvency capital requirements. The SCR for each non-hedgeable risk is assumed to run-off in-line with suitable profiles which differ depending on the types of non-hedgeable risks. The SCR each year is aggregated using a simplified correlation matrix.

The main risks are detailed in Section C.

D.2.1.3 Technical Provisions

The present value of the transfers to the Shareholder Fund are not part of the technical provisions. However, charges to asset shares in respect of shareholder transfers are allowed for in the calculation of future policy related liabilities. The present value of future transfers are also included in this calculation to determine restrictions to the surplus on certain ring-fenced funds.

Figure 26: Value of technical provisions 31 December 2020

	2020					2019
	Solvency II					Solvency II
Figures in £m	Best estimate liability	Risk margin	Regulatory TMTP	Technical Provisions	UK GAAP	Technical Provisions
Insurance with-profit participation	**103,482**	**1,162**	**(750)**	**103,894**	**118,783**	103,749
Index-linked and unit-linked insurance	**13,149**	**87**	**(64)**	**13,172**	**21,470**	13,635
Other life insurance	**39,672**	**2,818**	**(1,916)**	**40,573**	**31,589**	41,140
Accepted reinsurance - insurance with-profit participation	**6,883**	**4**	**—**	**6,887**	**7,453**	6,691
Accepted reinsurance - other life insurance	**789**	**62**	**(44)**	**807**	**51**	812
Health insurance	**(4)**	**—**	**—**	**(4)**	**(16)**	(3)
Non-life business[1]	**132**	**—**	**—**	**132**	**135**	145
Total	**164,103**	**4,133**	**(2,774)**	**165,461**	**179,465**	166,170

[1]For consistency with the presentation of the Solvency II BEL, we have included the £135m non-life liability in the UK GAAP column. In the balance sheet in figure 23 the non-life liability is included in the Other liabilities row.

The TMTP is based on the last approved regulatory recalculation, the most recent of which was performed at 31 March 2020 (see Section D.2.4.1 for further details on the TMTP).

The main differences in technical provisions between the UK GAAP financial statements and Solvency II are:

(a) UK GAAP recognises surplus assets in with-profits funds as "funds for future appropriation" on the balance sheet, but for Solvency II they are not included as a liability within the technical provisions. This contributes £15.7 billion of the difference for the Insurance with-profit participation row.

Other differences in the insurance with-profit participation row and also the accepted reinsurance with-profit participation row include:

- Future enhancements to asset shares in respect of WPSF non-profit business, £0.8 billion, are not recognised under UK GAAP but are for Solvency II;
- Solvency II recognises tax on future shareholder transfers, £0.4 billion, whereas the UK GAAP liabilities do not;
- Under UK GAAP, the liabilities for closed with-profits funds (i.e. PAC's SAIF sub-fund) are increased to exhaust the surplus in the fund. There is no equivalent adjustment under Solvency II. This contributes £0.4 billion of the difference for the Insurance with-profit participation row.

(b) UK GAAP includes index linked policies such as annuities (£8.3 billion) in the 'index linked and unit-linked insurance' category, whilst under Solvency II, index linked only captures those amounts where the policyholder bears the entire risk exposure and index linked annuities are instead included in the "Other life insurance" line.

(c) The UK GAAP liabilities do not include an explicit risk margin as the allowance for risk is included within the non-economic assumptions. The risk margin (£4.1 billion) is explicit under Solvency II, but is partially mitigated by allowance for transitional measures (i.e. TMTP £(2.8) billion) which smooths the impact from the previous Solvency I regime. The risk margin net of TMTP is £1.4 billion at 31 December 2020. The TMTP is run-off in a straight line over 16 years, but can be recalculated if there has been a significant change in the risk profile of the business since the previous calculation.

(d) The method of calculation and the assumptions used to value non-profit liabilities (primarily shown in the 'Other life insurance' row in figure 26), differ between Solvency II and UK GAAP.

Non-economic assumptions contain margins for risk and uncertainty under UK GAAP compared to the best estimate assumptions applied under Solvency II. This also includes the present value of future profits, and the impact of contract boundaries, which are not allowed for under UK GAAP. This results in £3.1 billion higher liabilities for UK GAAP.

Economic assumptions including the discount rate tend to be more prudent under Solvency II compared to UK GAAP, leading to an offsetting £2.5 billion difference.

(e) The UK GAAP insurance contract liabilities include £0.7 billion of outstanding claims which are shown as Insurance and intermediary payables under Solvency II.

D.2.1.4 Reinsurance Recoverables

The Company primarily uses reinsurance to manage insurance risk exposure, particularly in respect of longevity risk.

In the Solvency II balance sheet, the full expected cost of claims is included within the technical provisions and the corresponding reinsurance recoverables are shown as an asset.

The valuation methods and assumptions for reinsurance recoverables are consistent with the methods and assumptions for the corresponding technical provisions. The value of the reinsurance recoverable asset is the Company's best estimate of future reinsurance cash flows, where this figure allows for the probability of partial or total default by the reinsurer. In accordance with Solvency II regulations, a simplified approach to calculating the counterparty default adjustment has been adopted. In certain cases, for example longevity swaps, the value of the reinsurance recoverable can be negative.

The following table shows the reinsurance recoverables with comparisons to the previous year.

Figure 27: Value of reinsurance recoverables at 31 December 2020

Figures in £m	2020	2019
Index-linked and unit-linked insurance	**5,877**	5,751
Other life insurance	**11,831**	12,165
Accepted reinsurance - insurance with-profit participation	**(1)**	(1)
Health insurance	**(4)**	—
Non-life business	**132**	145
Solvency II Total	**17,836**	18,060
UK GAAP Total	**17,510**	17,567

The difference in the value of reinsurance recoverables between Solvency II and the UK GAAP financial statements mainly stem from the same sources as for the gross liability above. Further reinsurance specific differences are:

- Reinsurers' share of value of technical provisions. This is calculated on a basis consistent with the underlying technical provisions and, for Solvency II, includes an allowance for the probability of reinsurer default; and
- Reclassification of reinsurers' share of investment contracts liabilities without discretionary participation features. For the purposes of the financial statements, the Company applies deposit accounting for investment contracts without discretionary participation features (as defined under UK GAAP) and accordingly presents the reinsurers' share of its liabilities within investments.

The most significant reinsurance treaty covers the reinsurance of £12.2 billion of non-profit annuities to Rothesay Life. There are also several longevity swap treaties with a number of different reinsurance companies.

D.2.2 Solvency II Technical Provisions methodology and assumptions

Further details of the methodology and assumptions used for each material line of business are discussed below. The methods chosen for each line of business are proportionate to the nature, scale and complexity of the underlying risks.

The key assumptions required in the valuation of technical provisions are:

(i) economic assumptions, most of which are published by the PRA (prior to 31 December 2020 the technical information was obtained from the European Insurance and Occupational Pensions Authority) and set by reference to market data at the valuation date;

(ii) non-economic assumptions, used to derive non-market related best estimate liability cash flows (for example future claims and expenses); and

(iii) assumptions in respect of dynamic management actions and policyholder behaviour.

D.2.2.1 Economic assumptions

The principal economic assumption is the risk-free interest rate term structure. The risk-free curves at which best estimate liability cash flows are discounted are specified by the PRA. These curves are based on market swap rates, with an adjustment for "credit risk". The resulting 10-year risk-free spot rates for the material currencies are given below, after the credit risk adjustment.

Figure 28: 10 year risk-free rates at 31 December 2020

Currency	31 December 2020	31 December 2019	Change
British Pound	**0.29 %**	0.91 %	(0.62)%
Euro	**(0.37)%**	0.11 %	(0.48)%
United States Dollar	**0.77 %**	1.78 %	(1.01)%

For most non-profit annuity business, a matching adjustment is applied to the risk-free curve to discount the best estimate liability cash flows (see Section D.2.4.3). In line with Solvency II requirements, the matching adjustment is not applied when calculating the risk margin. The matching adjustment for shareholder annuities at 31 December 2020 was 110 basis points ("bps") (2019: 110 bps) per annum. The matching adjustment for annuities written in the With-Profits Fund at 31 December 2020 was 83 bps (2019: 91 bps) per annum.

D.2.2.2 Non-economic assumptions

Persistency, mortality, expense and option take-up assumptions are derived from analysis of recent historical experience data, and also reflect expected future experience. Where relevant and material, allowance is also made for the way in which policyholder behaviour is expected to vary in line with economic conditions.

Assumptions are set at realistic, best-estimate levels. If experience varies from the assumptions the result would impact the Available Capital the Company holds to meet its obligations.

D.2.3 Details on methodology and assumptions by lines of business

D.2.3.1 Participating business

The best estimate liability for participating business is, in most cases, calculated based on a retrospective calculation of accumulated asset shares, adjusted to reflect any future policy-related liabilities and other outgoings that cannot be charged to asset shares (for example, the excess of projected expenses over any fixed charges). Asset shares broadly reflect the policyholders' share of the participating fund assets attributable to their policies. For some business, a retrospective asset share calculation is not appropriate (for example, business where expected future benefit payments are not based on asset shares) and a prospective valuation approach is used, based on discounting expected future benefit and expense cash flows.

Asset shares methodology, principles and practices are detailed in the Company's Principles and Practices of Financial Management ("PPFM") document. This document is available online.

The future policy related liabilities include a market-consistent stochastic valuation of the cost of all material guarantees, options and smoothing, less any related charges. 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 before that date or dates. For most pensions products, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, guarantees apply at the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter.

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

- For conventional with-profits contracts, including endowment assurance contracts and whole of-life assurance contracts, payouts are guaranteed at the sum assured together with any declared regular bonus.
- 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 stochastic projections allow for realistic management actions consistent with the operation of the participating funds. Examples of these management actions include:

- Dynamic adjustments to reversionary and terminal bonus rates. This includes adjusting reversionary bonuses to target a specified range of terminal bonus cushion at maturity, or to maintain the solvency ratio of the participating fund in stressed conditions. For terminal bonuses, smoothing rules apply, limiting the year-on-year change for the same bonus series.
- Market value reductions. For some accumulating with-profits policies, market value reductions may apply, subject to certain limits.
- Dynamic investment strategy. Switching into lower-risk assets to maintain the solvency of the fund in stressed conditions.
- Dynamic new business strategy. Restricting the volume of new business written to maintain the solvency of the fund in stressed conditions.

In addition, an amount is held with respect to historical pensions mis-selling. The Pensions Mis-selling Review ("PMR") covers customers who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. The provision in respect of the PMR covers the expected cost of redress payable to the residual 20,000 Prudential customers who fall within the scope of the Review. All affected customers have now been invited to take part in the review.

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

At 31 December 2020, the pension mis-selling reserve included within the best estimate liability was £304 million (2019: £420 million).

The decrease in provision reflects utilisation of the provision in respect of redress paid and rectification costs incurred and the impact of updating assumptions for future redress payments to more accurately reflect expectations for the remaining population.

D.2.3.2 Non-profit annuity business

The best estimate liability for non-profit annuity business is a discounted value of expected future annuity payments and associated expenses. The key assumptions relate to mortality rates, including expectations of future mortality improvements, expenses and the discount rate. The discount rate for most non-profit annuity business uses a matching adjustment and this is described within Section D.2.4.3.

Annuitant mortality assumptions

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 with-profits liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Company's portfolio.

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2020. New mortality projection models are released annually by the Continuous Mortality Investigation ("CMI"). The CMI tables used are adjusted as appropriate each year to reflect anticipated mortality improvements. The CMI 2018 model does not take into account higher mortality improvements observed during 2019, and the Company has therefore adopted a stronger than default calibration of CMI 2018 model.

An increase in mortality rates has been observed during 2020 due to the COVID-19 pandemic and may be expected to continue to some extent over the short term, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, the longer term implications for mortality rates amongst the annuitant population are unknown at this stage. While no change has been made to the annuitant mortality assumptions directly as a result of COVID-19, this is an area the Company continues to monitor.

In addition, the proportion married assumption has been updated in line with updated historical information to reflect that the number of first life annuitants who remain married reduces gradually over time.

Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment management expenses and are allocated between entities and product groups in accordance with the M&G plc internal cost allocation model. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.

Guaranteed minimum pension equalisation

From April 1987, pension schemes were able to 'contract out' of the State Earnings Related Pension Scheme, enabling companies and members to pay lower National Insurance Contributions, but their schemes had to provide a minimum level of benefit, the Guaranteed Minimum Pension (GMP). Recent court cases have confirmed that there is a requirement for GMPs to be equalised between male and female members/policyholders. The Company has included £34 million 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.

Pensions age equalisation

As a consequence of the Barber judgment, from 17 May 1990 pension ages had to be equal between men and women within occupational pension schemes. In respect of schemes that failed to equalise the pension ages before winding the scheme up with Prudential, Prudential has accepted responsibility for equalising the benefits provided. In addition, Prudential may also be liable for the cost of equalising benefits in respect of active defined benefit schemes that were administered by Prudential at the time when they addressed this issue. The Pension Age Equalisation provision has decreased from £54 million shareholder and £8 million SAIF at YE 2019, to £11 million shareholder and £4 million SAIF at YE 2020. This was driven by both a partial release of the provision, and a reduction to the utilisation as costs were incurred.

Deflation reserve

Some index-linked non-profit annuity business contains a guarantee that the annuity payment will not reduce during periods of deflation. A simulation method (i.e. stochastic model) is used to determine the associated embedded guarantee cost. A provision is held for this guarantee, which is calculated by comparing the cash flows to backing assets containing a similar guarantee.

D.2.3.3 Unit-linked business

The best estimate liability for these contracts reflects both the value of policyholder unit funds and the non-unit liability. The non-unit liability can be negative, and reflects the discounted value of fee income from the unit funds less allowances for expenses and the cost of insurance benefits. Assumptions are also made for expected mortality experience, as relevant, where the products include insurance riders (i.e. add-ons to the initial policy to provide additional insurance coverage), and also expected persistency.

Some unit-linked business contains a financial guarantee. A simulation method (i.e. stochastic model) is used to determine the associated guarantee cost.

D.2.3.4 Other business

For 'other business' the best estimate liability is calculated as the present value of expected future benefit payments and associated expenses less the value of expected future premium income. Assumptions are made for expected persistency and mortality/morbidity experience, as relevant.

Included within other business is an immaterial amount of non-life legacy business which is fully reinsured.

D.2.4 Long-term guarantee measures on technical provisions

D.2.4.1 Transitional measures

The Company's technical provisions at 31 December 2020 include a TMTP, in accordance with Solvency II regulations. The TMTP is unaudited. The impact of the TMTP is to increase the Company's Solvency II surplus by £1,482 million (2019: £1,482 million).

The TMTP is considered high-quality capital, and are a core part of the Solvency II reporting regime. The Company has received the necessary approvals from the PRA in respect of the TMTP.

The TMTP was last recalculated as at 31 March 2020. The PRA granted written permission for this recalculation of the TMTP in June 2020.

The 31 December 2020 technical provisions do not include a transitional measure on the risk-free interest rate term structure.

D.2.4.2 Volatility adjustment

The Company has not applied a Volatility Adjustment as at 31 December 2020.

D.2.4.3 Matching adjustment

The matching adjustment referred to in the Solvency II regulations has been applied to most of the Company's non-profit annuities.

An adjustment may be applied to the risk-free interest rate term structure if the conditions in the Solvency II Directive are met and approval has been obtained. The risk-free yield curve used to discount most of the Company's non-profit annuity liability cash flows is increased to include a matching adjustment, as approved by the PRA. The matching adjustment is calculated by reference to the credit spreads on the matching portfolio of assets, with deductions for the "fundamental spread" (i.e. credit risk allowance) as published by the PRA and for cash flow mismatch allowances.

Separate portfolios of assets are held for the Company's With-Profits Fund-backed and shareholder-backed non-profit annuities (see D.2.2.1 for details of the matching adjustment).

D.2.4.4 Impact of transitional measures and long-term guarantees

The impact of the TMTP, which is unaudited, and the matching adjustment ('MA') on the Company's Solvency II results at 31 December 2020 are shown in the table below:

Figure 29: Impact on Solvency II results of excluding the TMTP, VA and MA at 31 December 2020

Figures in £m	As reported in QRTs	Impact of removing TMTP	Impact of removing MA	Total excluding TMTP and MA	Impact of removing TMTP, and MA
Technical Provisions	165,461	2,774	2,849	171,085	5,623
Basic Own Funds	13,613	(1,244)	(1,571)	10,798	(2,814)
Own Funds eligible to cover SCR	13,613	(1,244)	(1,571)	10,798	(2,814)
Solvency Capital Requirement (SCR)	10,002	239	3,335	13,577	3,575
Own Funds eligible to cover MCR	13,613	(1,244)	(1,571)	10,798	(2,814)
Minimum Capital Requirement (MCR)	2,500	60	834	3,394	894
Solvency Ratio	136 %	n/a	n/a	80 %	n/a

D.2.5 Assumption changes

Changes to the assumptions used at 31 December 2020 in the Company's calculation of technical provisions include:

- changes to the matching adjustment allowance to reflect the asset mix and market conditions at 31 December 2020;
- changes to best estimate longevity assumptions to reflect recent experience (including considerations relating to the COVID-19 pandemic) and the partial release of provisions for uncertainty, which were adopted as a result of the group's new longevity model;
- changes to renewal expense assumptions to reflect forecast expense experience, allowing for planned transformation activity;
- changes to investment expense assumptions to reflect changes in asset allocation;
- changes to persistency and non-annuitant mortality assumptions to reflect the results of the most recent experience investigation;
- changes to the assumed take-up of options offered under with-profits contracts; and
- market-driven changes to economic parameters, including changes to risk-free rates as shown in Section D.2.2.1.

D.2.6 Level of uncertainty

The valuation of technical provisions relies upon the Company's best estimate of future liability cash flows, including the projection of the future level of the solvency capital requirement in the calculation of the risk margin. These cash flows are derived using best estimate assumptions, which are set using a combination of experience data, market data and expert judgement.

Uncertainty exists in the technical provisions as to whether the actual future cash flows will match those expected under the Company's best estimate assumptions. Over time, experience may differ from the best estimate assumptions or the Company's forward-looking expectations may evolve, such that assumptions will be updated with a consequent change in the value of future technical provisions.

The best estimate assumptions include assumptions about future economic conditions, for example interest rates and expense inflation levels; and assumptions about future non-economic experience, for example, longevity, mortality and policyholder behaviour. Assumptions are also made about future management actions.

Each assumption is set at the Company's best estimate of future experience and approved by the Board Audit Committee. However, each assumption is by its very nature assumed and so the actual future experience is not certain.

D.3 Valuation of other liabilities

D.3.1 Valuation of other liabilities

Other liabilities for solvency purposes are valued separately using valuation methods that are consistent with the valuation approach set out in the Solvency II regulations. Unless otherwise stated, valuation of other liabilities is carried out in conformity with UK GAAP, where this is consistent with the objectives of Solvency II.

D.3.2 Valuation bases under Solvency II compared to UK GAAP

The valuation basis of material classes of other liabilities are described below:

D.3.2.1 Debts owed to credit institutions

Debts owed to credit institutions in the UK GAAP financial statements are valued at amortised cost but are valued at fair value for the Solvency II balance sheet. The major component of debt liabilities are over-the-counter derivatives collateral creditors and obligations under securities lending.

D.3.2.2 Deferred tax liabilities

Deferred tax liabilities are calculated based upon the differences between the values given to liabilities in the Solvency II balance sheet and their values for tax purposes. The UK GAAP principles of FRS 102 section 29 are applied to calculate the extent of deferred tax applicable to those value differences. Changes in the valuation of underlying liabilities between UK GAAP and Solvency II (as described elsewhere in Section D) give rise to deferred tax value differences. Further information on deferred tax valuation differences is provided in Section D.1.2.2 above under the heading 'Deferred tax assets'.

The aggregate (£39 million) of the other valuation differences for deferred tax between UK GAAP and Solvency II represents the change in the value of the net deferred tax principally as a result of valuation changes relating to the establishment of the risk margin and movement in technical provisions.

The net deferred tax liability of £661 million principally relates to unrealised gains on investments. Tax on these gains will mainly fall due when the underlying assets are sold.

D.3.2.3 Other liabilities

Figure 30: Other liabilities for the year-ended 31 December 2020

Figures in £m	2020	2019
Insurance and intermediaries payable	**727**	638
Reinsurance payables	**96**	84
Payables (trade, no insurance)	**3,085**	3,945
Other liabilities	**344**	230
Total	**4,252**	4,897

Insurance and intermediaries payable, reinsurance payables, payables (trade, not insurance) and other liabilities are measured at fair value determined using alternative valuation methods that are market consistent and represent the value to settle the liabilities with the third party. Where the UK GAAP valuation is a good proxy for fair value no adjustment is made.

D.3.2.4 Provisions other than technical provisions

Other provisions include a provision for review of past annuity sales of £49m (2019: £100m). The Company has agreed with the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. In addition, the Company has been conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from the Company or another pension provider.

The ultimate amount that will be expended by the Company on the review will remain uncertain until the project is completed. The key assumptions underlying the provision are the average cost of redress per customer and the operational cost of performing the review per customer. An increase in the average cost of redress per customer for outstanding cases of 10% would result in the provision recognised increasing by £4m (2019: £7m). An increase in the total operational cost of performing the reviews of 20% would result in the provision recognised increasing by £4m (2019: £7m). In 2018, the Company agreed with its professional indemnity insurers that they will meet £166m of claims costs relating to the original review. Payments were received as quarterly instalments with the final payment received in early 2020.

D.3.2.5 Derivative liabilities

Derivative liabilities are valued using quoted prices if exchange listed, quotations from third parties or valued internally using the discounted cash flow method in line with standard market consistent valuation techniques, but are subject to independent assessment against external counterparties' valuations.

D.3.2.6 Pension benefit obligations

i) Background

The Company does not have any individually material obligations in respect of defined contribution plans, other long-term employee benefits or termination benefits.

M&G plc operates and has significant obligations in respect of the Prudential Staff Pension Scheme ("PSPS") defined benefit pension schemes, the Company is the Principle Employer for these schemes.

The largest scheme is the PSPS. This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the Scheme. They are instead enrolled in the defined contribution section of the scheme.

There is a smaller defined benefit scheme, Scottish Amicable Staff Pension Scheme ("SASPS") relating to staff formerly employed by the Scottish Amicable Life Assurance Society (which the Company acquired in 1997 along with the associated scheme).

At 31 December 2020, the underlying PSPS liabilities account for 81 per cent (2019: 82 per cent) of the aggregate liabilities of M&G Plc's defined benefit schemes.

ii) Valuation and approach

The table below provides an overview of the underlying surplus or deficit for each scheme and the values recognised by the Company. The valuation reported by the Company is the same under UK GAAP and on the Solvency II base balance sheet.

Figure 31: Valuations of pension schemes at 31 December 2020

Figures in £m	Underlying surplus/ (deficit)	PAC share of Surplus
PSPS	58	40
SASPS	(106)	(106)
Total	**(48)**	**(66)**

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. The remaining 30% is allocated to M&G Corporate Services Limited (previously named M&G Prudential Services Limited), a fellow subsidiary undertaking of the M&G plc group.

- 40% of the deficit and related costs of SASPS is allocated to the With-Profits Fund of the Company. The remaining 60% is allocated to the shareholder fund of the Company.

A full actuarial valuation is required for defined benefit pension schemes every three years in order 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 actuarial valuation differs from the FRS 102 accounting basis valuation in a number of respects, including the discount rate assumption where FRS 102 prescribes a rate based on high-quality corporate bonds while a prudent assumption is typically used for the actuarial valuation.

The Company utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then 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 its present value. These calculations are performed by independent actuaries.

Under FRS 102 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. Further, the UK GAAP financial position recorded, reflects the higher of any underlying FRS 102 deficit and any obligation for committed deficit funding where applicable.

The Company has no unconditional right of refund to any surplus in PSPS. Accordingly, the PSPS surplus is restricted to the present value of the economic benefit to the Company, derived as the difference between the estimated projected future service cost for active members, and the estimated projected future employer contributions.

In contrast to the PSPS Scheme, the Company is able to access the surplus of SASPS and therefore the amount recognised within UKGAAP for this scheme is the FRS102 valuation amount (either a surplus or deficit).

iii) Significant changes during 2020

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 2020, the longevity swap covered £3.1bn of the total current pensioner scheme liabilities.

iv) Methodology and assumptions

The FRS 102 valuation prescribes market-based assumptions for the valuation of assets and liabilities. Within the market-based framework, the FRS 102 prescribes that the discount rate for liabilities should be based on high quality corporate bonds (interpreted as corporate bonds with a credit rating of AA).

The actuarial assumptions used in determining the benefit obligations and the net periodic benefit costs for the year-ended 31 December 2020 were as follows:

Figure 32: Pension scheme actuarial assumptions

		2020		2019
	PSPS	**SASPS**	**PSPS**	**SASPS**
	%	**%**	**%**	**%**
Discount rate(1)	**1.2**	**1.3**	2.1	2.1
Rate of increase in salaries	**3.0**	**2.9**	3.1	3.0
Rate of inflation(2)				
Retail prices index (RPI)	**3.0**	**2.9**	3.1	3.0
Consumer prices index (CPI)	**2.2**	**2.1**	2.1	2.0
Rate of increase of pensions in payment for inflation:				
PSPS:				
Guaranteed (maximum 5%)	**2.5**	**N/A**	2.5	N/A
Guaranteed (maximum 2.5%)	**2.5**	**N/A**	2.5	N/A
Discretionary	**2.5**	**N/A**	2.5	N/A
SASPS	**N/A**	**2.9**	N/A	3.0

(1) The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities- can now be updated.

(2) The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.

The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2020, this allowance was based on the CMI 2018 mortality improvements model with improvement factors of 1.75% for males and 1.50% for females.

Figure 33 Pension scheme post retirement mortality assumptions at 31 December 2020

			Expectation of life from retirement at aged 60			
	Scheme	Mortality improvements model	Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
2020	**PSPS**	**CMI 2018**	**27.3**	**29.5**	**28.6**	**30.6**
	SASPS	**CMI 2018**	**27.1**	**29.4**	**30.4**	**32.3**
2019	PSPS	CMI 2017	27.3	29.5	28.5	30.4
	SASPS	CMI 2017	27.1	29.4	30.3	32.2

Further information on the assumptions used in the valuation, and the sensitivity of the valuation to those assumptions, can be found in Note 9 of the Company's 2020 Annual Report and Accounts.

v) Underlying investments of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans' assets at 31 December comprise the following investments:

Figure 34: Plan assets

		2020		2019
	£m	%	£m	%
Equities				
UK	**8**	**— %**	8	— %
Overseas	**25**	**1 %**	25	1 %
Bonds				
Government	**5,338**	**60 %**	5,111	61 %
Corporate	**2,429**	**27 %**	2,122	26 %
Asset-backed securities	**284**	**3 %**	298	4 %
Derivatives	**219**	**2 %**	187	2 %
Properties	**194**	**2 %**	211	3 %
Other assets	**355**	**4 %**	352	4 %
Total value of assets	**8,852**	**99 %**	8,314	101 %
Of which relate to PSPS	**7,884**		7,447	
Of which relate to SASPS	**967**		867	

D.3.2.7 Leases

There are no material liabilities recognised on the Solvency II balance sheet arising as a result of operating and finance leasing arrangements of the Company. Further information on the leasing arrangements of the Company is disclosed in Section A.4.3.

D.4 Alternative methods for valuation

The use of alternative methods for valuation by the Company are discussed in Sections D.1 to D.3 above.

Valuation uncertainty refers to the variability of the fair value measurement that exists at any given reporting date/time for a financial instrument or portfolio of positions. Valuation uncertainty arises because the realisable value of an asset can take a range of possible values at a single point in time. The width of the range will vary between asset classes, depending on the valuation technique used, with the degree of valuation uncertainty being lower for highly liquid listed securities and higher for hard-to-value or illiquid assets where prices are not readily available.

The Independent Price Verification Group Wide Operating standards prescribe minimum standards that should be applied in valuation of financial assets including those managed by third parties.

The standards include establishing valuation and oversight committees and setting appropriate IPV policies, procedures and controls around the independent verification of asset prices, pricing parameters and valuation model inputs. The standards require documentation of the process for assessing valuation uncertainty, including the controls surrounding valuation models and an understanding of the model assumptions and limitations.

The Group has developed Group-wide Independent Price Verification procedures - which covers all investment asset classes owned by the Company, and set minimum requirements for the governance surrounding valuation pricing. These standards require that processes are established to verify the accuracy and independence of model inputs and market prices provided by third parties. Where mark to market valuations are not available from independent price sources, the Independent Price Verification standards set minimum requirements for alternative methodologies including mark to model valuations.

The Group's valuation policies, procedures and analysis for instruments valued using alternative valuation methods with significant unobservable inputs are overseen by committees as part of the Company's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities, the Group makes use of the extensive expertise of its asset management functions. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored.

The analysis of investment pricing performed for recent periods has demonstrated that the fair values used by the Company lie within a reasonable range.

D.5 Any other information

There is no other material information regarding the Company's valuation of assets and liabilities for solvency purposes other than those disclosed in the sections above.

E Capital management

To the extent these disclosures relate to the risk margin, TMTP and/or the SCR, they are not subject to audit and have not been audited.

E.1 Own funds

E.1.1 Objectives, policies and processes for managing own funds

The Company manages its Solvency II own funds as its measure of capital. The Company's own funds at 31 December 2020 in the regulatory template are £13,613 million. A reconciliation from the Solvency II capital position published in the Financial Statements to the Solvency II capital position disclosed in the regulatory template is provided in Section E.1.2 below. The Company's basic, available and eligible own funds to cover the Company's solvency capital requirement and minimum capital requirement at 31 December 2020 are shown in Section E.1.3 below.

The Company manages its Solvency II capital to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements.

The Company prepares a medium term capital plan as part of its business planning process. The business plan is prepared annually on a rolling basis and covers a four-year period. There were no material changes in the objectives, policies or processes for managing the Company's own funds during the year.

E.1.2 Shareholder Solvency II capital position

Reconciliation of Solvency II capital position published in the Annual Report to the QRTs

The Company disclosed the estimated Solvency II capital surplus, as at 31 December 2020 in the Company's 2020 Financial Statements of £3,521 million. This assumed a TMTP which had been recalculated reflecting management's estimate of operating and market conditions as at 31 December 2020, and therefore differed to the approved regulatory TMTP shown within this report.

A reconciliation of the Solvency II shareholder position to the Solvency II position disclosed in the 2020 regulatory templates (S.23.01.01 and S.25.03.21) is shown in the table below.

Figure 35: Reconciliation of Solvency II capital position published in the Annual Report to the QRTs at 31 December 2020

Company	Available Capital £m	Required Capital £m	Surplus £m	Coverage Ratio %
PAC shareholder Solvency II capital position (pre dividend) as disclosed in the Annual Report	8,648	5,127	3,521	169 %
PAC With - Profits Fund Solvency II capital position as disclosed in the Annual Report	11,863	4,895	6,968	242 %
Ring-fenced funds consolidation of own funds limited to SCR balances	(6,968)	—	(6,968)	
Impact of moving to latest regulatory approved TMTP	92	(20)	112	
Other Changes[1]	(23)	—	(23)	
Solvency II capital position as disclosed in templates S.23.01.01 and S.25.03.21	**13,613**	**10,002**	**3,611**	**136 %**

[1] Other changes relate to a late adjustment in respect of PLML lifetime mortgage liabilities.

E.1.3 Analysis of the components of own funds

Items of own funds vary in their ability to absorb losses and within the Solvency II regulations are classified into three tiers to reflect their quality (ability to absorb losses), with Tier 1 the highest quality and Tier 3 the lowest.

The tiering of own funds is primarily based on their availability to meet losses and subordination. Additional features also considered are: sufficient duration, absence of incentives to redeem, absence of mandatory servicing costs and absence of encumbrances. These characteristics are described below:

- Permanent availability refers to whether an item is available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of a winding-up.
- Subordination refers to whether, in the case of a winding-up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.
- Sufficient duration requires that consideration be given to the duration of the item, in particular whether the item is dated or not. Where an own funds item is dated, the relative duration of the item as compared to the duration of the insurance obligations should be considered.
- Absence of incentives to redeem refers to whether the item is free from requirements or incentives to redeem the nominal sum.
- Absence of mandatory servicing costs refers to whether the item is free from mandatory fixed charges.
- Absence of encumbrances refers to whether the item is free from encumbrances. Encumbrances include factors such as rights of set off, restrictions and charges or guarantees.

Tier 1 own funds must substantially possess the characteristics of permanent availability and subordination taking into consideration the additional features described above.

There are certain regulatory limits regarding the eligibility of own funds to meet capital requirements. The key eligibility limits, which apply to entities consolidated using Method 1 are as follows:

- At least 50% of the Company's SCR must be covered by Tier 1 own funds (and no more than 20% of those Tier 1 items may be hybrid instruments such as subordinated liabilities) and a maximum of 15% may be covered by Tier 3.
- At least 80% of the Company's MCR must be covered by Tier 1 (and no more than 20% of those Tier 1 items may be hybrid instruments such as subordinated liabilities).

The table below shows the components that make up the Company's basic, available and eligible own funds amounts. The Company has no ancillary own funds.

Figure 36: Analysis of components of own funds for the year-ended 31 December 2020

Figures in £m	Total 2020	Tier 1 unrestricted 2020	Total 2019
Ordinary share capital (b)	**330**	**330**	330
Surplus funds (c)	**12,727**	**12,727**	13,223
Reconciliation reserve (d)	**556**	**556**	(750)
Total eligible own funds to meet the SCR and MCR (a)	**13,613**	**13,613**	12,803

(a) Total eligible own funds to meet the SCR

As at 31 December 2020, the Company has no ancillary own funds and hence the Company's basic own funds are equal to the total available own funds. The eligible own funds are derived by applying Solvency II tiering limits to the tiered available own funds.

(b) Ordinary share capital

The Company's ordinary share capital represents the nominal value of 25p for each fully paid equity share issued. As the ordinary share capital is available or can be called upon to fully absorb losses it is categorised as Tier 1.

(c) Surplus funds

Surplus funds arise from the Company's with-profit funds (i.e. surplus funds arise from certain of the Company's ring-fenced funds). The value of surplus funds reported represents the excess of assets over liabilities (excluding the risk margin) of those ring-fenced funds after deducting the present value of the expected future shareholder transfers (net of any related tax borne by the funds). Having considered the features of Tier 1 own fund instruments set out in Article 71 of the Commission Delegated Regulation (EU) 2015/35 and the guidance in the PRA Supervisory Statement SS13/15 (Solvency II: surplus funds) the Company has classified surplus funds under Tier 1.

In accordance with the template S.23.01.01 (Own Funds) presentation requirements, the value of surplus funds reported on the template is prior to ring-fencing related restrictions being applied. The related restrictions are included as a deduction in the Reconciliation Reserve under "Restrictions applied to own funds due to ring-fencing". As such, the contribution of surplus funds towards the Company's own funds is lower than that reported on the face of the Own Funds template.

(d) Reconciliation reserve

The reconciliation reserve represents the residual value of excess of assets over liabilities after deducting (i) equity share capital comprising ordinary share capital and (ii) surplus funds and the restriction applied to own funds due to ring fencing as shown in Figure 37 below. The increase in reconciliation reserve from a loss of £750 million at 31 December 2019 to a gain of £556 million at 31 December 2020 is mainly due to a £627 million reduction in the ring-fenced fund restriction and a £543 million surplus funds decrease.

Figure 37: Analysis of components of the reconciliation reserve at 31 December 2020

Figures in £m	2020	2019
Excess of assets over liabilities	**20,614**	20,442
Ordinary Share Capital	**(330)**	(330)
Other basic own fund items	**(12,727)**	(13,223)
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**(7,001)**	(7,628)
Reconciliation reserve	**556**	(750)

The reconciliation reserve is volatile as it captures all changes in the Shareholder Fund and the movement in the ring-fenced fund restriction.

The following table shows the reasons for the changes in the Own Funds between 31 December 2019 and 31 December 2020.

Figure 38: Analysis of change in own funds for the year-ended 31 December 2020

£m		Shareholder	With-Profits Fund	Regulatory
Own funds as at 31 December 2019		**8,235**	**12,196**	**12,803**
Savings & Asset Management	With-profits	163	—	163
	- of which: In-force	151	—	151
	- of which: New business	12	—	12
	Other	31	—	31
	Savings & asset management underlying capital generation	194	—	194
Heritage	With-profits	100	—	100
	Shareholder annuity & other	174	—	174
	Heritage underlying capital generation	274	—	274
Ring-fenced With-Profits Fund		—	615	615
Total Underlying own funds generation		**468**	**615**	**1,084**
Other operating own funds generation		**327**	**(1,501)**	**(1,174)**
	Savings & Asset management	9	—	9
	Heritage	318	—	318
	Ring-fenced With-Profits Fund	—	(1,501)	(1,501)
Total operating own funds generation		**795**	**(886)**	**(90)**
	Market movements	283	798	1,082
	Restructuring	(26)	(70)	(96)
	Tax	(165)	(175)	(340)
Total Own Funds Generation from continuing operations		**888**	**(333)**	**555**
Own Funds Generation from discontinued operations		—	—	—
Total Own Funds Generation		**888**	**(333)**	**555**
Dividends & capital movements		(497)	—	(497)
Change in with-profits ring-fenced funds restrictions		—	—	627
Total Movement in Own Funds (recalculated TMTP)		**391**	**(333)**	**684**
Adjust for latest regulatory approved TMTP[2]		92	33	126
Own funds as at 31 December 2020		**8,718**	**11,896**	**13,613**

[1] The contribution of the ring-fenced With-Profits Fund to Group own funds is limited to that required to cover the fund's capital requirements (see Section E.2).

[2] The analysis of change in own funds is presented assuming the TMTP was recalculated as at 31 December 2020. An adjustment of £92 million is shown at the end of the table from moving to regulatory TMTP, in line with the other numbers presented in the SFCR.

The main movements in the Shareholder Own Funds are largely due to:

- £468 million underlying own funds generation comprised of expected surplus from in-force business primarily reflecting the expected real world return on shareholder transfers, return on surplus assets, the release of credit reserves on non-profit annuity business, and the contribution from new business, mainly PruFund.
- Other operating capital generation of £327 million. This includes the impact of longevity and expense assumption changes and management actions.
- Market movements of £283 million, primarily due to lower yields over the period on non-profit annuity assets and shareholder transfers.
- £(26) million from restructuring costs.
- Tax changes of £(165) million due to the additional tax charge incurred over the period.
- The payment of £497 million in dividends to M&G plc over 2020. Further information is in Section A.1.4.7.

The main movements in the With-Profits Fund Own Funds are largely due to:

- Underlying capital generation of £615 million comprised of £524 million from the expected surplus from in-force business, primarily reflecting the expected return on the excess of assets over liabilities in the With-Profits Fund, and £91 million from new business written during the period, reflecting the future margins expected over the lifetime of that business.
- Other operating capital generation of £(1,501) million includes model changes in respect of options and guarantees, the distribution of excess surplus in the with-profits inherited estate, updates to non-market assumptions and non-market experience.
- Market movements of £798 million, primarily reflecting the gain on surplus assets from the investment return in excess of expected return.

- £(70) million from exceptional transformation expenses and restructuring costs.
- Tax changes of £(175) million reflecting £(75) million from the increase in the long-term corporation tax assumption from 17% to 19% used to calculate tax on future shareholder transfers and £(100) million from the tax chargeable to the with-profits inherited estate.
- A change in ring-fenced fund restrictions to reflect that surplus of the With-Profits Fund is not available to cover losses elsewhere in the Group. Own funds are therefore only recognised to the extent required to cover the SCR of the With-Profits Fund. This figure therefore also includes the £327 million of increased Solvency Capital requirements of the fund during the year.

The Company is funded by ordinary share capital of £330 million. There were no changes in the ordinary share capital of the Company during the year.

E.1.4 Reconciliation of UK GAAP shareholder's equity to Solvency II excess of assets over liabilities and eligible own funds

The 'excess of assets over liabilities' on the Solvency II balance sheet is not equivalent to own funds as a number of adjustments are made on the own funds template to restrict the valuation.

The reconciliation of the Company's UK GAAP shareholders' equity to the excess of assets over liabilities on the Solvency II balance sheet and to the Solvency II eligible own funds value of the Company is shown in Figure 39 below:

Figure 39: Analysis of components of own funds for the year-ended 31 December 2020

All figures in £m	2020	2019
UK GAAP shareholders' equity	**6,134**	5,613
Remove unallocated surplus of the With-Profits Fund from liabilities	**15,672**	16,152
Remove deferred acquisition costs	**(19)**	(27)
Net impact of liabilities and reinsurance valued on Solvency II basis	**109**	(10)
Impact of introducing Solvency II Risk Margin (net of transitional measures)	**(1,358)**	(1,437)
Fair value assets and liabilities not held at fair value under UK GAAP	**202**	141
Other	**(126)**	(2)
Solvency II excess of assets over liabilities	**20,614**	20,431
Ring-fenced fund restrictions	**(7,001)**	(7,628)
Solvency II eligible own funds	**13,613**	12,803

E.1.5 Restrictions

(Unaudited)

Restriction to own funds arising from ring-fenced funds

The Company has considered the specific provisions of national law, insolvency law, contract law and product regulation of the insurance subsidiary's jurisdiction of operations in determining the appropriate treatment of ring-fenced funds.

For ring-fenced funds, own funds are adjusted to reflect that the funds have a reduced capacity to fully absorb losses on a going-concern basis due to their lack of fungibility within the insurance company. The contribution to own funds from a ring-fenced fund is restricted such that the contribution to own funds from the ring-fenced fund is equal to the notional SCR for that ring-fenced fund. The impact of ring-fenced funds on the Company's solvency position in shown in Figure 39 above.

Restriction to own funds arising from defined benefit pension schemes

Surplus in defined benefit pension schemes is not considered available to meet losses elsewhere in the Company. For each of the Company's defined benefit pension schemes, any excess of the own funds of the scheme over its contribution to the Company's SCR is restricted. At 31 December 2020, no restriction to own funds was required.

E.2 Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR")

(Unaudited)

E.2.1 Overview

The SCR is the amount of capital that Solvency II regulations require the Company to hold. It is calculated based on ensuring that the Company has enough capital to meet its obligations in the event of a 1-in-200 year risk scenario occurring.

For the purpose of Solvency II regulatory reporting and disclosures, risk management, and calculation of any free surplus generation, the Company has approval to use an internal model for calculating the SCR. The assets and liabilities are valued on a Solvency II basis.

E.2.2 Components of SCR

At 31 December 2020, the SCR was £10,002 million (2019: £9,745 million). The PRA has the power to impose a capital add-on to the SCR where it believes the SCR may be insufficient. It has not done so for the Company. The risks and approach used to calculate the capital requirements may differ from those used by other companies and therefore may not be comparable.

Figure 40 below shows the undiversified SCR by risk components and the benefit of diversification in relation to the Company at 31 December 2020.

Figure 40: SCR for the Company at 31 December 2020

All Figures in £m	2020			2019
Risk component	**Shareholder SCR**	**With-Profits Fund SCR**	**Total SCR**	Total SCR
Interest rate risk	**354**	**909**	**1,264**	1,479
Equity risk	**1,476**	**2,236**	**3,712**	3,118
Property risk	**859**	**505**	**1,365**	1,386
Spread risk	**3,145**	**1,899**	**5,044**	5,588
Concentration risk	**—**	**—**	**—**	—
Currency risk (incl. FX translation)	**909**	**1,102**	**2,011**	2,031
Diversification between market risks	**(2,115)**	**(2,697)**	**(4,812)**	(5,301)
Counterparty	**293**	**101**	**394**	297
Mortality risk	**10**	**—**	**10**	25
Longevity risk	**1,959**	**2,065**	**4,024**	3,556
Disability-morbidity risk	**32**	**—**	**32**	30
Mass lapse	**138**	**—**	**138**	161
Other lapse risk	**39**	**1,451**	**1,490**	1,251
Expense risk	**535**	**871**	**1,406**	1,554
Life catastrophe	**13**	**7**	**21**	18
Diversification between insurance risks	**(1,373)**	**(2,186)**	**(3,559)**	(3,364)
Non-life underwriting risk	**—**	**—**	**—**	—
Operational risk	**898**	**515**	**1,413**	1,324
Loss-absorbing capacity of deferred tax	**(422)**	**(659)**	**(1,081)**	(1,085)
Other adjustments	**—**	**—**	**—**	—
Total undiversified components	**6,750**	**6,121**	**12,871**	12,069
Diversification between market and underwriting risks	**(1,643)**	**(1,226)**	**(2,869)**	(2,324)
Total SCR	**5,107**	**4,895**	**10,002**	9,745
MCR	**1,277**	**1,224**	**2,500**	2,436

The table above illustrates that a significant proportion of the Company's capital requirements relate to market risk exposures, in particular credit and equity risks, as well as longevity risk. Overall there remains significant diversification benefit between the diverse mix of risks.

The MCR is a formulaic calculation, which is subject to a cap and a floor that are both expressed relative to the SCR. At 31 December 2020, the Company's MCR was £2,500 million (2019: £2,436 million). The inputs used to calculate the MCR are detailed in Quantitative Reporting Template S.28.02.01.

The MCR is currently 25 per cent of the SCR (2019: 25 per cent).

The following table shows the reasons for the changes in the Company SCR between 31 December 2019 and 31 December 2020.

Figure 41: Analysis of change in SCR for the year-ended 31 December 2020

£m		Shareholder	With-Profits Fund	Regulatory
SCR as at 31 December 2019		**(5,178)**	**(4,568)**	**(9,745)**
Savings & Asset Management	With-profits	(75)	—	(75)
	- of which: In-force	(52)	—	(52)
	- of which: New business	(24)	—	(24)
	Other	(6)	—	(6)
	Savings & asset management underlying capital generation	(81)	—	(81)
Heritage	With-profits	5	—	5
	Shareholder annuity & other	149	—	149
	Heritage underlying capital generation	153	—	153
Ring-fenced With-Profits Fund		—	231	231
Total Underlying SCR movement		**72**	**231**	**304**
Other operating SCR movement		**339**	**161**	**499**
	Savings & Asset management	69	—	69
	Heritage	270	—	270
	Ring-fenced With-Profits Fund	—	161	161
Total operating SCR movement		**411**	**392**	**803**
	Market movements	(403)	(749)	(1,152)
	Restructuring	—	—	—
	Tax	43	30	73
Total SCR movement from continuing operations		**51**	**(327)**	**(276)**
SCR movement from discontinued operations		—	—	—
Total SCR movement before dividends and capital movements		**51**	**(327)**	**(276)**
Dividends & capital movements		—	—	—
Total Movement in SCR (recalculated TMTP)		**51**	**(327)**	**(276)**
Adjust for latest regulatory approved TMTP		20	—	20
SCR as at 31 December 2020		**(5,107)**	**(4,895)**	**(10,002)**

Note that in the above table, the SCR is presented as negative, therefore a positive value above represents a fall in the SCR and therefore an increase in surplus.

The reasons for the movement in the Shareholder business are:

- An Underlying SCR movement of £72 million due to partially offsetting impacts from the reduction in capital as the business runs off and the increase in capital as new business, mainly PruFund, is written.
- Other operating items resulting in an SCR movement of £339 million. The most significant being Management actions of £289 million.
- A £(403) million movement in SCR due to market movements over the period driven by a fall in interest rates increasing the capital on annuity business.
- A £43 million movement in SCR mainly due to the additional capacity available to offset future tax credits against past tax charges.

The reasons for the movement in the With-Profits Fund business are:

- An Underlying SCR movement of £231 million during the period which reflects a £342 million release of capital requirements as the in-force business runs off, offset by £110 million additional capital requirements in respect of new business written over the period.
- Other operating items resulting in an SCR movement of £161 million , primarily as a result of model developments and management actions.
- A £(749) million movement in SCR due to market movements over the period, primarily driven by falls in interest rates and narrowing credit spreads.
- A £30 million movement in SCR driven by the increase in the corporation tax assumption from 17% to 19%.

E.2.2.1 Loss-absorbing capacity of deferred tax

The SCR involves the calculation of the amount of capital required to ensure the company can withstand a 1-in-200 adverse event in the year following the valuation date. Such an event would inevitably lead to taxable losses, but these taxable losses could in part be mitigated by offset against profits as permitted by tax law or establishing deferred tax assets. Solvency II requirements permit the basic SCR to be adjusted for the loss-absorbing capacity of deferred tax ("LADT").

In the Solvency II Pillar 1 valuation for the Company as at 31 December 2020, the SCR for Shareholder business has been reduced by an adjustment for LADT of £422 million (2019: £371 million).

In calculating the adjustment for LADT, the recoverability of deferred tax assets under the stress scenario has been demonstrated by offsetting against:

- Unutilised deferred tax liabilities (to the extent there are any).
- Carry back relief against prior year profits.
- Unutilised taxable profits of the year of shock.

- Unutilised post-stress taxable future profits.
- Expected profits from future premiums excluded under Solvency II contract boundary rules.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

(Unaudited)

The Company has not used the duration-based equity risk sub-module in the calculation of its SCR as it is a standard formula approach and not applicable to an internal model firm.

E.4 Differences between the standard formula and the internal model

(Unaudited)

E.4.1 Overview

The Company's internal model, which is consistent with the requirements of the Solvency II Directive, is a key risk management tool and refers to the collection of systems and processes used to identify, monitor and quantify risks for the purpose of calculating the Solvency II solvency capital requirement and economic capital requirements. This is a risk-based measure and, compared to the standard formula (as described below), has the advantage of better reflecting the specifics of the Company's business and risks.

The standard formula capital refers to the capital that is calculated in line with the standard formula rules provided by the Solvency II Directive. Even though the standard formula, as part of Solvency II, represents a risk-based measure, it is based on a set of prescribed parameters, calibrated for European insurers and therefore it does not fully reflect the characteristics of the Company and the specific structure and risks the Company is exposed to.

One of the tests for approval of the Internal Model relates to the ability of the Company to demonstrate on an ongoing basis that the Internal Model is widely used and plays an important role in the system of governance ("the use test"). Satisfying this test demonstrates to the PRA (and other supervisory authorities) that management have confidence in the Internal Model and are actively using its outputs. For the Company, the framework for use test compliance is part of the Internal Model governance framework (refer to Section B.3.3). It sets out areas of risk-based decision making or risk-related considerations where the Internal Model should be considered to demonstrate that it is widely embedded and is used within the business. These areas include reserving and regulatory capital; strategic and business planning; capital management; investment strategy; external relations; risk management; product management; and remuneration. Evidence of use in these areas by the Company throughout 2020 has been demonstrated as part of an annual attestation process, as required by the framework.

E.4.2 Internal model application

As part of the demerger process, a Major Model Change application was made to the PRA to amend the existing internal model to apply at the level of M&G plc, rather than at the level of Prudential plc group. This focused on changes to the governance and risk management frameworks around the model at the point of demerger in October 2019. Approval was given to use a full Internal Model, in accordance with Solvency II regulations, to calculate the consolidated M&G plc Group SCR and solo entity SCR for PAC, PPL and PIA. From 31 December 2020, the solo entity SCR for PIA will be calculated using the standard formula.

As required in the Solvency II regulations, the solvency capital requirement from the approved internal model is calculated as the value-at-risk of the basic own funds of an (re)insurance undertaking at a confidence level of 99.5 per cent over a one-year period. The main risk categories allowed for in the internal model are shown in Section E.2.2. Within these categories, underlying "risk drivers" are specified as the result of an annual risk identification process. A model is defined and calibrated for each underlying risk driver and these are combined with an appropriate dependency structure and simulated to generate multiple thousands of combined risk scenarios. These risk scenarios are applied to all the assets and liabilities of the Company (for each entity within the scope of the internal model) to generate a wide range of possible outcomes. For simplicity, and to avoid circularity, the risk margin is held constant in all these risk scenarios. The resulting probability distribution is used to calculate the internal model solvency capital requirement, by subtracting the 99.5th worst percentile outcome from the unstressed balance sheet.

The data used in the internal model covers the following:

- liability data;
- asset data;
- finance data;
- operational risk data;
- policyholder data;
- data used in setting assumptions, including demographic, economic and other; and
- other relevant data required by the internal model and technical provisions.

The quality of the data is subject to the internal model data quality framework to ensure the accuracy, completeness, appropriateness and timeliness of the data.

E.4.3 Internal model vs standard formula

Key differences between the calculation of the internal model SCR and the standard formula SCR include:

- Whereas the standard formula stresses and correlations are prescribed, the internal model risk scenarios reflect the Company's specific risk profile and are derived from a combination of data analysis and expert judgement, subject to the internal model tests and standards required by the Solvency II Directive (see further detail in Figure 42 below).
- Although the same broad risk categories are used to group risk drivers in the internal model, the internal model risk drivers within each category are typically much more granular than the broad risk categories considered under the standard formula. For example, the internal model risk drivers typically vary by country, as well as by other attributes of the risk, whereas many of the standard formula stresses do not vary by country.
- The internal model also covers some risks that are not included in the standard formula (for example, equity implied volatility risk, interest rate implied volatility risk and government bond spread risk).
- The internal model SCR is derived by combining underlying risk drivers together into combined stress scenarios, and then ranking the outcomes of applying these stress scenarios to the Company's balance sheet to derive the 99.5th worst

percentile outcome. Conversely, the standard formula SCR is derived by calculating the impact on the balance sheet of each prescribed stress separately and then aggregating these outcomes using prescribed correlation matrices. Therefore, the internal model allows for the impact on the balance sheet of combinations of risks occurring together, whereas the standard formula does not allow for interaction effects when risks occur simultaneously.

- The internal model allows for the matching adjustment ring-fenced portfolio to vary in each risk scenario, reflecting changes in the value of the corresponding liabilities. Therefore, diversification is allowed for between risks inside and risks outside the matching adjustment portfolio. Conversely, because the standard formula does not consider the impacts of combinations of risks occurring together, it requires that no diversification is recognised between risks inside the matching adjustment portfolio and risks outside the matching adjustment portfolio.

Figure 42: Overview of standard formula and internal model differences

Risk category	Standard formula	Internal model
Equity	Stresses vary between "Type 1" (listed EEA and OECD stocks) and "Type 2" (other countries, unlisted equities and alternative equity investments). A symmetric adjustment is applied to the level of stress to smooth out significant movements in markets close to the calculation date.	The model includes more granular stresses with calibrations set for each main equity benchmark index. At least one equity index is calibrated for each relevant global economy. Private equity, infrastructure equity and hedge funds are modelled using specific calibrations. Equity implied volatility is also modelled. No symmetric adjustment is applied.
Credit	For corporate bonds, loans and non-exempt sovereign bonds, credit risk is modelled by stressing credit spreads, with stresses varying by rating and duration bucket. European sovereign bonds are exempt from stress. The matching adjustment is allowed for by a factor-based reduction of the spread stresses by rating.	Credit spreads, ratings migrations, defaults and fundamental spreads (for the UK matching adjustment portfolio) are all explicitly modelled. The spread stresses vary by credit rating, with calibrations differentiated by economy, product and duration bucket where appropriate. Internal credit assessments are used for bonds and loans without an agency rating and to uplift stresses for assets where structuring introduces additional risk. Spread stresses are applied to sovereign bonds, taking into account the credit risk of the issuing government. The matching adjustment is calculated dynamically based on the bond yields and fundamental spread being modelled in each risk scenario.
Yields	Interest rate stresses are defined as bi-directional stresses to the base risk-free curve which vary by term but not by country.	Stresses are calibrated for each relevant global economy, and stresses to the shapes of risk-free yield curves are modelled using an industry-standard 'principle component' methodology. Stressed curves are re-extrapolated beyond the last liquid point for each economy using the methodology specified by the PRA. Interest rate implied volatility and inflation risk are also modelled.
Property	There is a single property stress applied globally to the value of all assets classified as property.	Property stresses are differentiated by type of property, with separate calibrations for commercial and residential property. The model also separates the risks relating to contractually fixed rental income from that relating to capital growth where this is relevant for the matching adjustment.
Currency	A pair of up and down stresses is applied to the non-GBP net asset value in each business, and then aggregated. This approach also implicitly captures any asset-liability currency mismatch in each country.	A calibration is derived for each currency relative to GBP. Currency outcomes are simulated and used to translate all assets and liabilities into sterling in each risk scenario, thereby including the effect of currency "translation" as well as asset-liability currency mismatches within countries.
Concentration	The capital charge is based on the relative size of individual exposures as a proportion of the overall asset portfolio. Some non-EEA sovereigns are included, depending on their credit rating.	A similar approach is used as for the standard formula, with a more risk-based approach adopted for Asia sovereigns.
Counterparty default risk	Counterparty default risk is calculated taking into account the loss-given-default and probability of default, using fixed factors. Separate parameters and different aggregation approaches are applied for Type 1 exposures (e.g. derivatives, reinsurance, deposits) compared to Type 2 exposures (e.g. receivables from intermediaries).	A stochastic portfolio model (calibrated by credit rating) is used to capture counterparty risk, allowing for stochastic default and recovery rates. The model allows for counterparty exposures to increase under stressed conditions arising from other market and insurance risks.

Risk category	Standard formula	Internal model
Lapse	Policyholder lapse rates are stressed in both directions and a mass lapse stress is also applied. The capital charge is based on the largest of these impacts. The stresses are fixed for all countries and products (except for "group policies" which have a higher capital charge).	The lapse calibration is more granular and includes stresses to lapse assumptions and mass lapses. The stresses vary by product type as appropriate.
Longevity	A downward stress to mortality rates is applied to all relevant business.	The longevity calibration is more granular and includes stresses to base mortality rates and longevity trend assumptions separately. Calibrations are differentiated by gender, different blocks of business as appropriate, and other risk factors.
Mortality & Life catastrophe	An increase in best estimate mortality rates and an instantaneous catastrophe risk stress are applied to all relevant business.	The mortality calibration allows for stresses to both best estimate mortality rates and catastrophe risks.
Morbidity	An increase in long-term morbidity rates is applied, including a reduction in morbidity recovery rates. The same stresses apply for all relevant business.	An increase to the best estimate morbidity rates for all future years.
Expense	Both the level of expenses and level of expense inflation are stressed under the standard formula. The same stresses apply to all business.	Expense level and expense inflation risks are modelled, with stresses calibrated by product type where appropriate.
Operational	Operational risk is calculated using a factor based approach applied to premiums, technical provisions and unit linked expenses.	Individual operational risks are assessed bottom-up, and modelled using a frequency-severity model. These are combined with correlation assumptions to produce aggregate probability distributions of potential operational losses.

E.4.4 Probability Distribution used in Internal Model

The internal model calibrations are primarily based on historical data, with expert judgements applied where required.

E.5 Non-compliance with the MCR and the SCR

The Company's SCR and MCR have been met during 2020.

E.6 Any other information

There is no other material information regarding the Company's capital management other than those disclosed in the sections above.

Appendix A - List of subsidiaries and related undertakings

The following is a list of subsidiaries and related undertakings of the Company at 31 December 2020.

(i) Direct subsidiary undertakings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Cardinal Distribution Park Management Limited	Ordinary Shares	66 %	United Kingdom	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford General Partner Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Limited Partnership	Limited partnership interest	50 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
CJPT Real Estate Inc.	Ordinary Shares	100 %	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway JV Limited	Ordinary Shares	50 %	United Kingdom	40 Broadway, London, SW1H 0BT, UK
Cribbs Mall Nominee (1) Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Edger Investments Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
EF IV Schoolhill GP Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Fort Kinnaird Limited Partnership	Limited Partnership Interest	50 %	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	Ordinary Shares	50 %	United Kingdom	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
The Greenpark (Reading) Limited Partnership	Limited Partnership Interest	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Manchester JV Limited	Ordinary Shares	50 %	United Kingdom	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Minster Court Estate Management Limited	A Ordinary Shares and B Ordinary Shares	56 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	Ordinary Shares	99 %	USA	300 E Lombard Street, Baltimore, MD 21202, USA
Optimus Point Management Company Limited	Ordinary Shares	52 %	United Kingdom	Barrat House, Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPMC First Nominees Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Investment (Luxembourg) 2 S.à.r.l.	Ordinary shares	100 %	Luxembourg	16 Boulevard Royal, L-2449, Luxembourg
Prudential Loan Investments SCSp	Limited partnership interest	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
PAP Trustee Pty Limited	Unclassified Shares	100 %	Australia	Level 17 Tower One, International Towers, Barangaroo, Sydney, NSW 2000, Australia
Prudential Real Estate Investments 1 Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Real Estate Investments 3 Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Schoolhill Sarl	Ordinary Shares	100 %	Luxembourg	20, rue de la Poste, Luxembourg
Smithfield Limited	Has both £1.00 Ordinary Shares and $1.00 Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Three Snowhill Birmingham S.a.r.l.	Ordinary Shares	100 %	Luxembourg	5, rue Guilllaume Kroll, L-1882, Luxembourg
Two Snowhill Birmingham S.a.r.l.	Ordinary shares	100 %	Luxembourg	5, rue Guilllaume Kroll, L-1882, Luxembourg
Vanquish Properties LP Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Wessex Gate Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Insurance

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

Pension

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

Holding company

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

Mortgage lending

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

Financing

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

Service

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

Dormant

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

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

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
ANRP II (AIV VI FC), L.P.	Limited Partnership Interest	43 %	Cayman Islands	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
BWAT Retail Nominee (1) Limited	A Ordinary Shares	50 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	A Ordinary Shares	50 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford (Nominee A) Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford (Nominee B) Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford Investments Unit Trust	Ordinary Shares	100 %	Jersey	13 Castle Street, St Helier, JE4 5UT, Jersey
Centaurus Retail LLP	Limited Partnership Interest	50 %	United Kingdom	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	Limited partnership interest	46 %	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	Limited partnership interest	46 %	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	Limited partnership interest	45 %	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	Limited partnership interest	37 %	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	Limited partnership interest	33 %	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
China Bond Fund	Units	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
CJPT Real Estate No. 1 Trust	Ordinary Shares	100 %	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	Ordinary Shares	100 %	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway Merchants Association Limited	Limited by Guarantee	20 %	United Kingdom	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Debt Investments Opportunities IV	Class D securities	26 %	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Eastspring Investments - Asian Local Bond Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Smaller Companies Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Total Return Bond Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Developed and Emerging Asia Equity Fund	Ordinary shares	79 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Customized Equity Fund	Ordinary Shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Dynamic Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Japan Smaller Companies Fund	Ordinary Shares	60 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	Ordinary Shares	51 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity FUND	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Equity Income Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Episode Inc	Class A B C shares	94 %	Cayman Islands	Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands
Folios III Designated Activity Company	Ordinary Shares	49 %	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	Ordinary Shares	77 %	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	Ordinary Shares	50 %	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
HCR Canary Fund	Limited Partner	100 %	USA	300 ATLANTIC STREET SUITE 600 STAMFORD CT 06901
Infracapital Greenfield Partners I LP	Limited Partnership Interest	22 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II LP	Limited partnership interest	26 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	Limited partnership interest	33 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
KBI ACWI Equity Fund	Units	20 %	USA	KBI Global Investors (North America) Ltd, One Boston Place, 201 Washington Street Boston, MA 02108
LF Prudential European QIS Fund	Ordinary Shares	92 %	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Japanese QIS Fund	Ordinary Shares	98 %	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential North American QIS Fund	Ordinary Shares	95 %	United Kingdom	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Pacific Markets Trust Fund	Ordinary Shares	98 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	Ordinary Shares	100 %	Ireland	53 Merrion Square South, Dublin 2, D02 PR63, Ireland

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G ACS CANADA INDEX FUND	Units	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS CHINA EQUITY FUND	Units	97 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS JAPAN EQUITY FUND	Units	90 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK 200 INDEX FUND	Units	92 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK ALL SHARE INDEX FUND	Units	92 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED EQUITY FUND	Units	92 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED MID CAP FUND	Units	99 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Alternatives, SCSp - RAIF - 2020 Asian PE Fund	Limited Partnership Interest	100 %	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2020 European PE Fund	Limited Partnership Interest	100 %	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2020 PE Co-investment Fund	Limited Partnership Interest	100 %	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Asia Property Fund	A Class Shares	45 %	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G Corporate Bond Fund	Ordinary shares	34 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	Ordinary Shares	22 %	United Kingdom	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Dividend Fund	Ordinary shares	58 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European High Yield Credit Investment Fund	Ordinary Shares	27 %	Luxembourg	80, route d'Esch, L-1470, Luxembourg
M&G European Property Fund SICAV-FIS	Ordinary Shares	39 %	Luxembourg	16 Boulevard Royal, L-2449, Luxembourg
M&G European Select Fund	Ordinary Shares	43 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Gilt & Fixed Interest Income Fund	Ordinary shares	59 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global High Yield Bond	Units	45 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global High Yield ESG Bond Fund	Units	63 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Positive Impact Fund	Ordinary Shares	29 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) - M&G Global Convertibles Fund	Ordinary Shares	66 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Lux Emerging Markets Bond Fund	Units	44 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Pan European Select Smaller Companies Fund	Units	34 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI Partnership 2018 LP	Limited Partnership Interest	100 %	United Kingdom	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Sustainable Multi Asset Fund	Ordinary Shares	69 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Companies Financing Fund II LP	Limited partnership interest	48 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Fund	Ordinary Shares	98 %	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G UK Residential Property Fund	Limited Partnership Interest	26 %	Luxembourg	34-38, avenue de la Liberté, L-1931, Luxembourg
MCF S.r.l.	Ordinary shares	45 %	Italy	Via Montenapoleone 29 CAP, 20121, Milan, Italy
Old Kingsway LP	Limited Partnership Interest	100 %	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
PPM America Private Equity Fund III LP	Limited Partnership Interest	50 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	Limited Partnership Interest	50 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	Limited Partnership Interest	50 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	Limited Partnership Interest	40 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	Limited Partnership Interest	46 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
Property Partners (Two Rivers) Limited	Ordinary Shares	50 %	United Kingdom	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Prudential Credit Opportunities SCSp	Limited Partner	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities 2	Ordinary Shares	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
LF Prudential Risk Managed Active 2	Ordinary Shares	26 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 3	Ordinary Shares	27 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 4	Ordinary Shares	36 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 5	Ordinary Shares	32 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Passive Fund 1	Ordinary Shares	47 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Passive Fund 3	Ordinary Shares	22 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	Limited partnership interest	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential UK Real Estate General Partner Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	Limited Partnership Interest	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential UK Real Estate Nominee 2 Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential/M&G UK Companies Financing Fund LP	Limited partnership interest	32 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	Limited Partnership Interest	100 %	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Sectordate Limited	Ordinary Shares	33 %	United Kingdom	1st Floor, Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park Limited Partnership	Limited Partnership Interest	63 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2005 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2006 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	Limited Partnership Interest	100 %	Guernsey	1 Carter Lane, London, EC4V 5ER, UK
SKY Fund I LP	Limited Partner	99 %	Cayman Islands	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SKY I Intermediate LP	Limited Partner	71 %	Cayman Islands	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SMLLC	Limited Partnership Interest	100 %	USA	1209 Orange Street, Wilmington, DE 19801, USA
St Edward Homes Limited	Ordinary Shares	50 %	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	Limited Partnership Interest	50 %	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
The Car Auction Unit Trust	Ordinary shares	49 %	Guernsey	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
The Project Hoxton LP	Limited Partnership Interest	100 %	United Kingdom	12 Throgmorton Avenue, London, EC2N 2DL, UK
The Strand Property Unit Trust	Limited Partnership Interest	50 %	Jersey	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	Ordinary shares	50 %	Jersey	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
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

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Vanquish Properties GP Nominee 1 Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 2 Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 3 Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 4 Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee A Limited	Ordinary Shares	100 %	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Via Lodovico SRL	Ordinary Shares	100 %	Italy	Via Alessandro Manzoni n.38, Milano, Italy
WFH Investments LLC	Equity & Debt	91% voting 50% NAV/ economic	USA	2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808
Wynnefield Private Equity Partners II, L.P.	Limited Partnership Interest	99 %	USA	1209 Orange Street, Wilmington, DE 19801, USA

Service

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

In liquidation

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

Appendix B: QIS Waiver

The Financial Conduct Authority, on the application of The Prudential Assurance Company Limited (the firm), made a direction on 10 February 2021 under section 138A of the Financial Services and Markets Act 2000. The effect of the direction is to enable the firm to contract to pay benefits under linked long term contracts relating to;

(i) Ex-Prudential Holborn Life Limited ("PHL") funds in The Prudential Assurance Company Limited ("PAC") (Prudential European, Prudential International, Prudential Managed, Prudential Strategic Growth, Prudential Japanese, Prudential North American and Prudential Equity (Life only);

(ii) Ex-Scottish Amicable Life ("SAL") funds in PAC (Prudential European, Prudential International, Prudential Managed, Prudential Japanese, Prudential North American and Prudential Equity (Life only);

(iii) Ex-Scottish Amicable Life ("SAL") funds in PAC (Prudential European, Prudential International, Prudential Managed, Prudential Japanese, Prudential North American and Prudential Equity (Pension only);

(iv) Ex-M&G funds in PAC (Pru Equity Pension fund (ex M&G), Pru Equity Life fund (ex M&G), Pru Managed life fund (ex M&G) Pru Managed pension fund (ex M&G) and Pru Personal Pension fund (ex M&G) (Life & Pension); and

(v) PAC fund (Prufund Managed Fund) which are themselves determined, either wholly or partly, by reference to units in the LF Prudential European QIS Fund, LF Prudential Japanese QIS Fund, LF Prudential North American QIS Fund, and LF Prudential UK Growth QIS Fund provided that each of these funds comply with the requirements of provisions implementing the Directive 2009/65/EC or would do if they were subject to those provisions and with certain other conditions.

Appendix C: Statement of directors' responsibilities

The Directors of The Prudential Assurance Company Limited acknowledge their responsibility for preparing the Solo SFCR in all material respects in accordance with the PRA rules and Solvency II Regulations.

The directors are satisfied that:

(a) throughout the financial year to 31 December 2020, the Company has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable at the level of the Company; and

(b) it is reasonable to believe that in respect of the period from 31 December 2020 to the date of the publication of the SFCR, the Company has continued to comply and therefore will continue to comply for the remainder of the financial year to 31 December 2021.

Signed on behalf of the Board of Directors

Paul Cooper

Director

6 April 2021

Appendix D: Independent Auditor's Report

Report of the external independent auditor to the Directors of The Prudential Assurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by **The Prudential Assurance Company Limited** as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of The Prudential Assurance Company Limited as at 31 December 2020, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01, S.28.02.01 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.19.01.21, S.25.03.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of The Prudential Assurance Company Limited as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

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

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and solvency over this period were:

- adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Company's investments that require judgement, wider credit spreads and defaults and valuation of best estimate liabilities due to the impact of these market movements; and
- severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Company (such as banks and reinsurers) to meet commitments that could give risk to a negative impact on the Company's financial position, increased liquidity which also adds to uncertainty over the accessibility of financial resources and

may reduce capital resources as valuations decline and the impact of Brexit on the economic environment and the resulting impact on the Company's capital resources.

We considered whether these risks could plausibly affect the solvency and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the Audit Committee, internal audit, legal, risk and compliance and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, Audit Committee and risk committee meeting minutes;
- considering remuneration incentive schemes and performance targets for management and directors, including short term investment and long term investment plan;
- using analytical procedures to identify any usual or unexpected relationships;
- reviewing the audit misstatements from prior period to identify fraud risk factors;
- using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Company; and
- inspecting correspondence with regulators to identify instances or suspected instances of fraud.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit of the Solvency and Financial Condition Report.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of best estimate liabilities and valuation of investments that require judgment.

We also identified a fraud risk related to:

- the valuation of best estimate liabilities in response to the required significant judgement over uncertain future outcomes, being the ultimate total settlement value of long-term policyholder liabilities; and
- the valuation of investments that require judgment in response to the high degree of estimation uncertainty due to the illiquid positions within the financial investments portfolio and lack of a readily available observable price.

We also performed procedures including:

- assessing significant accounting estimate for bias; and
- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised personnel, those posted with unusual dates or descriptions and those posted with unusual account combinations.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Solvency and Financial Condition Report from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and have discussed the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit of the Solvency and Financial Condition Report.

The potential effect of these laws and regulations on the Solvency and Financial Condition Report varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Solvency and Financial Condition Report, including financial reporting legislation (including related companies legislation), PRA Rules and Solvency II regulations, distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Solvency and Financial Condition Report items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Solvency and Financial Condition Report for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified Solvency II Own Funds as those most likely to have such an effect recognising the financial and regulated nature of the Company's activities. Auditing standards limit the

required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit of the Solvency and Financial Condition Report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Solvency and Financial Condition Report, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Solvency and Financial Condition Report, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report 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 in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A fuller description of our responsibilities is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Company's statutory financial statements. 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 in this regard.

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

This report of the external auditor is made solely to the Company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not

accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Ben Priestley
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
6 April 2021

Appendix E: Relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of template S.02.01.02:

- Row R0090: Amount of transitional measure on technical provisions in relation to the technical provisions of Prudential Pensions Limited and the amount of risk margin in relation to the technical provisions of Prudential International Assurance plc and Prudential Pensions Limited
- Row R0550: Technical provisions - non-life (excluding health) - risk margin
- Row R0590: Technical provisions - health (similar to non-life) - risk margin
- Row R0640: Technical provisions - health (similar to life) - risk margin
- Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
- Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

The following elements of template S.12.01.02

- Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
- Rows R0110 to R0130 - Amount of transitional measure on technical provisions

The following elements of template S.17.01.02

- Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
- Rows R0290 to R0310 - Amount of transitional measure on technical provisions

The following elements of template S.22.01.21

- Column C0030 - Impact of transitional measure on technical provisions
- Row R0010 - Technical provisions
- Row R0020 - Adjustment for restricted own fund items in respect of ring fenced funds of the Company
- Row R0090 - Solvency Capital Requirement

The following elements of template S.23.01.01

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.02.01

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as ‘Unaudited’.

Quantitative Reporting Templates (QRTs)

S.02.01.02 Balance Sheet

All amounts are in £'000

		Solvency II value
	Assets	C0010
R0030	Intangible assets	—
R0040	Deferred tax assets	—
R0050	Pension benefit surplus	40,460
R0060	Property, plant & equipment held for own use	7,989
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	149,035,536
R0080	Property (other than for own use)	8,080,753
R0090	Holdings in related undertakings, including participations	25,469,244
R0100	Equities	34,004,690
R0110	Equities - listed	33,988,620
R0120	Equities - unlisted	16,070
R0130	Bonds	64,141,568
R0140	Government Bonds	14,390,031
R0150	Corporate Bonds	46,026,779
R0160	Structured notes	—
R0170	Collateralised securities	3,724,759
R0180	Collective Investments Undertakings	10,436,866
R0190	Derivatives	5,556,528
R0200	Deposits other than cash equivalents	1,345,886
R0210	Other investments	—
R0220	Assets held for index-linked and unit-linked contracts	7,299,949
R0230	Loans and mortgages	18,774,069
R0240	Loans on policies	1,980
R0250	Loans and mortgages to individuals	1,707,653
R0260	Other loans and mortgages	17,064,435
R0270	Reinsurance recoverables from:	17,835,609
R0280	Non-life and health similar to non-life	132,318
R0290	Non-life excluding health	132,318
R0300	Health similar to non-life	—
R0310	Life and health similar to life, excluding index-linked and unit-linked	11,825,843
R0320	Health similar to life	(3,994)
R0330	Life excluding health and index-linked and unit-linked	11,829,837
R0340	Life index-linked and unit-linked	5,877,447
R0350	Deposits to cedants	—
R0360	Insurance and intermediaries receivables	18,183
R0370	Reinsurance receivables	18,284
R0380	Receivables (trade, not insurance)	2,238,168
R0390	Own shares (held directly)	—
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	—
R0410	Cash and cash equivalents	2,359,783
R0420	Any other assets, not elsewhere shown	—
R0500	**Total assets**	197,628,030

S.02.01.02 Balance Sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	132,362
R0520	Technical provisions - non-life (excluding health)	132,362
R0530	TP calculated as a whole	—
R0540	Best Estimate	132,362
R0550	Risk margin	—
R0560	Technical provisions - health (similar to non-life)	—
R0570	TP calculated as a whole	—
R0580	Best Estimate	—
R0590	Risk margin	—
R0600	Technical provisions - life (excluding index-linked and unit-linked)	152,157,144
R0610	Technical provisions - health (similar to life)	(4,070)
R0620	TP calculated as a whole	—
R0630	Best Estimate	(4,310)
R0640	Risk margin	240
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	152,161,214
R0660	TP calculated as a whole	—
R0670	Best Estimate	150,825,915
R0680	Risk margin	1,335,299
R0690	Technical provisions - index-linked and unit-linked	13,171,768
R0700	TP calculated as a whole	—
R0710	Best Estimate	13,148,970
R0720	Risk margin	22,798
R0740	Contingent liabilities	—
R0750	Provisions other than technical provisions	79,145
R0760	Pension benefit obligations	106,179
R0770	Deposits from reinsurers	343,606
R0780	Deferred tax liabilities	661,361
R0790	Derivatives	3,093,372
R0800	Debts owed to credit institutions	3,333,293
R0810	Financial liabilities other than debts owed to credit institutions	27,398
R0820	Insurance & intermediaries payables	726,531
R0830	Reinsurance payables	96,404
R0840	Payables (trade, not insurance)	3,085,463
R0850	Subordinated liabilities	—
R0860	*Subordinated liabilities not in BOF*	—
R0870	*Subordinated liabilities in BOF*	—
R0880	Any other liabilities, not elsewhere shown	—
R0900	Total liabilities	177,014,026
R1000	Excess of assets over liabilities	20,614,004

S.05.01.02 Premiums, claims and expenses by line of business

All amounts are in £'000

Life		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	14,876	4,756,239	443,697	246,543				569,942	6,031,298
R1420	Reinsurers' share	1,697	306	312,260	899,636				748	1,214,646
R1500	Net	13,180	4,755,934	131,437	(653,092)				569,194	4,816,652
	Premiums earned									
R1510	Gross	14,876	4,756,239	443,697	246,543				569,942	6,031,298
R1520	Reinsurers' share	1,697	306	312,260	899,636				748	1,214,646
R1600	Net	13,180	4,755,934	131,437	(653,092)				569,194	4,816,652
	Claims incurred									
R1610	Gross	5,152	8,185,017	1,332,232	2,821,230				520,870	12,864,501
R1620	Reinsurers' share	2,600	1,092	519,110	1,647,537				266	2,170,605
R1700	Net	2,552	8,183,925	813,122	1,173,694				520,603	10,693,896
	Changes in other technical provisions									
R1710	Gross	(31,702)	163,317	280,553	179,939				(221,686)	370,422
R1720	Reinsurers' share	(31,017)	—	(127,719)	200,223				2,656	44,143
R1800	Net	(685)	163,317	408,273	(20,284)				(224,342)	326,279
R1900	Expenses incurred	2,003	634,872	123,532	146,334				30,003	936,744
R2500	Other expenses									77,832
R2600	Total expenses									1,014,576

S.05.01.02 Premiums, claims and expenses by line of business

All amounts are in £'000

	Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business																	—
R0120	Gross - Proportional reinsurance accepted																	—
R0130	Gross - Non-proportional reinsurance accepted																	—
R0140	Reinsurers' share																	—
R0200	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Premiums earned																	
R0210	Gross - Direct Business																	—
R0220	Gross - Proportional reinsurance accepted																	—
R0230	Gross - Non-proportional reinsurance accepted																	—
R0240	Reinsurers' share																	—
R0300	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Claims incurred																	
R0310	Gross - Direct Business				8,413				556									8,969
R0320	Gross - Proportional reinsurance accepted																	—
R0330	Gross - Non-proportional reinsurance accepted																	—
R0340	Reinsurers' share				8,413				556									8,969
R0400	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	—
R0420	Gross - Proportional reinsurance accepted																	—
R0430	Gross - Non-proportional reinsurance accepted																	—
R0440	Reinsurers' share																	—
R0500	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
R0550	Expenses incurred																	—
R1200	Other expenses																	
R1300	Total expenses																	—

S.12.01.02 Life and Health SLT Technical Provisions

All amounts are in £'000

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	Technical provisions calculated as a whole	—	—			—			—	—	—	—			—	—	—
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	—	—			—			—	—	—	—			—	—	—
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	Gross Best Estimate	103,481,883		12,642,669	506,301		26,465,209	13,206,654	—	7,672,169	163,974,885		3,198	(7,508)	—	—	(4,310)
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	—		5,877,461	(14)		8,746,194	3,085,055	—	(1,412)	17,707,284		(3,994)	—	—	—	(3,994)
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	103,481,883		6,765,208	506,315		17,719,016	10,121,599	—	7,673,580	146,267,601		7,191	(7,508)	—	—	(316)
R0100	Risk margin	1,161,855	87,099			2,817,511			—	65,972	4,132,437	240			—	—	240
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	—	—			—			—	—	—	—			—	—	—
R0120	Best estimate	—		—	—		—	—	—	—	—		—	—	—	—	—
R0130	Risk margin	(749,877)	(64,301)			(1,915,928)			—	(44,235)	(2,774,340)	—			—	—	—
R0200	Technical provisions - total	103,893,862	13,171,768			40,573,447			—	7,693,905	165,332,982	(4,070)			—	—	(4,070)

S.17.01.02 Non-Life Technical Provisions

All amounts are in £'000

		Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0180
R0010	Technical provisions calculated as a whole													—
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole													—
	Technical provisions calculated as a sum of BE and RM													
	Best estimate													
	Premium provisions													
R0060	Gross													—
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default													—
R0150	Net Best Estimate of Premium Provisions													—
	Claims provisions													
R0160	Gross				19,578				112,784					132,362
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				19,569				112,749					132,318
R0250	Net Best Estimate of Claims Provisions				8				35					43
R0260	Total best estimate - gross				19,578				112,784					132,362
R0270	Total best estimate - net				8				35					43
R0280	Risk margin				0				0					0
	Amount of the transitional on Technical Provisions													
R0290	Technical Provisions calculated as a whole													0
R0300	Best estimate													0
R0310	Risk margin													0
R0320	Technical provisions - total				19,578				112,784					132,362
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total				19,569				112,749					132,318
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total				8				35					43

S.19.01.21 Non-Life insurance claims

Unaudited

All amounts are in £'000

Z0010 Accident year / underwriting year: 2

Gross Claims Paid (non-cumulative) (absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	(cumulative)
		—	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											3,951	3,951	3,951
R0160	N-9													
R0170	N-8													
R0180	N-7													
R0190	N-6													
R0200	N-5													
R0210	N-4													
R0220	N-3													
R0230	N-2													
R0240	N-1													
R0250	N													
R0260													Total	

Gross undiscounted Best Estimate Claims Provisions (absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360 (discounted
		Development year											
		—	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											132,362	124,322
R0160	N-9												
R0170	N-8												
R0180	N-7												
R0190	N-6												
R0200	N-5												
R0210	N-4												
R0220	N-3												
R0230	N-2												
R0240	N-1												
R0250	N												
R0260												Total	

S.22.01.21 Impact of long term guarantees measures and transitionals

All amounts are in £'000

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	165,461,273	2,774,340	—	—	2,848,939
R0020	Basic own funds	13,612,782	(1,243,792)	—	—	(1,570,585)
R0050	Eligible own funds to meet Solvency Capital Requirement	13,612,782	(1,243,792)	—	—	(1,570,585)
R0090	Solvency Capital Requirement	10,001,731	239,499	—	—	3,335,317
R0100	Eligible own funds to meet Minimum Capital Requirement	13,612,782	(1,243,792)	—	—	(1,570,585)
R0110	Minimum Capital Requirement	2,500,433	59,875	—	—	833,829

S.23.01.01 Own Funds

All amounts are in £'000

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	329,517	329,517		—	
R0030	Share premium account related to ordinary share capital	—	—		—	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	—	—		—	
R0050	Subordinated mutual member accounts	—		—	—	—
R0070	Surplus funds	12,727,380	12,727,380			
R0090	Preference shares	—		—	—	—
R0110	Share premium account related to preference shares	—		—	—	—
R0130	Reconciliation reserve	555,885	555,885			
R0140	Subordinated liabilities	—		—	—	—
R0160	An amount equal to the value of net deferred tax assets	—				—
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	—	—	—	—	—
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	—				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	—	—	—	—	
R0290	Total basic own funds after deductions	13,612,782	13,612,782	—	—	—
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	—			—	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	—			—	
R0320	Unpaid and uncalled preference shares callable on demand	—			—	—
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	—			—	—
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	—			—	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	—			—	—
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—			—	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—			—	—
R0390	Other ancillary own funds	—			—	—
R0400	Total ancillary own funds	—			—	—
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	13,612,782	13,612,782	—	—	—
R0510	Total available own funds to meet the MCR	13,612,782	13,612,782	—	—	
R0540	Total eligible own funds to meet the SCR	13,612,782	13,612,782	—	—	—
R0550	Total eligible own funds to meet the MCR	13,612,782	13,612,782	—	—	
R0580	SCR	10,001,731				
R0600	MCR	2,500,433				
R0620	Ratio of Eligible own funds to SCR	136 %				
R0640	Ratio of Eligible own funds to MCR	544 %				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	20,614,004
R0710	Own shares (held directly and indirectly)	—
R0720	Foreseeable dividends, distributions and charges	—
R0730	Other basic own fund items	13,056,897
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	7,001,222
R0760	Reconciliation reserve	555,885
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	44,702
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	—
R0790	Total Expected profits included in future premiums (EPIFP)	44,702

S.25.03.21 Solvency Capital Requirement

– *for undertakings on full internal models*

Unaudited

All amounts are in £'000

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Row	C0010	C0020	C0030
1	103	Interest rate risk	1,263,636
2	104	Equity risk	3,712,303
3	106	Property risk	1,364,611
4	107	Spread risk	5,044,008
5	108	Concentration risk	—
6	109	Currency risk	2,010,932
7	110	Other market risk	—
8	199	Diversification within market risk	(4,812,372)
9	203	Other counterparty risk	394,190
10	301	Mortality risk	10,391
11	302	Longevity risk	4,024,195
12	303	Disability-morbidity risk	31,661
13	304	Mass lapse	138,437
14	305	Other lapse risk	1,489,817
15	306	Expense risk	1,406,028
16	308	Life catastrophe risk	20,648
17	309	Other life underwriting risk	—
18	399	Diversification within life underwriting risk	(3,558,972)
19	505	Other non-life underwriting risk	—
20	701	Operational risk	1,412,644
21	801	Other risks	—
22	802	Loss-absorbing capacity of technical provisions	—
23	803	Loss-absorbing capacity of deferred taxes	(1,081,380)
24	804	Other adjustments	—

S.25.03.21 Solvency Capital Requirement

- *for undertakings on full internal models*

Unaudited

All amounts are in £'000

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	12,870,777
R0060	Diversification	(2,869,046)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	—
R0200	Solvency capital requirement excluding capital add-on	10,001,731
R0210	Capital add-ons already set	—
R0220	Solvency capital requirement	10,001,731
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	(24,765,119)
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	(1,081,380)
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,825,460
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	2,886,842
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	5,289,429
R0440	Diversification effects due to RFF nSCR aggregation for article 304	—
	Approach to tax rate	
R0590	Approach based on average tax rate	Yes
	Calculation of loss absorbing capacity of deferred taxes	
R0640	Amount/estimate of LAC DT	(1,081,380)
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	(691,730)
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	(108,153)
R0670	Amount/estimate of AC DT justified by carry back, current year	(281,496)
R0680	Amount/estimate of LAC DT justified by carry back, future years	—
R0690	Amount/estimate of Maximum LAC DT	(599,948)

S.28.02.01 Minimum Capital Requirement

– Both life and non-life insurance activity

All amounts are in £'000's

		Non-life activities	Life activities
		MCR(NL,NL) Result	MCR(NL,L) Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	4	—

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
R0020	Medical expense insurance and proportional reinsurance	—	—	—	—
R0030	Income protection insurance and proportional reinsurance	—	—	—	—
R0040	Workers' compensation insurance and proportional	—	—	—	—
R0050	Motor vehicle liability insurance and proportional	8	—	—	—
R0060	Other motor insurance and proportional reinsurance	—	—	—	—
R0070	Marine, aviation and transport insurance and proportional	—	—	—	—
R0080	Fire and other damage to property insurance and	—	—	—	—
R0090	General liability insurance and proportional reinsurance	35	—	—	—
R0100	Credit and suretyship insurance and proportional	—	—	—	—
R0110	Legal expenses insurance and proportional reinsurance	—	—	—	—
R0120	Assistance and proportional reinsurance	—	—	—	—
R0130	Miscellaneous financial loss insurance and proportional	—	—	—	—
R0140	Non-proportional health reinsurance	—	—	—	—
R0150	Non-proportional casualty reinsurance	—	—	—	—
R0160	Non-proportional marine, aviation and transport	—	—	—	—
R0170	Non-proportional property reinsurance	—	—	—	—

		MCR(L,NL) Result	MCR(L,L) Result
		C0070	C0080
R0200	**Linear formula component for life insurance and**	—	(2,580,962)

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
R0210	Obligations with profit participation - guaranteed benefits	—		28,012,304	
R0220	Obligations with profit participation - future discretionary	—		82,353,734	
R0230	Index-linked and unit-linked insurance obligations	—		7,271,523	
R0240	Other life (re)insurance and health (re)insurance	—		28,629,724	
R0250	Total capital at risk for all life (re)insurance obligations		—		18,360,424

	Overall MCR calculation	C0130
R0300	Linear MCR	(2,580,957)
R0310	SCR	10,001,731
R0320	MCR cap	4,500,779
R0330	MCR floor	2,500,433
R0340	Combined MCR	2,500,433
R0350	Absolute floor of the MCR	3,338
R0400	Minimum Capital Requirement	2,500,433

	Notional non-life and life MCR calculation	C0140	C0150
R0500	Notional linear MCR	4	(2,580,962)
R0510	Notional SCR excluding add-on (annual or latest	(17)	10,001,748
R0520	Notional MCR cap	(8)	4,500,786
R0530	Notional MCR floor	(4)	2,500,437
R0540	Notional combined MCR	(8)	2,500,437
R0550	Absolute floor of the notional MCR	3,338	3,338
R0560	Notional MCR	3,338	2,500,437