

Registered No: 15454

**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

**Annual Report and Financial Statements for the Year Ended  
31 December 2021**

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

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

**Registered office: 10 Fenchurch Avenue, London EC3M 5AG**

CONTENTS	Page
Directors and officers	1
Strategic report	2-16
Directors' report	17-21
Statement of directors' responsibilities	22
Independent auditor's report	23-31
Profit and loss account	32-33
Statement of comprehensive income	34
Statement of changes in equity	35
Balance sheet	36-37
Notes on the financial statements	38-104

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

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

Mr C P Adamson  
Ms C J Bousfield  
Mr R S Bowie (Chairman)  
Mr P D Cooper  
Mr J W Foley  
Ms L Fowler  
Dr I Owen  
Ms M Tannemaat  
Mr D K Watson

**Company Secretary**

Ms J A Owens

**Auditor**

KPMG LLP, London

## **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021**

### Principal activity

The principal activity of The Prudential Assurance Company Limited (the Company) in the course of 2021 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2022. Throughout 2021 the Company also owned 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's long-term products consist of life insurance, pension products and pension annuities. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits participating products, or non-participating products including annuities in payment and unit-linked products. Depending on the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

The Company's Irish subsidiary 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 2021 has been the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe. The Company's UK insurance subsidiary, Prudential Pensions Limited mainly sells unit-linked products.

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

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

### Business review

The Company has a long history of developing innovative solutions for customers' changing needs, with a brand benefiting from a strong heritage spanning over 170 years. These strong roots and a continued focus on longevity experience, long-term thinking and financial strength are highly sought after by individual savers, investors and the financial advisers looking to manage and grow their savings.

The Company's goal is to give more savers and advisers access to M&G plc's investment and capital management capabilities, in a wider range of structures and formats. Over the last few years, defined contribution pension plans have been replacing defined benefit schemes in the UK, switching the risk and responsibility for retirement provision away from the state and employers to individuals. Moreover, the introduction of pension freedoms in 2015 has given individuals more control over their own pensions, but the reforms have also introduced significant additional complexity.

To support customers in this changing environment, the Company's proposition has evolved by widening the range of products and services it offers, including advice and guidance, to mirror the flexibilities of the pensions freedom era. New business has shifted away from the annuity market, to focus on more flexible bond, ISA, pension and income drawdown products across a range of tax efficient solutions through the Company's PruFund range of products.

PruFund 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.

In 2021, PruFund reached assets under management and administration of £58.4bn (2020: £55.5bn) with positive market and other movements offsetting net client outflows of £1.3bn. These outflows were driven by increased competitive pressure due to consolidation in the market and a shift to digital post COVID-19.

Performance of PruFund and the underlying £143bn (2020:£143bn) With-Profits Fund was positive. In the first quarter of 2022, the With-Profits Fund announced a return of 12% for 2021 (2020: 2%), reflecting improved market conditions.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

Other assets under management and administration, from individual and corporate pensions, annuities, life and saving products, decreased to £117.8bn (2020: £133.7bn) mainly due to the Part VII transfer of £9.6bn non-profit annuity liabilities to Rothesay Life Plc and net client outflows of £6.9bn in the year (2020: £6.6bn), as business lines closed to new business continue to run off. The stability of the legacy book, mainly annuities and traditional with-profits policies, put the Company and its ultimate parent M&G plc in a strong position to weather any short-term market volatility.

Over the course of 2021, M&G plc continued building its advisory capabilities to offer a better and more cost effective proposition to UK, including the Company's, customers. This was achieved through a comprehensive approach spanning partnerships, organic and inorganic investments.

The Company continues to make progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and further improve stability. This involves modernising the business so that it is fit for the digital era, through significant investment in new administration systems and digitalisation. Unfortunately during the year, due to the scale and complexity of these changes, some policyholders have experienced service difficulties. The Company recognises the level of service provided in these cases was below the standards it aims to deliver, and has been making significant investment to resolve these problems.

The Company's focus on the heightened risk of scammers preying on unwary customers in times of confusion and distress continued as the COVID-19 pandemic was on going. In addition to working with regulators and industry peers to take down scams and target fraudsters, we took action to warn customers, using direct mail and emails to remind them about the increase in fraudulent activity. The Company continued to educate customers, through its websites, on how to spot scams and avoid them, as well as providing warnings on current scams. The Company also produced animations for its social media channels giving top tips on how to identify potential fraudsters, and how to report them to the Company as well as the authorities.

Strategic Direction and Corporate Transactions

*New products*

During 2021, the Company's Irish subsidiary, PIA, completed the final regulatory step permitting the group to offer a smoothed retail investment product into its European markets, modelled on the popular PruFund proposition in the UK. This offering will help bridge the gap in savings across Europe caused by ageing societies placing greater financial strain on both retirees and governments supporting them. The first subscriptions are expected in Q1 2022.

*Sustainability*

M&G plc and its subsidiary entities, including the Company, have put sustainability at the forefront of strategy, from the impact the Company has on the planet and communities, to the opportunity to influence others through leading by example. M&G plc has made company-wide commitments to both diversity and inclusion and climate change, including a pledge to reach carbon net zero as a corporate entity by 2030 and to achieve net zero carbon emissions on its total book of assets under management and administration by 2050 – in line with the Paris Agreement. As part of this, M&G plc committed in 2021 to phase out thermal coal from its public investment portfolios by 2030 for OECD and EU countries, and by 2040 for developing countries. As part of M&G plc, the Company shares the same commitments for its investment portfolio, which are now informing the investment policy and asset allocation decisions of the Company for the With-Profits Fund and the pension savings and annuity books.

Through the With-Profits Fund, the Company continued to seed new propositions, particularly to serve the increasing demand for sustainability products. For example, in July 2021, the Company launched PruFund Planet, a people and planet focused version of PruFund. The range of five funds aims to deliver positive environmental and societal outcomes along with appropriate investment returns. PruFund planet has been developed through an initial allocation of £500m from the With-Profits Fund, further demonstrating how seed capital can be deployed to accelerate development of new innovative investment strategies for the benefit of our customers.

Towards the end of 2020, the With-Profits Fund allocated £5bn to a new sustainability-oriented private assets strategy, managed by Catalyst, a global team within M&G which invests in innovative early stage private

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

companies working to create a more sustainable world. By the end of 2021, Catalyst had deployed over £650m of capital, with further committed capital of £633m, including investments in vaccine technology, carbon capture and storage, clean transport, and recycled plastics.

*Investment Strategy*

Over the course of 2021 the Company transitioned a further £21bn (2020: £5bn) of assets, principally equities, into Authorised Contractual Schemes ('ACS'), Luxembourg Fond commun de placement ('FCP') and UK OEIC funds. The transition is seeking to simplify the investment strategy, achieve lower costs by greater economies of scale, whilst protecting the interests of all groups of policyholders.

*Part VII transfer of annuity business*

On 14 March 2018, Prudential plc (the previous ultimate parent company) announced the reinsurance of a portion 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 the Company's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. The Company and Rothesay Life Plc have successfully appealed that decision in the Court of Appeal. The associated process was clarified and a further sanction hearing was held in the High Court between 8 and 10 November 2021. On 24 November 2021 the Scheme was sanctioned by the High Court and became effective on 15 December 2021. The transfer has resulted in the de-recognition of £9.6bn of reinsurance assets and £9.6bn of technical provisions, with no impact to the Long Term Business Technical Account; details are disclosed at Note 30. During the year, a loss of £16m was recognised in relation to additional premium payable under the terms of the collateralised reinsurance arrangement prior to the Part VII transfer.

*Merger of with-profits funds*

On 1 April 2021 Scottish Amicable Insurance Fund (SAIF) merged with the Company's main With-Profits Sub-Fund (WPSF) and the assets and liabilities of SAIF were combined with the WPSF. SAIF policies continue to participate in profits on a 100:0 basis with no shareholder profit transfers. The merger of SAIF with the WPSF resulted in a £110m increase in technical provisions at the point of merger, with a corresponding £110m reduction in the fund for future appropriations (FFA) due to the need to reserve for future claim enhancements on a realistic economic basis.

*Capital contribution to subsidiary undertaking*

On 29 June 2021, the Company contributed £40m of capital to PIA, one of its subsidiary undertakings, to provide PIA with increased capital flexibility.

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

## Key Performance Indicators and measurement

Key Performance Indicators	Re-presented	
	2021	2020
	£m	£m
Adjusted Operating Profit:		
With-profit shareholder transfer net of hedging	268	221
Annuities business	369	438
Unit Linked and other	4	5
<b>Total adjusted operating profit before tax</b>	<b>641</b>	<b>664</b>
Non-Operating Profit:		
Short-term fluctuations in investment returns	(548)	667
Transformation costs	(18)	(20)
<b>Total non-operating profit before tax</b>	<b>(566)</b>	<b>647</b>
<b>Profit on ordinary activities before tax</b>	<b>75</b>	<b>1,311</b>
<b>Estimated Solvency II capital surplus:</b>		
Company	3,860	3,521
Shareholder	3,860	3,521
Policyholder	7,777	6,968
<b>Estimated Solvency II coverage ratio:</b>		
Company	147%	135%
Shareholder	187%	169%
Policyholder	302%	242%

2020 figures have been re-presented. 'With profit shareholder transfer net of hedging' now includes the impact of the expense overrun which was previously disclosed within 'Unit linked and other'.

Use of Key Performance Indicators (KPIs) and definitions

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

Adjusted operating profit before tax is the Company's non-GAAP alternative performance measure, which complements UK GAAP total profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to UK GAAP profit before tax, including adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Company-wide restructuring and transformation and profits or losses arising on corporate transactions. This measure is not defined under UK GAAP and other companies may calculate such measures differently. The Company has aligned this measure to the same KPI used by M&G plc. The KPI have not been amended in 2021, rather the presentation among the rows has changed. The comparatives for 2020 have been re-presented accordingly.

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 cashflow 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

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

future UK GAAP profits, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

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

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

Total adjusted operating profit before tax

The total adjusted operating profit of £641m (2020: £664m) consists of £268m (2020: £221m) relating to the shareholder transfer and associated hedges from the with-profits fund, £369m (2020: £438m) relating to the annuities business, and a gain of £4m (2020: £5m gain) on unit-linked and other business.

The with-profits shareholder transfer increased to £366m (2020: £308m), primarily as a result of improved market conditions leading to unit price adjustments being made within PruFund and increased claims on the Company's Retirement Account product. There were fair value losses of £60m (2020: £57m loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers in the year. In addition, there was an expense overrun of £38m in 2021 (2020: £31m) due to recent lower sales volumes.

For the annuities business, assumption changes contributed £135m (2020: £184m) to adjusted operating profit, of which £125m related to changes in the longevity assumptions (2020: £217m). Both current mortality rates and future improvements assumptions based on the Company's own calibration of the Continuous Mortality Investigation (CMI) 2019 model, have been updated during 2021.

The annuities result includes a profit of £31m (2020: £38m charge) in relation to the release of the regulatory provisions for the review of past annuity sales. The Company had 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 had 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 examined whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from the Company or another pension provider. The project is now complete and the credit in 2021 reflects the release of provision no longer required.

The expected return on assets and release of margins contributed £172m (2020: £188m). Asset trading and the impact of changes in interest rates contributed £3m (2020: £98m). Experience variance and other items contributed a profit of £28m (2020: profit of £9m).

Non-Operating Profit

Market conditions have led to losses from short-term fluctuations in investment returns in 2021 as financial markets recovered and the sizeable gains seen in 2020 from the derivatives held to protect the Solvency II capital position reversed.

These losses primarily comprise a £99m loss (2020: £286m gain) from fair value movements on surplus assets in the annuity portfolio and a £103m loss (2020: £118m gain) on interest rate swaps purchased to protect the Company's Solvency II capital position against falls in interest rates, both due to rising yields in the period.

In addition, there was a £248m loss (2020: £235m gain) as stock markets recovered in the period on the equity hedges used to protect the value of future shareholder transfers from the With-Profits Fund on the Company's Solvency II balance sheet. While these hedges protect the Solvency II balance sheet, there is no corresponding item to protect on the UK GAAP balance sheet, and therefore when the fair value of the



**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

derivatives fall as interest rates increase and equity markets improve, there are no offsetting fair value gains on a UK GAAP basis.

Profit on ordinary activities before tax

The results of the Company for the year as set out on pages 32 to 33 show a profit on ordinary activities before tax of £75m (2020: £1,311m). This is made up of the total adjusted operating profit described above, together with the non-operating items as described in the table above.

Solvency II surplus and coverage ratio

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

The Solvency II surplus allows for the Transitional Measure on Technical Provisions (TMTP). The TMTP was formally recalculated, following approval from the regulator, at 31 December 2021 in line with expectations of recalculation every 24 months. As a result, the estimated and unaudited Solvency II capital position will be the same as the position disclosed in the formal regulatory Quantitative Reporting Templates and the Group's Solvency and Financial Condition Report.

The Company retains a shareholder capital surplus of £3.9bn (2020:£3.5bn). The Company's shareholder surplus has increased over 2021, 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 impact of changes in economic conditions during the year, offset by the payment of the dividend to M&G plc (£1.6bn).

The Company retains a policyholder capital surplus of £7.8bn (2020: £7.0bn). The Company's policyholder-backed surplus has increased over 2021, which predominately reflects the expected surplus from in-force business, strong returns on equities and management actions. The increase in surplus has been partially offset by the merger of SAIF into the WPSF.

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

Section 172(1) Statement

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

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

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

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

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

risk, compliance and regulatory reporting. The Board also review other areas over the course of the financial year including the Company's business strategy; financial reporting; key risks; stakeholder-related matters; governance; compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

The Company's key stakeholders are its ultimate beneficial owner M&G plc, its customers, colleagues, communities and investors. In respect of customers of the Company's with-profits products, further details of with-profits governance are discussed in the Director's Report on page 17. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, for example, interaction with regulators, the size and spread of both the Company's stakeholders and the M&G plc group means that other stakeholder engagement takes place at Group level. We believe that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company.

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

Principal Decisions

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

***Principal decision 1 - Dividends to Parent***

The Board decided to pay a total of £1,550m in dividends to M&G plc. £950m was declared on 4 March 2021 and the remaining £600m was declared on 22 September 2021.

The Directors noted that the payments were in accordance with detailed financial planning, which took into account the other ongoing financial obligations for the Company. The Directors gave particular consideration to the Company's liquidity position and were provided with information on how the solvency level would be managed following the dividend payments. This decision also involved considering the likely consequences on the Company in the medium-term, as well as the long-term viability of the Group; the quality of capital and the sustainability of planned dividend payments; and the ongoing need for strategic investment in the Company's business, and the activities of the Company's subsidiaries, including the workforce, and the expectations of the Company's parent, M&G plc.

***Principal decision 2 – 2022 – 2024 Business Plan***

The Board carries out a review of the Company's strategy on an annual basis. This includes approving the four-year rolling business plan. In 2021, the Board's strategic review of 2022 – 2024 included presentations from senior executives and a detailed paper submission. This covered the key drivers of change over the Business Plan period and a wide range of Stress and Scenario Testing to illustrate the impact of these factors, in addition to summarising the impact of the Business Plan on some of the most significant stakeholder objectives, including objectives of shareholders, customers and conduct regulators, Prudential regulators, employees and wider society. The Board also received a supporting Risk Opinion from the Company's Chief Risk Officer. In making its decision to approve the 2022 – 2024 business plan and future strategy of the Company, the Board specifically considered the Company's solvency ratio and the plans for future dividend payments, to ensure the Company was well positioned for long-term success.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

***Principal decision 3 – SAIF Merger and Scheme Amends***

The 1997 Scottish Amicable Life Assurance Society (SALAS) Scheme required the SAIF to merge with the other long term Company funds (defined in the SALAS Scheme as the funds maintained by the Company in respect of its long-term insurance business, other than the SAIF) at a specific trigger date, which based on projections was expected to be reached by 2024 (the Threshold). The Board considered that the WPSF would be the most appropriate fund for the SAIF to merge with.

In 2020, the Board approved the early merger of the funds having carefully considered the interests of all its policyholders throughout the development of the proposals. On the basis of all available information, the early merger was considered to be beneficial to the SAIF with-profits policyholders compared to a merger when the Threshold was reached, and was not expected to have an adverse effect on the Company's other policyholders. Merging the funds early provided continuing security and additional certainty for the SAIF policyholders, while ensuring a fair distribution of the SAIF surplus assets.

The Company proceeded with the First Hearing of the Scottish Court to amend the SALAS Scheme in order to reflect changes made to the management of the Company's with-profits business and to facilitate an Early Merger. On 10 September 2020, the Court granted the First Order which allowed the application to proceed to the next stage. After the Final Court Hearing, the Court granted the Final Order giving consent to the amendments to the SALAS Scheme.

The Early Merger was formally approved by the Board on 19 February 2021 and took effect on 1 April 2021.

***Principal decision 4 – Part VII transfer of annuity business***

The Company approved the application to the Courts for the request to sanction the insurance business transfer in respect of the relevant annuity portfolio from the Company to Rothesay Life Plc, which involved considering the discussions and decisions made at previous meetings and taking into account the views of M&G plc and the affected policyholders. Further details of the Part VII transfer are presented in the Strategic Direction and Corporate Transactions section above.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

**Principal Risks and Uncertainties**

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

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

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

As at the date of approval of the Report and Accounts, the Company's Financial Strength has maintained the ratings from 2020, rated Aa3 by Moody's (negative outlook), A+ by Standard & Poor's (stable outlook) and AA- by Fitch (stable outlook).

Financial and Insurance risk

The Company is exposed to financial and insurance risk through its financial assets, financial liabilities, and customer liabilities. The financial risk factors affecting the Company include market risk, credit risk, and liquidity risk. Further information on the financial and insurance risk management objectives and policies of the Company and the exposure of the Company to the related risk factors is given in note 27 (C) - (F).

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

Unlike traditional with-profits products, no regular or final bonuses are declared for PruFund contracts. Customer investment return is determined by an Expected Growth Rate (EGR) which is declared each quarter. 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 is in place to partially protect the value of future shareholder transfers from the With-Profits Fund.

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

(a) Market risk

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

For the Company's shareholder business, the key sources of market risk are equity, property, interest rate and currency risks arising from shareholder transfers from the Company's with-profits fund as falls in the value of equities and property, lower interest rates and fluctuations in currencies can negatively impact on investment

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

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

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

In spite of the successful vaccine roll-out in many developed countries, COVID-19 continues to be a risk to market values, interest rates, dividend levels, rental income and defaults, all of which could adversely impact investment performance across our funds. In addition, due to unusually accommodative monetary policies implemented by central banks globally, there is a risk of market volatility as and when these are unwound. In the course of this process, sentiment in the financial markets may also be impacted by rising inflation expectations, with potential subsequent negative impacts on the value of some asset classes.

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

See note 27 (C) for further details.

**(b) Credit risk**

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

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

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

The Company is also exposed to counterparty risk arising from reinsurance and derivative counterparties, and from placing cash with counterparties. The Company's counterparty exposure reduced significantly during 2021 following the Part VII transfer of £9.6bn of annuity liabilities to Rothesay Life Plc with effect from 15 December 2021.

The COVID-19 pandemic continues to drive uncertainty, with the potential for credit spread volatility and a deterioration in credit conditions as governments wind down their support for businesses.

See note 27 (D) for further details.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

(c) Insurance risk

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

**Longevity Risk**

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

While a short term increase in mortality rates has been experienced due to the COVID-19 pandemic, the longer term implications for mortality rates, particularly in relation to the annuitant population are not yet clear, increasing uncertainty in the Company's assumptions.

**Persistency Risk**

Persistency risk is the risk of unexpected changes in policyholder rates of exit on its insurance business with the shareholder exposure predominately arising in relation to transfers from the with-profits fund. An increase in the rate of policyholder exits increases shareholder transfers in the short term but reduces the overall value of these transfers over the longer term.

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

While the COVID-19 pandemic gave rise to a short-term rise in rates of policyholder exits, 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 increases uncertainty in the Company's assumptions.

**Expense risk**

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

The management of expenses is a key element of the Company's change programme.

See note 27 (E) for further details.

(d) Liquidity risk

The Company is exposed to two types of liquidity risk:

- treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (for example 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.

The Company's treasury liquidity risk exposure arises mainly from:

- higher than expected customer withdrawals or collateral requirements, and/or lower than expected market liquidity for assets in its with-profits and unit-linked funds;

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

- 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.

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.

See note 27 (F) for further details.

**(e) Investment performance and risk**

The investment objectives and risk profiles of funds and segregated mandates are agreed with customers. A failure to deliver against these objectives (including sustained underperformance of funds), maintain risk profiles that are consistent with customers' expectations, or ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for larger funds or a range of funds then profitability, reputation and plans for growth may be impacted. The impact of the COVID-19 pandemic on economies 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.

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

**Non-financial risk**

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

**(a) Operational risk**

Operational Risk is the risk of financial and non-financial impact (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. Operational failures can also give rise to financial risk exposures; for example, through process failures in the management of market and credit risk.

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

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.

The Operational Risk Framework defines the Group's approach to the identification, assessment, management and reporting of operational risks and associated controls including Information Technology, data and outsourcing arrangements. Operational risk is primarily measured and monitored through the Integrated Control Framework and Risk and Control Self Assessment (RCSA) process, which are used to assess the effectiveness of operational controls across the Group. This is further supported by a comprehensive suite of non-financial risk appetites and limits, key risk indicators and operational risk management information.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

The Company's security control environment has matured as a result of continued focus from the Technology leadership team and the multiyear Strategic Secure Programme continues to strengthen the cyber posture. Exposure to technology risk remains material, driven by the Company's digital footprint, higher levels of hybrid working and the evolving external cyber-threat landscape. The strategic technology programmes will continue to enhance the control environment through 2022.

The Company has enhanced its oversight and risk management of third parties, including its approach to selection, contracting and on-boarding, management and monitoring, and termination and exiting. The Company's dependency on third parties for critical activities is reflected in its on-going focus on managing third-party risks. The enhanced approach is designed to provide a scalable and sustainable oversight model.

As stated earlier, unfortunately during the year, due to the scale and complexity of the transformation programme, some policyholders have experienced customer service difficulties. The Company recognises the level of service provided in these cases is unacceptable and is making significant investment to resolve these problems.

(b) 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 while customer needs and expectations are changing rapidly. Economic factors, including those resulting from the COVID-19 pandemic, may impact the demand for the Company's products and its ability to generate an appropriate return.

In addition, increased geopolitical risks and conflicts and policy uncertainty can impact the Company's products, investments and operating model. The conflict in Ukraine has potential to impact the Company's risk profile including but not limited to; adverse and volatile economic and market conditions; impacts on investment performance and underlying assets; increased cyber risk; and regulatory risk from sanctions. The uncertainty around these impacts requires the Company to continually monitor and assess developments. The Company has responded to events by mobilising resources and standing up incident response protocols. This includes bringing together colleagues from across the business to provide an enhanced monitoring and decision-making capability. These protocols allow the Company to effectively manage risks for stakeholders and respond to potential adverse impacts in a timely manner.

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

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.



**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

(c) Sustainability and ESG

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 ESG Risk Management Framework and Policy which has been developed in 2021 and is currently being embedded across the Group. 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 leveraging the Bank of England's 2021 Climate Biennial Exploratory exercise.

The Company continues to embed sustainability and ESG principles within its products (e.g. launch of PruFund Planet), business and operating model to ensure that it meets the expectations of a wide range of stakeholder groups.

(d) Change Risk

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

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

COVID-19 has seen the rapid acceleration of digital transformation and digital adoption in the general population. The Company remains committed to its extensive change programme.

(e) People risk

Although the Company does not directly employ staff, as this is done through servicing companies within the wider Group, it is still exposed to people risk in relation to those employees that service the Company. The success of the Company 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, 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 Company manages its people risk in line with the Group-wide HR Framework which 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.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

With the reduction of COVID-19 related restrictions in the UK, a cautious and structured approach to the “Return to Office” for UK colleagues is being implemented with consideration of individuals’ preferences and safety concerns, whilst ensuring that a sense of community and organisational synergies are maintained.

Competition for top talent is expected to remain intense. The Company continues to increase its investment in leadership and manager development in order to be successful and drive the right culture, behaviour and norms in today’s fast changing world.

(f) Regulatory compliance

The Company operates in a highly regulated market, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of national and international regulatory initiatives in progress, with a continuing focus on solvency and capital standards, financial crime, 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 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.

A dedicated Group Financial Crime Compliance function is leading the implementation of a strengthened financial crime compliance framework across the group. In 2021, the Company increased its capabilities and introduced new systems in line with the target operating model and ongoing transformation programme.

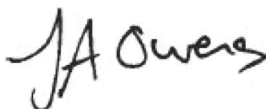
(g) Reputational risk

The Company’s reputation is the sum of its stakeholders’ perceptions, which are shaped by the nature of their expectations and the Company’s ability to meet them. Consequently, there is a risk that through activities, behaviours or communications, the Company fails to meet stakeholder expectations in ways which adversely impact trust and reputation. Failure to effectively manage reputational risk could 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. The risk champions also support the Company in creating processes that include full consideration of reputational risks in key decisions.

The ongoing socio-political climate, together with an increase in activities being undertaken by the Company means that the Company could face an increasing range and severity of reputational events. The effective management of all stakeholder groups will be necessary for the successful delivery of the Company’s strategy and for the ongoing sustainability of the business.

On behalf of the Board of directors.



J A Owens  
Company Secretary

4 March 2022

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021**

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

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

Likely developments, business strategies and prospects

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

Ultimate parent company

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

Subsidiary and associate undertakings

Particulars of the Company's subsidiary undertakings at 31 December 2021 are shown in note 29.

Statement of corporate governance arrangements for large private companies

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

**Corporate Governance Code**

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

**Application of the Corporate Governance Code**

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

*Composition of Board* - comprised of an independent Non-executive Chairman, and a majority of independent Non-executive Directors, alongside executives who are employees of the Group. The operational management of the Company is delegated to the Chief Executive Officer (CEO) of the Company. C Bousfield has been appointed Managing Director for Retail and Savings (the group segment which includes the Company); this includes the CEO role of the Company which is subject to regulatory approval. Currently J Foley retains the regulatory responsibility for the CEO role of the Company.

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

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

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

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

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

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

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

*Other Disclosures*

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

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

Stakeholder relationships and engagement

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

With-profits governance

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

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

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

Independent Governance Committee

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

Corporate responsibility

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

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

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

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

The Group's sustainable approach to business is reinforced by the Group-wide CR strategy. The Group has a clearly defined overarching social purpose with flagship programmes (urban regeneration; economic empowerment; and skills and education) to support each pillar of the Group's strategy.

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

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

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

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

Post balance sheet events

On 24 February 2022, the Company announced the 2021 annual bonus rates for the with-profits fund. The Company also announced an additional bonus of 1.75% to enhance the unsmoothed value of plans for customers with traditional and accumulating policies. It may be necessary to take back the additional bonus in order to protect the interest of all customers and the strength of the fund at a future date, although this is not expected to happen. For PruFund customers, additional surplus has been shared by increasing the unit price by 1.25%.

On 3 March 2022 the Company approved a final dividend of £333m to be paid to M&G plc. This is not recognised in the 2021 financial statements.

Financial Performance

The state of affairs of the Company at 31 December 2021 is shown in the balance sheet on pages 36 and 37. The profit and loss account appears on pages 32 and 33.

Financial instruments

The Company is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The financial risk factors affecting the Company include market risk, credit risk, interest rate risk and liquidity risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in note 27. Further information on the use of derivatives by the Company is provided in note 27 (G).

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

Share Capital

There have been no changes in the Company's share capital during 2021 as shown in note 20.

Dividends

Dividends totalling £1,550m were paid in 2021 (2020:£497m).

The board declared a final cash dividend in respect of 2020 of £950m on 4 March 2021; an interim cash dividend of £600m was declared on 22 September 2021. A final dividend in respect of 2021 of £333m was declared on 4 March 2022.

Directors

The present directors are shown on page 1. Ms L Fowler and Ms M Tannemaat were appointed on 18 June 2021 and 21 September 2021 respectively. Ms J Dawson resigned on 1 April 2021. There have been no further changes.

Disclosure to the auditor

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

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

Auditor

KPMG LLP were reappointed as auditor of the Company by the members at the Annual General Meeting on 24 April 2017.

On 28 October 2020, the Company approved the appointment of PricewaterhouseCoopers LLP ('PwC') as its external auditor for the year ending 31 December 2022. Consequently, KPMG LLP will resign as the Company's statutory auditor at the conclusion of the 2021 audit and the Company will resolve to appoint PwC to fill the vacancy. A resolution to appoint PwC as auditor will be recommended to the Group's shareholders for approval at the Annual General Meeting expected to take place on 25 May 2022.

Directors' and officers' protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc group. In addition, the Articles of Association of the Company provide for the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2021 and remain in force.

Going concern

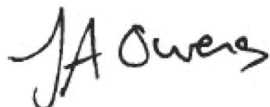
As described in the Basis of Preparation section of the Accounting Policies at note 1, an assessment of the Company's prospects has been carried out. The Board has also performed a robust assessment of the principal and emerging risks facing the Company, and is satisfied that the Company will be able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

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**

Greenhouse gas emissions

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

On behalf of the Board of directors.

A handwritten signature in black ink that reads "J A Owens". The signature is written in a cursive, slightly slanted style.

J A Owens  
Secretary  
4 March 2022

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

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

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

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

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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





# Independent auditor's report

## to the members of The Prudential Assurance Company Limited

### 1. Our opinion is unmodified

We have audited the financial statements of The Prudential Assurance Company Limited ("the Company") for the year ended 31 December 2021 which comprise the profit and loss account, statement of comprehensive income, statement of changes in equity, balance sheet and the related notes, including the accounting policies in note 1.

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

#### In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

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

We were first appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 23 financial years ended 31 December 2021.

#### Overview

<b>Materiality:</b>	£53m (2020: £50m)
financial statements as a whole	1.1% (2020: 0.89%) of net assets
With-profits assets, liabilities and related income statement movements	£175m (2020: £175m) 1.0% (2020: 1.1%) of Funds for Future Appropriations

#### Key audit matters vs 2020

<b>Recurring risks</b>	Valuation of technical provisions	▼
	Valuation of investments that require judgement	◀ ▶

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

	The risk	Our response
<p><b>Valuation of technical provisions</b></p> <p>(2021: £134,169 million, 2020: £142,974 million)</p> <p>The risk has remained unchanged compared to the prior year.</p> <p>Refer to page 41 (accounting policy) and pages 66 to 74 (financial disclosures).</p>	<p><b>Subjective valuation:</b></p> <p>The Company has significant technical provisions representing 74 percent (2020: 75 percent) of the Company's total liabilities.</p> <p>This is an area that involves significant estimation over uncertain future outcomes, mainly the ultimate total settlement value of technical provisions.</p> <p>The valuation of technical provisions requires significant judgement in the selection of key assumptions covering both operating and economic assumptions.</p> <p>The key operating assumptions are:</p> <ul style="list-style-type: none"> <li>– Mortality, which is determined by reference to the Company's own experience and expected levels of future mortality, and includes consideration of the ongoing impact of COVID-19;</li> <li>– The expected level of future expenses, which is based on the expected future costs for administering the underlying policies; and</li> <li>– The number of policyholders who may exercise the option to defer their retirement date at maturity in future periods. The assumption applies to certain with-profits contracts where the terminal bonus is guaranteed at their retirement date. This assumption is determined by reference to the Company's own experience.</li> </ul> <p>The key economic assumption, that impacts the calculation of the discount rate applied to the annuity business, is credit default risk which is based on the Company's view of expected future investment defaults including the future impact of COVID-19 on the economic environment.</p>	<p>We used our own actuarial specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– <b>Control design and operation:</b> We have used our own IT auditors to assist us in performing our procedures in this area which include testing of the design, implementation and operating effectiveness of key controls over the valuation process, including additional testing in relation to model evaluation as a result of identified weaknesses in the general IT control environment. Our testing identified weaknesses in the design and operation of controls. As a result we expanded the extent of our detailed testing.</li> <li>– <b>Methodology choice:</b> We have assessed the methodology for selecting assumptions and calculating the technical provisions. This included: <ul style="list-style-type: none"> <li>– Assessing the methodology adopted for selecting the assumptions by applying our industry knowledge and experience and comparing the methodology used against standard industry practice, including consideration of the effects of COVID-19 on mortality;</li> <li>– Evaluating the analysis of the movements in technical provisions during the year, including consideration of whether the movements were in line with the impact of methodology and assumptions adopted; and</li> <li>– Comparing changes in methodology to our expectations derived from market experience.</li> </ul> </li> <li>– <b>Tests of detail:</b> <ul style="list-style-type: none"> <li>– Evaluating the completeness of data used in the valuation of technical provisions by reconciling the data from the policy administration systems to the data in the model point files used in the actuarial models.</li> <li>– Reconciled the completeness and accuracy of the assets used in the calculation of the Valuation Interest Rate to the assets used to back the technical provisions.</li> </ul> </li> </ul>

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

The risk	Our response
<p><b>Calculation error and data capture</b></p> <p>The Company uses complex actuarial models to calculate technical provisions. There is the risk that the modelling does not appropriately reflect the model specifications and / or the product features and / or there are unauthorised or erroneous changes to the models. In addition, there is a risk that data input into the models may be incomplete.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of technical provisions, has a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 27 discloses the sensitivity estimated by the Company.</p>	<ul style="list-style-type: none"> <li>– <b>Historical comparison:</b> <ul style="list-style-type: none"> <li>– Evaluating the evidence used to prepare the mortality rate by reference to actual policyholder mortality rate in order to assess whether this supports the year-end assumptions adopted. This included assessing the impact of COVID-19.</li> <li>– Assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing current year unit costs, considering the expected future level of expense inflation and assessing the appropriateness of the likely impact of planned management actions on future costs.</li> <li>– Evaluating the evidence used to determine the assumption related to the number of policyholders who may exercise the option to defer their retirement date at maturity in future periods in order to assess whether this supports the assumption adopted.</li> </ul> </li> <li>– <b>Benchmarking assumptions and sector experience:</b> <ul style="list-style-type: none"> <li>– Evaluating the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience including assessing the impact of the economic environment.</li> <li>– Evaluating the appropriateness of the calibration of the Continuous Mortality Investigation ('CMI') Model (the CMI Bureau releases industry wide mortality tables), adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience.</li> <li>– Using the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality and credit risk assumptions.</li> </ul> </li> <li>– <b>Model evaluation:</b> <ul style="list-style-type: none"> <li>– Using our own valuation models to perform an independent recalculation of a sample of technical provisions to ensure that the models have been calibrated in line with the Company's specifications and product features.</li> <li>– Evaluating that changes made to the actuarial models over the year have been appropriately reviewed and approved, and evaluating the appropriateness of the financial impact of the changes made to the models during the year.</li> </ul> </li> <li>– <b>Assessing transparency:</b> Considering whether the disclosures in relation to the assumptions used in the calculation of technical provisions are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs.</li> </ul> <p><b>Our results:</b> We found the valuation of technical provisions to be acceptable (2020 result: acceptable).</p>

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

	The risk	Our response
<p><b>Valuation of investments that require judgement</b></p> <p>2021: £40,888 million (2020: £33,285 million)</p> <p>The risk has decreased compared to the prior year.</p> <p>Refer to page 43 (accounting policy) and pages 78 to 93 (financial disclosures of level 3 assets).</p>	<p><b>Subjective valuation:</b></p> <p>The area that involves significant audit effort and judgement is the valuation of illiquid positions within the financial investments portfolio representing 23 percent (2020: 24 percent) of the Company's investments portfolio. We consider the risk to have decreased compared to the prior year, as the uncertainties associated with the ongoing impact of COVID-19 on the outlook for financial markets has reduced over the year.</p> <p>These include private placement loans, unlisted Net Asset Value ('NAV') funds, equity release mortgages, terminal value loans and investment properties.</p> <p>For these positions an observable price was not readily available and therefore the application of expert judgement in the valuations adopted is required that results in estimation uncertainty.</p> <p>The effect of these this matter is that, as part of our risk assessment, we determined that the valuation of investments that require judgement has a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 27 discloses the sensitivity estimated by the Company.</p>	<p>We used our own actuarial and valuation specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– <b>Control design and observation:</b> Testing of the design and implementation of key controls over the valuation process for the investments that require judgement, including review and approval of the estimates and assumptions used for the valuation.</li> <li>– <b>Methodology choice:</b> We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards and the Company's own valuation guidelines as well as industry practice.</li> <li>– <b>Benchmarking of assumptions and sector experience:</b> Agreeing the key inputs and assumptions used for the valuation and comparing these to our own market and industry benchmarks.</li> <li>– <b>Assessing valuers' credentials:</b> Assessing the competence and qualifications of external valuers and reconciling the valuations provided by them to the valuations recorded by the Company.</li> <li>– <b>Tests of detail:</b> <ul style="list-style-type: none"> <li>– Independent re-performed our own valuation for private placement loan investments and compared the output to the Company's valuations.</li> <li>– Independently obtained the most recent NAV statements, investment manager and administrator control reports to assess the appropriateness of the fair value of the unlisted funds.</li> <li>– Performed a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time.</li> </ul> </li> <li>– <b>Assessing transparency:</b> Assessing whether the Company's disclosures in relation to the valuation of investments that require judgement are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes.</li> </ul> <p><b>Our results</b></p> <p>We found the valuation of investments that require judgement to be acceptable (2020 result: acceptable).</p>

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

The Prudential Assurance Company Limited is part of a group headed by M&G plc. Materiality for the financial statements as a whole £53m (2020: £50m), as communicated by the group audit team, has been applied to the audit of the company. This is lower than the materiality we would have otherwise determined with reference to a benchmark of net assets, of which it represents 1.1% (2020: 0.89%).

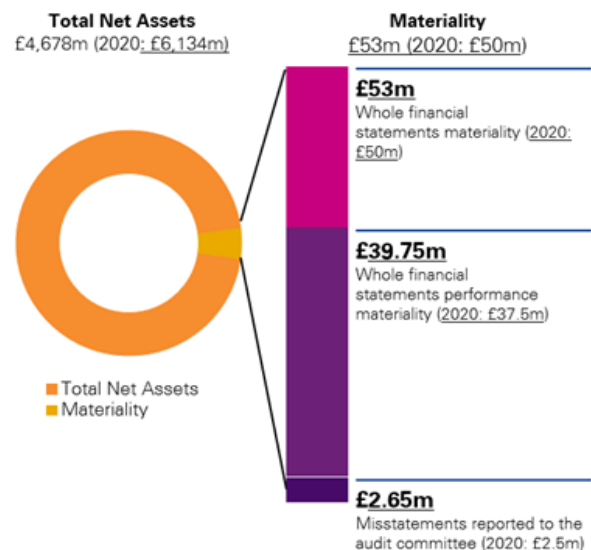
In addition, we applied materiality of £175m (2020: £175m) to the with-profits assets and liabilities in the balance sheet, profit and loss account and related notes, determined with reference a benchmark of fund for future appropriations of the with-profits fund of which it represents 1.0% (2020: £1.1%). This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurance in the United Kingdom.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £39.75m (2020: £37.5m). Performance materiality was set at 75% for policyholder assets, liabilities and profit and loss account, which equates to £131m (2020: £131m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2.65m (2020: £2.5m) for the financial statements as whole and £8.75m (2020: £8.75m) for policyholder assets, liabilities and profit and loss account, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.



### 4. Going concern

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

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 technical provisions 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.

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.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern including the identified risks and dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- 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; and
- we found the going concern disclosure in note 1 to be acceptable.

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

## 5. 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.

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 technical provisions and valuation of investments that require judgment. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited judgement involved in the determination of all material revenue streams as the amounts are contractually derived and therefore the audit evidence supporting these balances is straightforward to obtain.

We identified a fraud risk related to:

- the valuation of technical provisions in response to the required significant judgement over uncertain future outcomes, being the ultimate total settlement value of long-term policyholder liabilities. In order to address the risk of fraud to the valuation of technical provisions, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions to assess if there are indications of management basis.; 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. In order to address the risk of fraud to the valuation of investment that require judgement, we involved valuation and actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions to assess if there are indications of management basis.

Further detail in respect of the above fraud risks, is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Assessing significant accounting estimates 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 financial statements 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 with 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.

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, 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 financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified regulatory capital and liquidity

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 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.

For the pension mis-selling review disclosed in Note 26 we have performed audit procedures over the provisions established by management.

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.

*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 financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud 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.

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

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

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

- we have not identified material misstatements in those reports;



- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

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

We have nothing to report in these respects.

### **8. Respective responsibilities**

#### *Directors' responsibilities*

As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

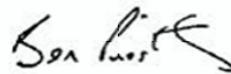
#### *Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **9. The purpose of our audit work and to whom we owe our responsibilities**

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



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

4 March 2022

**Profit and Loss Account for the year ended 2021**

<b>Long-term Business Technical Account</b>		<b>2021</b>	<b>2020</b>	Note
		<b>£m</b>	<b>£m</b>	
Gross premiums written		<b>4,717</b>	5,730	2
Outward reinsurance premiums		<b>(996)</b>	(904)	
Earned premiums, net of reinsurance		<b>3,721</b>	4,826	
Investment income		<b>13,485</b>	9,925	3
Unrealised (losses) on investments		<b>(2,435)</b>	(2,917)	
Claims paid				
	Gross amount	<b>(13,220)</b>	(12,211)	
	Reinsurers' share	<b>1,591</b>	1,664	
Claims paid, net of reinsurance		<b>(11,629)</b>	(10,547)	
Change in provision for claims				
	Gross amount	<b>(63)</b>	(97)	
	Reinsurers' share	<b>1</b>	2	
Claims incurred, net of reinsurance		<b>(11,691)</b>	(10,642)	
Change in long-term business provision				
	Gross amount	<b>8,614</b>	93	
	Reinsurers' share	<b>(8,610)</b>	(312)	
		<b>4</b>	(219)	
Change in technical provision for linked liabilities		<b>225</b>	531	
Change in other technical provisions, net of reinsurance		<b>229</b>	311	
Net operating expenses		<b>(647)</b>	(686)	5
Investment expenses and charges		<b>(328)</b>	(419)	6
Tax attributable to the long-term business		<b>(644)</b>	(397)	7
Transfer (to) / from the fund for future appropriations		<b>(1,196)</b>	471	
<b>Balance on the long-term business technical account</b>		<b>494</b>	472	

The accounting policies on pages 38 to 47 along with the accompanying notes on pages 47 to 104 form an integral part of the financial statements.

**Profit and Loss Account for the year ended 2021 (continued)**

<b><u>Non-Technical Account</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	Note
	<b>£m</b>	<b>£m</b>	
Balance on the long-term business technical account	<b>494</b>	472	
Tax credit attributable to the balance on the long-term business technical account	<b>95</b>	192	7
Balance on the long-term business technical account before tax	<b><u>589</u></b>	<u>664</u>	
Investment income	<b>(27)</b>	112	3
Unrealised (losses)/ gains on investments	<b>(459)</b>	530	
Other income	<b>13</b>	9	
Other charges	<b>(41)</b>	(4)	
Total (loss)/profit on other activities	<b><u>(514)</u></b>	<u>647</u>	
<b>Profit on ordinary activities before tax</b>	<b><u>75</u></b>	<u>1,311</u>	
Tax on profit on ordinary activities	<b>3</b>	(244)	7
<b>Profit for the financial year</b>	<b><u>78</u></b>	<u>1,067</u>	

The accounting policies on pages 38 to 47 along with the accompanying notes on pages 47 to 104 form an integral part of the financial statements.

**Note: General Business Technical Account**

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

**Statement of Comprehensive Income for the year ended 31 December 2021**

	<u>2021</u>	<u>2020</u>	
	£m	£m	
<b>Profit for the financial year</b>	<b>78</b>	1,067	
Other comprehensive income:			
Actuarial gains/(losses) on defined benefit pension schemes*	<b>23</b>	(77)	9
Deferred tax (loss)/ gain*	<b>(5)</b>	15	
Transfer (to)/from the fund for future appropriations	<b>(2)</b>	12	
<b>Total other comprehensive income/(loss) for the financial year, net of income tax</b>	<b>16</b>	(50)	
<b>Total comprehensive income for the financial year</b>	<b>94</b>	1,017	

\*Included within other comprehensive income is £41.8m (2020: £62.0m) of actuarial losses on defined benefit pension schemes and a £6.6m (2020: £11.7m) deferred tax gain relating to the Shareholder fund which is not transferred to the fund for future appropriations.

The accounting policies on pages 38 to 47 along with the accompanying notes on pages 47 to 104 form an integral part of the financial statements.

**Statement of changes in equity for the year ended 2021**

	Share Capital	Other reserves*	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 January 2020	330	536	4,748	5,614
Profit for the financial year	—	—	1,067	1,067
Other comprehensive loss for the financial year	—	—	(50)	(50)
Total comprehensive income for the financial year	—	—	1,017	1,017
Dividends	—	—	(497)	(497)
Total distribution to owners, recognised directly in equity	—	—	(497)	(497)
<b>Balance as at 31 December 2020</b>	<b>330</b>	<b>536</b>	<b>5,268</b>	<b>6,134</b>
Balance as at 1 January 2021	330	536	5,268	6,134
Profit for the financial year	—	—	78	78
Other comprehensive income for the financial year	—	—	16	16
Total comprehensive income for the financial year	—	—	94	94
Dividends	—	—	(1,550)	(1,550)
Total distribution to owners, recognised directly in equity	—	—	(1,550)	(1,550)
<b>Balance as at 31 December 2021</b>	<b>330</b>	<b>536</b>	<b>3,812</b>	<b>4,678</b>

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

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

**Balance sheet as at 31 December 2021**

<b>Assets</b>	<b>2021</b>	<b>2020</b>	Note
	£m	£m	
Investments			
Land and buildings	7,840	7,665	12
Investments in group undertakings and participating interests	6,124	5,496	13
Other financial investments	147,069	146,940	14
	<u>161,033</u>	<u>160,101</u>	
Assets held to cover linked liabilities	13,670	13,896	15
Reinsurers' share of technical provisions			
Long-term business provision	1,195	9,805	
Claims outstanding	131	135	
Technical provisions for linked liabilities	5,898	7,570	
	<u>7,224</u>	<u>17,510</u>	16
Debtors			
Debtors arising out of direct insurance operations			
Policyholders	24	18	
Debtors arising out of reinsurance operations	59	15	
Other debtors	793	907	17
	<u>876</u>	<u>940</u>	
Other assets			
Cash at bank and in hand	2,520	3,930	18
Finance lease assets	42	33	12
	<u>2,562</u>	<u>3,963</u>	
Prepayments and accrued income			
Accrued interest and rent	490	551	
Deferred acquisition costs: long-term business	14	19	
Accrued external dividends receivable	41	48	
Other prepayments and accrued income	190	198	
	<u>735</u>	<u>816</u>	
Total Assets (excluding pension asset)	<u>186,100</u>	<u>197,226</u>	
Pension asset	27	40	9
<b>Total Assets (including pension asset)</b>	<u>186,127</u>	<u>197,266</u>	

**Balance sheet as at 31 December 2021 (continued)**

<b><u>Equity and Liabilities</u></b>	<b>2021</b>	<b>2020</b>	Note
	<b>£m</b>	<b>£m</b>	
Capital and reserves			
Share capital	<b>330</b>	330	20
Other reserves	<b>536</b>	536	
Profit and loss account	<b>3,812</b>	5,268	
Shareholders' funds – equity interests	<b>4,678</b>	6,134	2
Fund for future appropriations	<b>16,871</b>	15,672	25
Technical provisions			
Long-term business provision	<b>133,403</b>	142,185	25
Claims outstanding	<b>841</b>	782	8
Unearned revenue provision	<b>5</b>	7	
Total technical provisions	<b>134,249</b>	142,974	
Technical provisions for linked liabilities	<b>19,568</b>	21,466	25
Provisions for other risks and charges			
Deferred taxation	<b>960</b>	699	7
Obligations under finance leases	<b>8</b>	14	12
Provision for pensions	<b>50</b>	106	9
Other provisions	<b>27</b>	79	21
	<b>1,045</b>	898	
Deposits received from reinsurers	<b>298</b>	344	
Creditors			
Creditors arising out of direct insurance operations	<b>68</b>	77	
Creditors arising out of reinsurance operations	<b>44</b>	96	
Other borrowings not owed to credit institutions	<b>97</b>	124	
Other creditors including taxation and social security	<b>9,049</b>	9,304	22
	<b>9,258</b>	9,601	
Accruals and deferred income	<b>160</b>	177	
<b>Total Equity and Liabilities</b>	<b>186,127</b>	197,266	

The accounting policies on pages 38 to 47 along with the accompanying notes on pages 47 to 104 form an integral part of the financial statements.

The accounts on pages 32 to 104 were approved by the Board of directors on 3 March 2022 and were signed on its behalf by:



P D Cooper  
Director  
4 March 2022

**Notes on the financial statements (continued)**

**1. Accounting policies**

**A. Company Information**

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

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

**B. Basis of Preparation**

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

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

Details of where to obtain copies of the consolidated accounts of M&G plc are disclosed in note 23. In these financial statements, the Company is considered to be a qualifying entity under FRS 102 and has applied the exemptions available in respect of the following disclosures:

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

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

**New accounting pronouncements adopted by the Company**

**'Amendments to FRS 102 - COVID 19 -related rent concessions'**

The amendments introduced a requirement for the Company to recognise changes in operating lease payments that arise from COVID-19-related rent concessions on a systematic basis over the periods that the change in lease payments is intended to compensate. There has been no significant impact on operating lease income recognised for the years ended 2021 and 2020.

**'Amendments to FRS 102 - Interest rate benchmark reform (Phase 2)'**

The Phase 2 amendments allow a practical expedient where any changes in the fair value of financial instruments as a direct consequence from the Interbank offered rate ('IBOR') reform are managed by updating the effective interest rate, therefore removing the recognition of gains or losses in the income statement as a result of the reform. These amendments also allow relief from applying specific hedge accounting and financial instrument de-recognition requirements which would result from the IBOR reform.

The Company has a formal programme in place to facilitate the transition of all impacted instruments to the alternative benchmark rate. The main exposure of the Company is to the phase out of Sterling LIBOR rates which is the benchmark rate for various derivative and non-derivative financial positions.

In relation to derivative positions, the Company had signed up to the ISDA LIBOR fallbacks protocol and this resulted in the vast majority of its Sterling LIBOR linked positions transitioning at the end of 2021 as per the ISDA fallbacks. A small number Sterling LIBOR derivative positions were not covered by the protocol and will



**Notes on the financial statements (continued)**

be transitioned separately. These may make use of Synthetic LIBOR where transition is not completed ahead of the next fixing date.

In regards to non-derivative assets, transition of those referencing Sterling LIBOR has been partial as dependencies exist on instrument issuers and on authority approvals in the case of infrastructure lending. The instruments that have not transitioned will make use of 'Synthetic LIBOR' at least within 2022 until they complete transition. The transitioned instruments have used replacement rates and spreads that result in valuations not changing significantly.

The transition to the alternative benchmark rates did not have a significant impact on the Company's financial statements for the year ended 31 December 2021, and will not have a significant impact following completion in 2022.

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

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

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

Critical accounting judgements

Financial statement area	Key judgement	Accounting policy
Classification of insurance and investment contracts	FRS 103 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Company transfer significant insurance risk. Judgement is also required in the case of certain contracts, both investment and insurance, which provide an additional benefit in addition to a guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features.	C

**Notes on the financial statements (continued)**

Sources of estimation uncertainty

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Long-term business provision	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The areas where the assumptions could have a material impact when establishing policyholder contract liabilities for annuities are the assumed rates of policyholder mortality, the expected future costs for administering the underlying policies and the credit risk assumption based on the Company's view of expected future investment defaults.	C	25
Equity securities and pooled investment funds, Investment property and Loans	The fair value of financial assets classified as level 3 in the fair value hierarchy are determined based on inputs which are not observable in the market requiring a high degree of estimation which could result in a significant change to the valuation.	F	27
Defined benefit pension schemes asset/liability	The valuation of defined benefit pension scheme liability (resulting in either a surplus or deficit on the scheme) is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long-term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	K	9
Reserves relating to past conduct issues and pensions regulations	The determination of a reserve relating to past conduct issues and pensions regulations requires the use of various assumptions which can impact the value of the reserve.	C	26

**Notes on the financial statements (continued)**

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

- The Company is a subsidiary within the M&G plc group (the Group) and it and its ultimate parent company are continuing to trade profitably and there are no plans for liquidation. M&G plc and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by M&G plc. The drawdown of support would be triggered by a breach of pre-specified solvency conditions in the Company. While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to the Company and its policyholders.
- The Company has a satisfactory capital surplus, generates positive cashflows and has very low debt-financing. Consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report on pages 2 to 16. The management of financial risk is set out in note 27, including the Company's exposure to credit risk and liquidity risk which it carefully manages through cashflow forecasting and fund management.
- To satisfy themselves of the appropriateness of the use of the going concern assumption in relation to these financial statements, the directors have assessed the future prospects of the Company, by considering the business plan that includes the cash flow forecasts, for at least the next 12 months from the date of signing these financial statements, various market scenarios as well as changes in the Company's principal risks. In addition, the directors have also considered the results of reasonably plausible severe downside scenarios to assess the potential implications on the Company's solvency and liquidity. The results of these assessments demonstrated the ability of the Company to meet all obligations and futures business requirements. In addition, these assessments demonstrated that the Company was able to remain above its regulatory solvency requirements in reasonably plausible severe downside scenarios.

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

C. Long-term Business

i. *Classification of insurance and investment contracts*

The measurement basis of long-term business contract liabilities is dependent upon the classification of the contracts under FRS 103 as either insurance contracts (if the level of insurance risk is significant), or investment contracts (if the risk is insignificant). A further distinction is made between investment contracts with and without discretionary participation features. Discretionary participation features (DPF) represent the contractual right to receive additional profit-sharing benefits as a supplement to guaranteed benefits.

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

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

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

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

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

**Notes on the financial statements (continued)**ii. *Technical account treatment*

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

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

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

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

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

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

iii. *Measurement of long-term business provisions*

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

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

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

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

The realistic value of liabilities is calculated as:

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

**Notes on the financial statements (continued)**

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

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

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

The FPRL includes a market consistent valuation of the costs of guarantees, options and smoothing. This is determined using stochastic modelling. The FPRL also includes other liabilities such as tax on shareholder transfers and enhancements to policy benefits arising from the distribution of surplus from non-profit business written within the with-profits fund. For the former SAIF business, the realistic liability calculation includes the value of the liability for the Final Relevant Policies Enhancement (FRPE), which is a percentage uplift to SAIF with-profits policies, applied at point of claim. The FRPE was calculated at the point SAIF merged with the WPSF, in order to fully distribute the remaining surplus assets in SAIF back to its with-profits policyholders.

D. General Business

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

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

E. Reinsurance

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

F. Investments

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

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

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

The Company has chosen to account for its financial instruments in accordance with FRS 102.11.2(b) which applies the recognition and measurement provisions of IAS 39 (as adopted for use in the UK) with the disclosure requirements of FRS 102.11 and FRS 102.12 *Other Financial Instruments* (FRS 102.12). Upon initial recognition financial investments are recognised at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through

**Notes on the financial statements (continued)**

profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases:

- (i) Financial investments at fair value through profit and loss - this comprises assets designated by management as fair value through profit or loss on inception and derivatives. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses is disclosed separately in note 3 and note 14. The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cashflow analysis. Further information on valuation techniques is provided in note 27 (A).
- (ii) Loans and receivables - these comprise investments that have fixed or determinable payments and are not designated as fair value through profit or loss or available-for-sale. These investments include loans secured by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are carried at amortised cost using the effective interest method and are subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cashflows discounted at the original effective interest rate. If, in subsequent periods, an impaired loan or receivable recovers in value (in part or in full), and this recovery can be objectively related to an event occurring after the impairment, then the previously recognised impairment loss is reversed through the income statement (in part or in full).

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

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

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

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

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

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

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

**Notes on the financial statements (continued)**

G. Financial Liabilities

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

The Company holds financial liabilities on the following bases:

- (i) Financial liabilities at fair value through profit or loss - these comprise derivatives, investment contracts without DPF and certain creditors. Derivative liabilities and certain creditors are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses is disclosed separately in note 3 and note 14. The accounting policy for investment contracts without DPF is described at section C above.
- (ii) Financial liabilities that are not valued at fair value through profit or loss and are not investment contracts with DPF are mainly creditors shown at settlement value.
- (iii) Investment contracts with DPF. The accounting policy is covered at section C above.

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

H. Securities lending and reverse repurchase agreements

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

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

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

I. Tax

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

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

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

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

**Notes on the financial statements (continued)**

J. Foreign Currency

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

K. Defined benefit pension schemes

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

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

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

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

L. Dividend Policy

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

M. Cash at bank and in hand

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

N. Provisions and contingencies

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

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

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



**Notes on the financial statements (continued)**

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

**2. Segmental Analysis**

**(a) Long-term business**

**Premiums and profit**

	Gross premiums written		Balance on the long-term technical account before tax	
	2021	2020	2021	2020
	£m	£m	£m	£m
United Kingdom	4,180	5,160	589	665
Europe*	537	570	—	(1)
	<u>4,717</u>	<u>5,730</u>	<u>589</u>	<u>664</u>

**New business**

	Regular premiums		Single premiums	
	2021	2020	2021	2020
	£m	£m	£m	£m
United Kingdom	114	103	4,896	6,143
Europe*	12	15	466	155
	<u>126</u>	<u>118</u>	<u>5,362</u>	<u>6,298</u>

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

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

**Notes on the financial statements (continued)**

	<u>2021</u>	<u>2020</u>
	£m	£m
<b><u>Analysis of premium income</u></b>		
Direct	4,180	5,160
Reinsurance accepted	537	570
	<u>4,717</u>	<u>5,730</u>
<b>Direct business is analysed as follows:</b>		
Individual business	3,879	4,820
Group contracts	301	340
	<u>4,180</u>	<u>5,160</u>
Regular premiums	590	611
Single premiums	3,590	4,549
	<u>4,180</u>	<u>5,160</u>
Participating contracts	3,795	4,653
Non-participating contracts	121	139
Linked long-term contracts (excluding investment contracts without discretionary participation features)	264	369
	<u>4,180</u>	<u>5,160</u>

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

**Net reinsurance income**

Net reinsurance charge in respect of long-term business for the year ended 31 December 2021 was £9,686m (2020: £717m income). The movement relates principally to the effect of the Part VII transfer of business to Rothesay Life Plc. See note 30 for details.

**(b) General business**

<u>Analysis of technical account</u>	<b>Gross Claims Incurred</b>		<b>Reinsurance Balance</b>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	£m	£m	£m	£m
Other*	9	8	(9)	(8)
	<u>9</u>	<u>8</u>	<u>(9)</u>	<u>(8)</u>

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

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

**(c) Shareholders' funds**

All shareholders' funds (£4,678m) relate to the United Kingdom (2020: £6,134m).

**Notes on the financial statements (continued)****3. Investment income**

	Long-term business		Non-technical account	
	2021 £m	2020 £m	2021 £m	2020 £m
Income from:				
Group undertakings	147	119	(1)	0
Other investments				
Land and buildings	440	442	—	—
Other investments	3,952	4,066	55	76
	<u>4,539</u>	<u>4,627</u>	<u>54</u>	<u>76</u>
Gains / (losses) on loans and receivables	7	(21)	—	5
Gains on the realisation of investments at fair value through profit and loss other than derivatives	7,456	4,550	26	54
Gains / (losses) on the realisation of derivatives – see note 27	1,550	901	(109)	(22)
Exchange (losses) / gains	(101)	(166)	2	(1)
Fees for policy administration and asset management services arising from unit-linked investment contracts	34	34	—	—
	<u>13,485</u>	<u>9,925</u>	<u>(27)</u>	<u>112</u>

Income of £4,539m (2020: £4,627m) is from assets measured at fair value with the exception of interest income on loans and receivables which was £75m for the year ended 31 December 2021 (2020: £110m).

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

**4. Bonuses**

Bonuses added during the year are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £2,962m (2020: £2,531m) analysed between the With-Profits Sub-Fund and Defined Charge Participating Sub-Fund of £2,962m (2020: £2,313m) and the Scottish Amicable Insurance Fund of £nil (2020: £216m). Bonus applied to the SAIF as at 31 December 2020 was applied to the WPSF as at 31 December 2021 following the merger of the SAIF into the WPSF on 1 April 2021.

**5. Net operating expenses**

	Long-term business	
	2021 £m	2020 £m
Acquisition costs	124	143
Change in deferred acquisition costs	5	8
Administrative expenses	518	535
	<u>647</u>	<u>686</u>

Acquisition costs include commission payments in respect of long-term direct insurance business acquisition of £nil (2020: receipts of £1m). Administrative expenses include commission payments in respect of long-term direct insurance business renewal of £28m (2020: payments of £30m).

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

**Notes on the financial statements (continued)**

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

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

Operating leases

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

The London lease has run since 2002 and is due to expire in September 2022, however the lease was set aside and a provision created for the remaining costs in 2020 (see note 21).

The Reading lease has run since 2013 and is due to expire in 2030, however there is a break option on that lease in 2025.

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

	<u>2021</u>	<u>2020</u>
	£m	£m
Less than 1 year	3	4
1 to 5 years	6	8
Over 5 years	—	—
Total	<u>9</u>	<u>12</u>

The total operating lease expense in 2021 was £2m (2020: £4m).

**6. Investment expenses and charges**

	<b>Long-term business</b>	
	<u>2021</u>	<u>2020</u>
	£m	£m
Investment management expenses	319	372
Interest on bank borrowings	9	47
	<u>328</u>	<u>419</u>

**7. Tax**

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

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

The Company and HMRC are working through the mechanics of implementing the Supreme Court decision. This work, to date, has led to a reduction in the estimate for policyholder tax credit recoverable during 2019 and 2021 and the estimate of interest receivable. As at 31 December 2021, the company has recognised a total policyholder tax credit of £114m (2020: £122m) in respect of its claim against HMRC. Of this amount, £40m has been paid by HMRC leaving a tax recoverable balance of £74m recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. As a result of the COVID pandemic the timing to finalise the issue has been delayed. It is now expected to be finalised in the first half of 2022 at which point PAC should receive full and final payment.

**Notes on the financial statements (continued)**

Under the terms of the agreement governing the domestication of the Company's previous Hong Kong branch in 2014, its previous Hong Kong subsidiary was entitled to a proportionate share of any tax and interest ultimately paid to the Company. At the balance sheet date the Company is holding a provision of £12m (2020: £12m) in respect of this liability which is included within other creditors (see note 22).

**a) Tax charged (credited)**

	Long-term funds		Shareholders' Profits	
	2021 £m	2020 £m	2021 £m	2020 £m
<b>Current Tax</b>				
UK corporation tax	336	420	(99)	52
Overseas tax	51	70	—	—
Adjustments in respect of prior years	(1)	24	4	(11)
Total current tax	<u>386</u>	<u>515</u>	<u>(95)</u>	<u>41</u>
<b>Deferred tax</b>				
Origination and reversal of timing differences	258	(116)	(3)	10
Total deferred tax	<u>258</u>	<u>(116)</u>	<u>(3)</u>	<u>10</u>
<b>Shareholders' attributable tax in respect of the long-term business</b>				
Current	—	—	138	220
Deferred	—	—	(43)	(28)
Total shareholders' attributable tax	<u>—</u>	<u>—</u>	<u>95</u>	<u>192</u>
<b>Tax allocated (to) from non-technical account</b>	—	(1)	—	1
<b>Tax charge on profit on ordinary activities</b>	<u>644</u>	<u>397</u>	<u>(3)</u>	<u>244</u>

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

**Notes on the financial statements (continued)****b) Factors affecting tax charge for the period**

	<u>2021</u>	<u>2020</u>
	£m	£m
Profit on ordinary activities before tax	75	1,311
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19 per cent (2020: effective rate of 19 per cent)	14	249
Permanent differences	2	(12)
Adjustment to current tax in respect of previous periods	3	(17)
Different tax bases of long-term insurance (current tax)	(3)	8
Effect of tax rate changes	(3)	10
Revaluation of subsidiaries	—	2
Tax losses not recognised for DT purposes	(16)	4
Total tax charge for the period	<u>(3)</u>	<u>244</u>

**c) Balance Sheet**

	Attributable to Long-term funds		Attributable to Shareholders' funds	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	£m	£m	£m	£m
<b>Provision for Deferred Tax</b>				
Accelerated capital allowances	18	16	—	—
Short term timing differences	(1)	—	(1)	—
Unrealised gains	975	684	—	—
Deferred acquisition costs	(38)	(45)	—	—
Life transitional arrangements	25	68	—	—
Pension asset (liability)	2	—	(7)	(12)
Unutilised tax losses	—	—	(13)	(11)
Undiscounted provision for deferred tax liability (deferred tax asset)	<u>981</u>	<u>722</u>	<u>(21)</u>	<u>(23)</u>
Deferred tax liability at start of the period	722	841	(23)	(21)
Deferred tax (credit) charge in technical/non-technical account for the period	258	(116)	2	10
Deferred tax (credit) charge from statement of comprehensive income	<u>1</u>	<u>(3)</u>	<u>—</u>	<u>(12)</u>
Deferred tax liability (asset) at end of the period	<u>981</u>	<u>722</u>	<u>(21)</u>	<u>(23)</u>

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

On 10 June 2021, the UK Government's proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted into UK law. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and the Company's effective tax rate in the future. The Company expect that, in line with the rate increase, there will be an increase to the effective tax rate for periods from 2023 onwards.

**Notes on the financial statements (continued)**

The change to the carrying values of the deferred tax assets and liabilities was not significant primarily due to the majority of the UK deferred tax balances being measured at a policyholder rate of tax which is unaffected by the rate increase.

The net reversal of the deferred tax balance expected to occur in the next twelve months is uncertain as this will relate mainly to the valuation of unrealised gains which cannot be reliably estimated.

At the end of the reporting period, the Company has unused tax losses of £458m (2020: £534m) for which no deferred tax asset is being recognised. The unused tax losses wholly relate to capital losses in the UK. These losses originally arose in different companies in the Prudential plc group (previous ultimate parent company). Some arose and were transferred to the Company during 2019. Others arose in a previous period but the Company did not have the economic benefits arising from the utilisation of the losses. Following the demerger from Prudential plc, any economic benefit which arises from the future use of these losses will accrue to the Company. No deferred tax asset is recognised on the £458m of capital losses as it is considered not probable that future taxable UK capital gains will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely.

**8. Incurred but not reported provision**

A gross and ceded IBNR (Incurred but not Reported) provision of £102m (2020: £102m) has been recognised for the general insurance business operations in run off, primarily for industrial disease exposure, and is included within claims outstanding. This liability is reinsured externally and there is a corresponding asset held in reinsurance receivables.

**9. Information on staff and pension costs**

The Company has no employees (2020 : Nil).

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

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

**Defined Benefit Pension Schemes**

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

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

The largest defined benefit scheme is the Prudential Staff Pension Scheme - Defined Benefit Section. At 31 December 2021, the underlying PSPS liabilities account for 80% (2020: 81%) of the aggregate liabilities of the M&G plc group's defined benefit schemes. The Company also has a smaller defined benefit scheme, the Scottish Amicable Staff Pension Scheme (SASPS), as described below.

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

The Company is the Principal Employer of PSPS. The principal employer of SASPS changed from Prudential Distribution Limited (a service company within the M&G plc group) to M&G Corporate Services Limited (a service company within the M&G plc group) in October 2021. PSPS contributions are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity. SASPS contributions are payable in accordance with the current Schedule of Contributions, comprised of contributions for the ongoing cost of accrual, deficit contributions, and contributions in respect of non-investment expenses.

**Notes on the financial statements (continued)**

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

- 70% of the surplus in PSPS is allocated to the with-profits fund of the Company; 30% is allocated to M&G Corporate Services Limited, a fellow subsidiary undertaking of the M&G plc group.
- 40% of the deficit and related costs of SASPS is allocated to the with-profits fund and 60% has been allocated to the shareholder fund of the Company.

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

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

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

**Corporate Governance**

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

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

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

The Trustee sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the Investment Managers.

During 2020, PSPS entered into a longevity swap transaction with Pacific Life Re Limited. This arrangement provides long term protection for PSPS against costs that could result from unexpected increases in the life expectancy relating to the pensions that were in payment on 6 April 2019 (excluding any future discretionary increases). As at 31 December 2021, the longevity swap covered £2.8bn (2020: £3.1bn) of the total current pensioner scheme liabilities.



**Notes on the financial statements (continued)**

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

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

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

	2021		2020	
	PSPS %	SASPS %	PSPS %	SASPS %
<b>Price inflation:</b>				
Retail Price Index (RPI)	3.6	3.4	3.0	2.9
Consumer Price Index (CPI)	3.1	3.1	2.2	2.1
Rate of increase in salaries	3.6	3.4	3.0	2.9
<b>Rate of increase of pensions in payment:</b>				
PSPS				
Guaranteed - LPI (Max 5%)	3.1	n/a	2.5	n/a
Guaranteed - LPI (Max 2.5%)	2.5	n/a	2.5	n/a
Discretionary	2.5	n/a	2.5	n/a
SASPS	n/a	3.4	n/a	2.9
Rate used to discount scheme liabilities	1.8	1.8	1.2	1.3

The mortality assumptions are specific to each scheme, and are adjusted to make allowance for future improvements in longevity. As at 31 December 2021, this allowance was based on the CMI\_2019 mortality improvements model with improvement factors of 1.75% for males and 1.5% for females. 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 1.5% for females.

The most recent full valuations have been updated to 31 December 2021 applying the principles prescribed by FRS 102.28.

The combined assets and liabilities of PSPS and SASPS were:

	31 December 2021		31 December 2020	
	£m	%	£m	%
Equities	76	1	33	—
Bonds	7,732	92	8,052	91
Properties	288	3	195	2
Other assets	294	4	573	7
Total value of assets	<b>8,390</b>	<b>100</b>	8,853	100
Present value of underlying scheme liabilities	<b>7,503</b>		8,184	
Underlying surplus in the schemes	<b>887</b>		669	

Included within other assets is a £11m derivative liability in respect of the longevity swap transaction with Pacific Life Re Limited (2020: £15m).

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

	2021	2020
	£m	£m
Attributable to the Company's with-profits fund	7	(2)
Attributable to the Company's shareholder fund	(30)	(64)
Total	<b>(23)</b>	<b>(66)</b>

**Notes on the financial statements (continued)**

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

The total actual return on scheme assets for both PSPS and SASPS is a loss of £139m (2020: gain of £884m) of which a loss of £107m (2020: gain of £584m) relates to the amounts attributable to the Company's with-profits fund and a gain of £21m (2020: £70m) relates to amounts attributable to the Company's shareholder fund.

The pension asset recognised on the balance sheet of the Company and detailed in the table below is £27m as at 31 December 2021 (2020: £40m). The provision for pensions on the balance sheet of the Company and detailed in the table below is £50m as at 31 December 2021 (2020: £106m).

The surplus in the Prudential Staff Pension Scheme of £27m represents the amount which is recoverable through reduced future contributions that is attributable to the Company and is net of the apportionment to M&G Corporate Services Limited (previously M&G Prudential Services Limited).

**Underlying scheme assets and liabilities of PSPS and SASPS**

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

2021 £m	Assets	Liabilities	Net surplus	Effect of FRS 102 for derecognition of surplus	Total surplus (deficit)	PAC share of surplus (deficit) ***
Net surplus (deficit) at start of year	8,851	(8,182)	669	(717)	(48)	(66)
Current service cost	—	(17)	(17)	—	(17)	(10)
Past service cost**	—	—	—	—	—	—
Net interest on net defined benefit	107	(99)	8	—	8	—
Administration expenses	(8)	—	(8)	—	(8)	(7)
Benefit payments	(364)	364	—	—	—	—
Company contributions*	41	—	41	—	41	37
Actuarial gains and losses	(240)	431	191	11	202	23
<b>Net surplus (deficit) at end of year</b>	<b>8,387</b>	<b>(7,503)</b>	<b>884</b>	<b>(706)</b>	<b>178</b>	<b>(23)</b>
<b>PSPS net surplus (deficit) at end of year</b>	<b>7,394</b>	<b>(6,460)</b>	<b>934</b>	<b>(706)</b>	<b>228</b>	<b>27</b>
<b>SASPS net surplus (deficit) at end of year</b>	<b>993</b>	<b>(1,043)</b>	<b>(50)</b>	<b>—</b>	<b>(50)</b>	<b>(50)</b>

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

\*\* In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("GMPs"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2021 and 31 December 2020, the Company has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £43m for PSPS and £20m for SASPS as at 31 December 2021 (2020: £43m for PSPS and £21m for SASPS a). A portion of these costs are allocated to the Company in line with the apportionments described on page 54.

\*\*\* PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

**Notes on the financial statements (continued)**

2020 £m	Assets	Liabilities	Net surplus	Effect of FRS 102 for derecognition of surplus	Total surplus (deficit)	PAC share of surplus (deficit) ***
Net surplus (deficit) at start of year	8,314	(7,415)	899	(927)	(28)	—
Current service cost	—	(16)	(16)	—	(16)	(10)
Past service cost**	—	(11)	(11)	—	(11)	(8)
Net interest on net defined benefit	169	(151)	18	—	18	—
Administration expenses	(12)	—	(12)	—	(12)	(8)
Benefit payments	(386)	386	—	—	—	—
Company contributions*	40	—	40	—	40	37
Actuarial gains and losses	726	(975)	(249)	210	(39)	(77)
<b>Net surplus (deficit) at end of year</b>	<b>8,851</b>	<b>(8,182)</b>	<b>669</b>	<b>(717)</b>	<b>(48)</b>	<b>(66)</b>
<b>PSPS net surplus (deficit) at end of year</b>	<b>7,884</b>	<b>(7,109)</b>	<b>775</b>	<b>(717)</b>	<b>58</b>	<b>40</b>
<b>SASPS net surplus (deficit) at end of year</b>	<b>967</b>	<b>(1,073)</b>	<b>(106)</b>	<b>—</b>	<b>(106)</b>	<b>(106)</b>

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

\*\* In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("GMPs"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2020 and 31 December 2019, the Company has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £48m for PSPS and £21m for SASPS as at 31 December 2020 (2019: £32m for PSPS and £17m for SASPS a). A portion of these costs are allocated to the Company in line with the apportionments described on page 54.

\*\*\* PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

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

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

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

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

The amounts attributable to the Company's with-profits fund for both PSPS and SASPS are absorbed by the transfer to or from the FFA and therefore have no direct effect on shareholders' profit or shareholders' funds. In 2021, there was a pension debit of £6m (2020: debit of £34m).

The amount attributable to the Company's shareholders for SASPS has a direct effect on shareholders' profit and shareholders' funds. In 2021 there was a pension credit of £17m (2020: debit of £63m).

In 2021, the actuarial gains included a credit of £11m (2020: debit of £25m) for the adjustment to the unrecognised portion of the PSPS surplus which has not been applied against the pension charge.

**Notes on the financial statements (continued)**

The actuarial loss for both PSPS and SASPS relating to the Company's with-profits fund of £3m (2020: actuarial gain of £16m) is included in the statement of comprehensive income and reflected in the transfer to or from the FFA. The actuarial loss of SASPS relating to the Company's shareholder element of £20m (2020: actuarial gain of £61m) is included in total other comprehensive income for the financial year.

Total employer contributions expected to be paid into PSPS and SASPS for the year ending 31 December 2021 amounts to £41m (2020: £40m), reflecting the annual accrual cost, deficit funding (SASPS only), and expenses, of which £38m (2020: £37m) relates to the Company.

The table below shows the sensitivity of the underlying PSPS and SASPS liabilities at 31 December 2021 of £6,460m (2020: £7,109m) and £1,043m (2020: £1,073m) to changes in discount rates, inflation rates and mortality rate assumptions.

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

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

**Notes on the financial statements (continued)**

<b>Assumption</b>	<b>Change in assumption</b>	<b>Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis</b>
<b>2020</b>		
Discount rate	Decrease by 0.2%: PSPS from 1.2% to 1.0% SASPS from 1.3% to 1.1%	Increase scheme liabilities by: PSPS 3.5% SASPS 4.9%
Discount rate	Increase by 0.2%: PSPS from 1.2% to 1.4% SASPS from 1.3% to 1.5%	Decrease scheme liabilities by: PSPS 3.3% SASPS 4.6%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.0% to 2.8% SASPS from 2.9% to 2.7% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.5% SASPS 3.5%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 2.2% to 2.0% SASPS from 2.1% to 1.9% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.5% SASPS 3.5%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.6% SASPS 3.7%

**10. Directors' emoluments**

	<u>2021</u>	<u>2020</u>
	£	£
Aggregate emoluments	<b>2,205,304</b>	1,939,333
Excess retirement benefits:		
Current directors	<b>77,161</b>	93,800
Past directors	—	—
	<b>2,282,465</b>	2,033,133
Highest Paid Director:		
Aggregate emoluments and amounts receivable (excluding shares) under long term incentive schemes	<b>778,121</b>	583,106

Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. The directors' service and employment contracts are with other Group companies. An assessment was made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this.

Contributions were made to a defined contribution pension scheme on behalf of three directors in 2021 (2020: three). No directors (2020: none) exercised share options during the year. Three directors (2020: three) were entitled to shares under M&G plc's main long-term incentive scheme and two directors (2020: two) were entitled to retirement funds under defined benefit schemes.

The highest paid director in 2021 (and 2020) received shares under long-term incentive schemes and chose not to exercise any in either year.

**Notes on the financial statements (continued)**

**11. Auditor's remuneration**

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

	<u>2021</u>	<u>2020</u>
	£000's	£000's
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2,876	2,498
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	588	606
Audit of the Company's subsidiaries, pursuant to legislation	1,224	1,072
Other assurance services	32	30
Total fees payable	<u>4,720</u>	<u>4,206</u>

**12. Land and buildings**

	<u>2021</u>	<u>2020</u>
	£m	£m
Current value		
Freeholds	5,087	4,740
Leaseholds with a term of over 50 years	2,159	2,399
Leaseholds with a term of less than 50 years	594	525
	<u>7,840</u>	<u>7,665</u>
Cost	<u>5,772</u>	<u>6,024</u>

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

	<u>2021</u>	<u>2020</u>
	£m	£m
At cost	5,772	6,024
Aggregate depreciation	(4,068)	(3,921)
Net book value based on historical cost	<u>1,704</u>	<u>2,103</u>

**(a) Investment property**

	<u>2021</u>	<u>2020</u>
	£m	£m
<b>Balance at 1 January</b>	<b>7,665</b>	<b>8,418</b>
Additions		
Resulting from acquisitions	92	93
Resulting from expenditure capitalised	26	35
Disposals	(495)	(162)
Net gain/(loss) from fair value adjustments	556	(713)
Other changes	(4)	(6)
<b>Balance at 31 December</b>	<b><u>7,840</u></b>	<b><u>7,665</u></b>

The 2021 profit and loss account includes rental income from investment properties of £440m (2020: £442m).

**Notes on the financial statements (continued)**

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

	<u>2021</u>			<u>2020</u>		
	£m			£m		
	Future minimum payments	Future finance charges	PV of future minimum payments	Future minimum payments	Future finance charges	PV of future minimum payments
Less than 1 year	—	—	—	1	—	1
1 to 5 years	2	—	2	2	—	2
Over 5 years	59	(53)	6	103	(92)	11
Total	<b>61</b>	<b>(53)</b>	<b>8</b>	106	(92)	14

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future value of a factor that changes other than with the passage of time. Contingent rent of £2m (2020: £1m) has been recognised as income with an expense charge of £6m (2020: £3m). There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. The contractual obligations to purchase or develop investment properties at 31 December 2021 were £592m (2020: £909m).

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

	<u>Restated*</u>	
	<u>2021</u>	<u>2020</u>
	£m	£m
Less than 1 year	343	381
1 to 5 years	1,156	1,317
Over 5 years	1,837	2,328
Total	<b>3,336</b>	<b>4,026</b>

\*Restated to include leasehold investment properties, previously only disclosed freehold.

**(b) Finance lease asset**

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

	<u>2021</u>			<u>2020</u>		
	£m			£m		
	Future minimum receivables	Future finance credits	PV of future minimum receivables	Future minimum receivables	Future finance credits	PV of future minimum receivables
Less than 1 year	2	—	2	2	—	2
1 to 5 years	8	(1)	7	8	(1)	7
Over 5 years	363	(330)	33	365	(341)	24
Total	<b>373</b>	<b>(331)</b>	<b>42</b>	375	(342)	33

**Notes on the financial statements (continued)****13. Investments in group undertakings and participating interests**

	Cost		Current value	
	2021	2020	2021	2020
	£m	£m	£m	£m
Long-term fund investments	2,553	2,310	4,191	3,502
Shareholder investments	329	289	481	440
<b>Total</b>	<b>2,882</b>	<b>2,599</b>	<b>4,672</b>	<b>3,942</b>
Interest in joint ventures and associate long-term fund investments	347	347	469	421
Debt securities issued by, and loans to group undertakings – long term funds	984	1,134	983	1,133
<b>Total</b>	<b>4,213</b>	<b>4,080</b>	<b>6,124</b>	<b>5,496</b>

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

**14. Other financial investments**

	Cost		Carrying value	
	2021	2020	2021	2020
	£m	£m	£m	£m
<u>Fair value through profit and loss</u>				
Shares and other variable yield securities and units in unit trusts	51,137	47,096	60,245	56,410
Debt securities and other fixed income securities	51,292	51,543	54,868	58,101
Derivative assets	1,841	1,846	2,909	5,315
Participation in investment pools	8,193	6,707	10,130	7,566
Loans secured by mortgages	2,597	2,622	2,767	2,820
<u>Amortised cost</u>				
Loans to policyholders secured by insurance policies	2	2	2	2
Other loans	787	1,013	771	995
Deposits with credit institutions	15,377	15,731	15,377	15,731
	<b>131,226</b>	<b>126,560</b>	<b>147,069</b>	<b>146,940</b>

The change in carrying value of other financial investments included in the Profit and Loss account was a loss of £3,853m (2020: £1,137m loss) analysed between a loss of £3,393m (2020: £1,677m loss) included in the Long-term business technical account and a loss of £459m gain (2020: £540m gain) included in the Non-technical account.

The change in carrying value of £3,853m loss (2020: £1,137m loss) included a loss of £156m (2020: £2,341m loss) in respect of equity securities, loss of £3,052m (2020: £731m gain) in respect of debt securities, a loss of £1,673m (2020: £562m gain) in respect of derivatives and a gain of £1,028m (2020: £89m loss) in respect of other financial instruments.

	Carrying value	
	2021	2020
	£m	£m
Amounts included in the above relating to listed investments:		
Shares and other variable yield securities and units in unit trusts	34,527	47,097
Debt securities and other fixed income securities	46,993	49,695
	<b>81,520</b>	<b>96,792</b>



**Notes on the financial statements (continued)**

The table below analyses the derivative positions of the Company:

	<u>2021</u>		<u>2020</u>	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	2,229	843	3,879	1,902
Cross currency swaps	28	325	43	418
Currency exchange forward contracts	299	484	877	207
Bond futures	3	29	1	20
Credit default swaps	3	25	51	1
Inflation swaps	249	442	287	494
Derivative financial instruments held to manage market risk and efficient investment management:				
Equity options	37	178	67	35
Equity futures	55	7	110	17
Equity warrants	6	—	—	—
<b>Total</b>	<b>2,909</b>	<b>2,333</b>	<b>5,315</b>	<b>3,094</b>

The nature of the derivative financial instruments used by the Company in 2021, are similar to those used in 2020. These include the partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which was set up in 2013. This arrangement was extended each year since 2015. This is currently a liability of £339m (2020: liability of £142m). The derivative financial instruments also include hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund relating to 2019 and 2020 PruFund new business. These capital hedges are instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

The use of derivatives is discussed further in note 27 (G).

**Treatment of equity release mortgages transfer**

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

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

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

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

The fair value of this equity release mortgage portfolio at 31 December 2021 was £1,335m (2020: £1,391m).

**Notes on the financial statements (continued)**

**15. Assets held to cover linked liabilities**

	Cost		Carrying value	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	£m	£m	£m	£m
Assets held to cover linked liabilities	<b>10,814</b>	10,870	<b>13,670</b>	13,896

**16. Reinsurers' share of technical provisions**

At 31 December 2021, longevity swap reinsurance covered £5.5bn (2020: £6bn) of annuity liabilities in the non-profit sub fund, equivalent to 31% (2020: 20%) of total annuity liabilities.

In addition, of the business reinsured to Rothesay Life Plc, longevity swap reinsurance covered £6.3bn of annuity liabilities at 31 December 2020, equivalent to 21% of total annuity liabilities at 31 December 2020. There is no equivalent longevity swap at end 2021, in relation to the Rothesay Life Plc reinsurance business, due to the Part VII transfer of the business as at 15 December 2021.

Included in income and expense in the profit and loss account is £10.3bn reflecting the movement in the reinsurers' share of technical provision to £7.2bn at 31 December 2021 from £17.5bn at 31 December 2020, principally reflecting the Part VII transfer which resulted in the de-recognition of £9.6bn of reinsurance assets.

During the year the Company recognised a loss of £16m from the purchase of reinsurance with Rothesay Life Plc.

**17. Other debtors**

	<u>2021</u>	<u>2020</u>
	£m	£m
Amounts owed by ultimate parent company	—	25
Amounts owed by fellow subsidiaries	<b>144</b>	83
Amounts owed by subsidiary companies, associate and joint ventures	<b>240</b>	264
Tax recoverable	<b>337</b>	358
Other	<b>72</b>	177
	<b>793</b>	907

Other debtors include £35m (2020: £3m) due after more than one year.

**Notes on the financial statements (continued)**

**18. Bank current accounts**

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

**19. Assets attributable to the long term business fund**

Of the total amount of assets shown in the balance sheet on page 36, £185,346m (2020: £196,243m) is attributable to the long-term business fund.

**20. Share capital**

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

**21. Other Provisions**

	<u>2021</u>	<u>2020</u>
	£m	£m
<b>At 1 January</b>	<b>79</b>	<b>159</b>
Charged to income statement:		
Additional provisions	<b>4</b>	51
Unused amounts released	<b>(41)</b>	(35)
Used during the year	<b>(15)</b>	(96)
<b>Total at 31 December</b>	<b><u>27</u></b>	<b><u>79</u></b>

**Provisions in relation to annuity sales practices**

Other provisions included a provision for review of past annuity sales of £49m as at 31 December 2020. During 2021, £9m of the provision was utilised and the remaining £40m has been released as it is no longer required.

**22. Other creditors including tax and social security**

	<u>2021</u>	<u>2020</u>
	£m	£m
Amounts owed to fellow subsidiaries and ultimate holding company	<b>104</b>	110
Amounts owed to subsidiary companies, associate and joint ventures	<b>558</b>	529
Current tax payable	<b>193</b>	182
Derivative liability (see note 14)	<b>2,333</b>	3,093
Unsettled reverse repurchase agreements	<b>2,797</b>	1,885
Other creditors	<b>3,064</b>	3,505
	<b><u>9,049</u></b>	<b><u>9,304</u></b>

**23. Ultimate parent company**

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

**Notes on the financial statements (continued)**

**24. Related party transactions**

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

**25. Long-term business provision**

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

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

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

SAIF was a closed sub-fund that contained the bulk of the business originally written by the Scottish Amicable Life Assurance Society and acquired by the Company on 30 September 1997. On 1 April 2021 SAIF merged with the Company's main With-Profits Sub-Fund (WPSF) and the assets and liabilities of SAIF were combined with the WPSF. The merger of SAIF with the WPSF resulted in a £110m increase in technical provisions at the point of merger, with a corresponding £110m reduction in the fund for future appropriations (FFA) due to the need to reserve for future claim enhancements on a realistic economic basis. Under the terms of the SALAS Scheme, the SAIF inherited estate was to be distributed fully to with-profits policyholders as an addition to the with-profits benefits arising in SAIF. At the date of the merger, to ensure the full value of assets was distributed to SAIF with-profits policyholders, this addition (known as the Final Relevant Policies Enhancement) was reassessed and fixed, based on market conditions at the time. The enhancement is being paid through the terminal bonus at point of claim. SAIF policies continue to participate in profits on a 100:0 basis with no shareholder profit transfers.

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

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

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

**Notes on the financial statements (continued)***i. Analysis of movements in insurance liabilities including FFA*

	<b>Technical Provisions</b>		
	<b>Technical Provisions £m</b>	<b>Linked liabilities £m</b>	<b>Total £m</b>
<b>As at 1 January 2020</b>			
Comprising			
Technical provisions	143,030	21,731	164,761
Fund for future appropriations	16,153	—	16,153
	<b>159,183</b>	<b>21,731</b>	<b>180,914</b>
Premiums	5,615	116	5,730
Surrenders	(5,720)	(229)	(5,949)
Maturities/Deaths	(5,711)	(1,003)	(6,714)
Shareholders' transfers post tax	(250)	—	(250)
Switches	(81)	81	—
Investment-related items and other movements	5,811	771	6,582
Foreign exchange translation differences	37	—	37
Assumption changes	(238)	—	(238)
	<b>158,646</b>	<b>21,466</b>	<b>180,112</b>
<b>As at 31 December 2020/1 January 2021</b>			
Comprising			
Technical provisions	142,974	21,466	164,440
Fund for future appropriations	15,672	—	15,672
	<b>158,646</b>	<b>21,466</b>	<b>180,112</b>
Premiums	4,612	149	4,761
Surrenders	(6,501)	(218)	(6,719)
Maturities/Deaths	(5,850)	(1,076)	(6,926)
Shareholders' transfers post tax	(297)	—	(297)
Switches	(31)	31	—
Investment-related items and other movements	10,528	(784)	9,744
Foreign exchange translation differences	(82)	—	(82)
Transfer of business	(9,558)	—	(9,558)
Assumption changes	(347)	—	(347)
	<b>151,120</b>	<b>19,568</b>	<b>170,688</b>
<b>As at 31 December 2021</b>			
Comprising			
Technical provisions	134,249	19,568	153,817
Fund for future appropriations	16,871	—	16,871
	<b>151,120</b>	<b>19,568</b>	<b>170,688</b>

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

\*The amount for balance sheet reallocations includes reclassifications between insurance contract liabilities and the unallocated surplus of the with-profits fund.

**Notes on the financial statements (continued)**

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

With the exception of annuity business, most unitised with-profits bonds and other whole-of-life contracts, the majority of the contracts of the Company have a contract term. However, in effect, the maturity term of contracts reflects the earlier of death, maturity, or lapse of the contract. In addition, with-profits contracts include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of the WPSF. Instead the Company uses cash flow projections of expected benefit payments. The following table shows the maturity profile of the cash flows used for insurance contracts i.e. those containing significant insurance risk, and investment contracts, which do not contain significant insurance risk:

2021	With-profits business			Policyholder	Shareholder	Other		
	Insurance	Investment	Total	Insurance	Insurance	Insurance	Investment	Total
	contracts	contracts		contracts	contracts	contracts	contracts	
	%	%	%	%	%	%	%	%
0-5 years	34	36	35	36	29	45	32	36
5-10 years	24	25	25	26	24	26	24	25
10-15 years	17	16	17	17	19	15	19	18
15-20 years	11	10	10	10	14	8	12	10
20-25 years	7	6	6	5	8	3	7	6
Over 25 years	7	7	7	6	6	3	6	5

2020	With-profits business			Policyholder	Shareholder	Other		
	Insurance	Investment	Total	Insurance	Insurance	Insurance	Investment	Total
	contracts	contracts		contracts	contracts	contracts	contracts	
	%	%	%	%	%	%	%	%
0-5 years	34	35	35	34	27	44	31	35
5-10 years	23	26	25	26	24	25	24	24
10-15 years	17	17	17	17	19	15	19	18
15-20 years	11	10	10	10	14	8	12	11
20-25 years	7	6	6	6	9	4	7	6
Over 25 years	8	6	7	7	7	4	7	6

Notes:

- (i) The cash flow projections of expected benefit payments used in the maturity profile table above are from in-force business and exclude the value of future new business, including vesting of internal pension contracts.
- (ii) Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.
- (iii) Investment contracts under 'Other' comprise unit-linked and similar contracts.
- (iv) For business with no maturity term included within the contracts, for example with-profits investment bonds such as Prudence Bond, an assumption is made as to likely duration based on prior experience, or in the case of annuity business the expected payment pattern of annuity claims.
- (v) The cash flow projections used in the maturity profile table are net of reinsurance.

*ii. Determining insurance liabilities*

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

**A. Business in WPSF and DCPSF**

**With-profits options and guarantees**

Certain contracts written in the Company's With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion.

**Notes on the financial statements (continued)**

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

Assumptions are required in three areas, namely:

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

**Retrospective assumptions**

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

The 2021 year end Investment Return for asset shares is:

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

Ex SAIF return, reflects 3 months of SAIF return pre merger into the WPSF as at 1 April 2021.

**Notes on the financial statements (continued)**

The 2020 year end Investment Return for asset shares were:

Return	WPSF Main Asset Share Fund	High Reversionary Bonus fund (held within the WPSF)	PruFund Cautious Fund (held within the WPSF)	SAIF
Gross return	1.69%	3.51%	4.41%	1.97%
Net return	1.52%	2.93%	3.64%	1.70%

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

**Prospective assumptions**

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

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

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

Refer to note 27 (E) for sensitivity analysis.

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

Product	Mortality Table (M/F)	Age Rating Years (M/F)	Multiplier % (M/F)
Prudence Bond	AMC00/AFC00	-1 / -1	90 / 90
PSA / PIB	AMC00/AFC00	-0.5 / -0.5	80 / 80
Personal Pensions	AMC00/AFC00	-1 / -1	95 / 95
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	100 / 100
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	95 / 95
Group Pension Deferred Annuities	PMA00_CMI_2019_M_LTR_1.75_Sk_7.5_A_0.45_pl50bps / PFA00_CMI_2019_F_LTR_1.50_Sk_8_A_0.45_pl50bps	+0/+0	100/99 (PAC) 96/98 (ex-PAL)
Ex-SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	70 / 70 Life & 50 / 50 Pensions
Ex-SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	50 / 50 Life & 55 / 55 Pensions



**Notes on the financial statements (continued)**

The table below shows the mortality bases used for the valuation at 31 December 2020:

Product	Mortality Table (M/F)	Age Rating Years (M/F)	Multiplier % (M/F)
Prudence Bond	AMC00/AFC00	-1 / -1	90 / 90
PSA / PIB	AMC00/AFC00	-0.5 / -0.5	80 / 80
Personal Pensions	AMC00/AFC00	-1 / -1	95 / 95
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	100 / 100
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	95 / 95
Group Pension Deferred Annuities	PCMA00_CMI_2018_M_LTR_1.75_Sk_7.75_pl50bps / PCFA00_CMI_2018_F_LTR_1.50_Sk_8.25_pl50bps	+0/+0	98/86 (PAC) 99/93 (ex-PAL)
SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	70 / 70 Life & 50 / 50 Pensions
SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	50 / 50 Life & 55 / 55 Pensions

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

**Stochastic asset model economic calibration and management actions**

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

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

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

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

**B. Other non-linked business**

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

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for the valuation. New mortality projection models are released regularly by the Continuous Mortality Investigation (CMI). The mortality improvements basis has been reviewed to consider the drivers of change in mortality improvements including how the COVID-19 pandemic might impact mortality improvements in future and has drawn upon various research papers and industry

**Notes on the financial statements (continued)**

views. Due to continuing uncertainty, in particular the longer term impacts of the pandemic, it is expected that improvements will remain an area of focus over the coming years.

The CMI 2019 model was used to produce the 2021 results, along with a long-term rate of 1.75% for males and 1.50% for females plus 0.5% constant increase to per annum improvement rates. The CMI 2018 model was used to produce the 2020 results with a long-term rate of 1.75% for males and 1.50% for females plus 0.5% constant increase to per annum improvement rates.

Overall, the longevity basis used to produce the 2021 results is a slightly weaker calibration relative to the previous year.

The following discount rates were used for annuity business at 31 December 2021:

<b>UK (excluding ex- Scottish Amicable Insurance Fund)</b>	<b>Interest Rate %</b>
Ex-PAL Annuities (Fixed)	2.03
Ex-PAL Annuities (Linked)	1.87
NPSF Annuities (Fixed)	2.20
NPSF Annuities (Linked)	2.10
Other Shareholder Annuities (Fixed)	2.20
Other WPSF Annuities (Fixed)	2.75
Other WPSF Annuities (Linked)	4.83

The following discount rates were used for annuity business at 31 December 2020:

<b>UK (excluding Scottish Amicable Insurance Fund)</b>	<b>Interest Rate %</b>
Ex-PAL Annuities (Fixed)	1.43
Ex-PAL Annuities (Linked)	1.29
NPSF Annuities (Fixed)	1.79
NPSF Annuities (Linked)	1.62
Other Shareholder Annuities (Fixed)	1.79
Other WPSF Annuities (Fixed)	2.75
Other WPSF Annuities (Linked)	4.32

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

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

**Notes on the financial statements (continued)**

The following discount and mortality bases were used for term assurances at 31 December 2020:

	Interest Rate %	Actuarial Mortality Table Reference*
<b>UK (excluding Scottish Amicable Insurance Fund)</b>		
Term assurances - life business	0.18	85% to 100% AMC00/AFC00 +1
Term assurances - pensions business	0.23	80 to 85% AMC00/AFC00 +1
<b>Scottish Amicable Insurance Fund</b>		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	0.72	80% AMC00/AFC00 +1

**C. Linked business in the Shareholder Fund**

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

Discount Rate	0.98%
Fund Growth	4.79%
Mortality	AMC00/ AFC00 Ultimate+1 age adj 80%-95% depending upon product type
Administration Expenses	£70 to £164 depending on product type
Expense Inflation	3.79% for retained expenses, 3.29% for third party expenses

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2020:

Discount Rate	0.23% Gross
Fund Growth	4.57% Gross
Mortality	AMC00/ AFC00 Ultimate+1 age adj 80%-95% depending upon product type
Administration Expenses	£76 to £145 depending on product type
Expense Inflation	3.57%

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

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

Discount Rate	0.98%
Fund Growth	4.79%
Mortality	AMC00/ AFC00 Ultimate+1 age adj 80%-95% depending upon product type
Administration Expenses	Ex-SAIF: £72 to £151 depending on product type WPSF: £94 to £111 depending on product type
Expense Inflation	4.79% for retained expenses, 3.29% for third party expenses

**Notes on the financial statements (continued)**

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2020:

Discount Rate	0.23% Gross
Fund Growth	4.57% Gross
Mortality	AMC00/ AFC00 Ultimate+1 age adj 80%-95% depending upon product type
Administration Expenses	SAIF: £82 to £169 depending on product type WPSF: £128 to £135 depending on product type
Expense Inflation	4.57% for retained expenses, 3.07% for third party expenses for SAA

**E. Other long-term business provisions**

Additional provisions have been established, the most significant being for the potential costs and expenses of compensating the Company's pension policyholders under the Financial Services Authority (FSA), the UK insurance regulator at the time, review of pension opt-outs and transfer cases and for the potential cost of meeting annuity rate guarantees at vesting. Refer to note 26.

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

For the with-profits sub-fund, the aggregate effect of assumption changes in 2021 was a net increase to the FFA of £50m (2020: net increase of £339m), relating to changes in mortality, expense, persistency and tax assumptions, where appropriate in the two periods.

*ii. Effect of changes in assumptions used to measure shareholder assets and liabilities*

For the shareholder fund, the aggregate effect of assumption changes in 2021 was a net profit before tax of £135m (2020: £184m), relating to changes in mortality and expenses.

**26. Commitments, Contingencies and Related Obligations**

**Pension Mis-selling Review**

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

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

At 31 December 2021, the pension mis-selling amount included within the long-term business provision was £297m (2020: £304m). The table below summarises the change for the year ended 31 December 2021.

	Year Ended 31 December 2021	Year Ended 31 December 2020
	£m	£m
Balance at start of the period	<u>304</u>	<u>420</u>
Changes to actuarial assumptions and method of calculation	8	(62)
Release of provision in respect of closed cases	(7)	(5)
Redress paid to policyholders	(8)	(47)
Payment of administrative costs	—	(2)
Balance at end of the period	<u>297</u>	<u>304</u>

**Notes on the financial statements (continued)**

The pension mis-selling amount review as at 31 December 2021 is £297m for the remaining population. The average redress amount for stochastic population is determined stochastically on discounted basis.

The key assumptions underlying the provisions are:

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

The changes to actuarial assumptions for 2021 of £8m principally relates to an increase in stochastic average redress payment.

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

Assumption	Change in assumption	Change in provision (£m)	
		31 December 2021	31 December 2020
Average cost of redress	+/- 10%	+/- 10	+/- 10
Reserve rate for soft closed cases	+/- 10%	+/- 30	+/- 30

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

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

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

**Pensions Equalisation Review**

The European Court of Justice ruled in 1990 that pension schemes should equalise retirement ages for males and females (*Barber vs Guardian Royal Exchange*). This affects certain defined benefit pension schemes previously administered by Scottish Amicable Life Assurance Society and wound up schemes formerly administered by the Company, where the Company issued the buy-out policy to members. Investigations are ongoing to determine the extent to which the Company was responsible or liable for any errors in members' benefit calculations and whether compensation or redress may be payable, and from which fund. Accordingly, as at 31 December 2021 an amount is held within the long-term business provision of £11m in respect of shareholder-backed business and £3m in respect of ex SAIF (2020: £11m and £4m respectively).

**Guaranteed Minimum Pensions**

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

**Notes on the financial statements (continued)**

**Support of Long-term Business Funds by Shareholders' Funds**

As a proprietary insurance company, the Company is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Company's ability to satisfy policyholders' reasonable expectations was adversely affected, or otherwise not able to meet its obligations to treat the with-profits policyholders fairly, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support. In line with this, an expense overrun of £38m was incurred in 2021 (2020: £31m) due to recent lower sales volumes.

The Company established a Polish branch, which became operational in March 2013. The Company's inherited estate is contributing to the costs of establishing the branch, and receives repayment through income from charges levied on the business. There is an obligation on the Company's shareholder funds to ensure the inherited estate will be repaid in full with interest and an amount is included in the longer term business provision for the estimated cost to the shareholder of any shortfall at end of the term of the agreement. This obligation to repay the inherited estate in full is not affected by the Part VII Transfer of the Company's Polish branch to its subsidiary PIA in 2019.

**Litigation**

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

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

**Intra-group Capital Support Arrangements**

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

Prutec Limited, a subsidiary of the Company, invests in partnerships, venture capital funds, private equity funds and private equity transactions. Prutec Limited's assets are predominantly fixed asset investments, and as a result the the entity has net current liabilities. Accordingly, a letter of support provided by the Company to Prutec Limited provides the necessary support through a loan facility up to 30 September 2022.

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

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

**Notes on the financial statements (continued)**

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

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

**Notes on the financial statements (continued)****27. Financial assets and liabilities****A. Financial instruments - designation and fair values**

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

2021	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m	
<b>Financial Assets</b>					
Deposits with credit institutions	—	15,377	15,377	15,377	
Equity securities and portfolio holdings in unit trusts	60,245	—	60,245	60,245	
Debt securities and other fixed income securities (note i)	54,869	—	54,869	54,869	
Loans (note ii)	2,767	773	3,540	3,636	
Participation in investment pools	10,129	—	10,129	10,129	
Derivative assets	2,909	—	2,909	2,909	
Assets held to cover linked liabilities	13,670	—	13,670	13,670	
Debtors arising out of direct insurance operations	—	24	24	24	
Debtors arising out of reinsurance operations	—	59	59	59	
Accrued investment income	—	720	720	720	
Other debtors	—	456	456	456	
Cash at bank and in hand	—	2,520	2,520	2,520	
Finance Lease asset (see note 12)	42	—	42	42	
<b>Total</b>	<b>144,631</b>	<b>19,929</b>	<b>164,560</b>	<b>164,656</b>	
	Fair value through profit and loss £m	Amortised cost £m	Investment contracts with DPF £m	Total carrying value £m	Fair value £m
<b>Financial Liabilities</b>					
Finance lease obligations (see note 12)	—	8	—	8	8
Other borrowings not owed to credit institutions (note iii)	—	97	—	97	97
Investment contracts with discretionary participation features (note iv)	—	—	82,701	82,701	—
Investment contracts without discretionary participation features	7,116	—	—	7,116	7,116
Creditors arising out of direct insurance operations	—	68	—	68	68
Creditors arising out of reinsurance operations	—	44	—	44	44
Deposits received from reinsurers	—	298	—	298	298
Other creditors	409	6,114	—	6,523	6,523
Derivative liabilities	2,333	—	—	2,333	2,333
<b>Total (note v)</b>	<b>9,858</b>	<b>6,629</b>	<b>82,701</b>	<b>99,188</b>	<b>16,487</b>



**Notes on the financial statements (continued)**

2020	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
<b>Financial Assets</b>				
Deposits with credit institutions	—	15,731	15,731	15,731
Equity securities and portfolio holdings in unit trusts	56,410	—	56,410	56,410
Debt securities and other fixed income securities (note i)	58,101	—	58,101	58,101
Loans (note ii)	2,820	997	3,817	3,936
Participation in investment pools	7,566	—	7,566	7,566
Derivative assets	5,315	—	5,315	5,315
Assets held to cover linked liabilities	13,896	—	13,896	13,896
Debtors arising out of direct insurance operations	—	18	18	18
Debtors arising out of reinsurance operations	—	15	15	15
Accrued investment income	—	796	796	796
Other debtors	—	549	549	549
Cash at bank and in hand	—	3,930	3,930	3,930
Finance Lease asset (see note 12)	33	—	33	33
<b>Total</b>	<b>144,141</b>	<b>22,036</b>	<b>166,177</b>	<b>166,296</b>

	Fair value through profit and loss £m	Amortised cost £m	Investment contracts with DPF £m	Total carrying value £m	Fair value £m
<b>Financial Liabilities</b>					
Finance lease obligations (see note 12)	—	14	—	14	14
Other borrowings not owed to credit institutions (note iii)	—	124	—	124	124
Investment contracts with discretionary participation features (note iv)	—	—	79,591	79,591	—
Investment contracts without discretionary participation features	7,453	—	—	7,453	7,453
Creditors arising out of direct insurance operations	—	77	—	77	77
Creditors arising out of reinsurance operations	—	96	—	96	96
Deposits received from reinsurers	—	344	—	344	344
Other creditors	409	5,620	—	6,029	6,029
Derivative liabilities	3,093	—	—	3,093	3,093
<b>Total (note v)</b>	<b>10,955</b>	<b>6,275</b>	<b>79,591</b>	<b>96,821</b>	<b>17,230</b>

Notes

- (i) As at 31 December 2021, £425m (2020: £525m) of convertible bonds were included in debt securities. There were no convertible bonds included in borrowings.
- (ii) Loans and receivables are reported net of allowance for loan losses of £16m (2020: £19m losses).
- (iii) As at 31 December 2021, £97m (2020: £124m) of loans repayable, contingent on regulatory surplus emerging, was included in Other borrowings not owed to credit institutions.
- (iv) It is impractical to determine fair value of investment contracts with discretionary participation features due to the lack of a reliable basis to measure such features.
- (v) For financial liabilities designated as fair value through profit and loss there was no material impact on profit from movements in credit risk during 2021 and 2020.

**Notes on the financial statements (continued)**

**Determination of fair value**

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

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

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

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

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

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

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

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

**Notes on the financial statements (continued)**

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

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

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

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

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

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

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

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

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

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

- Debt securities which were either valued on a discounted cash flow method with an internally developed discount rate or using other valuation methodologies including enterprise valuation and estimated recovery (such as liquidators' reports). The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.
- Private equity and venture capital investments in both debt and equity securities which were valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
- Equity release mortgage loans are 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 internally derived discount rate (risk-free rate plus a liquidity premium) and property values. During 2020 and 2021, the assumed future property growth assumption has been adjusted to make

**Notes on the financial statements (continued)**

allowance for the expected short-term dynamics in the residential property market, as a result of the COVID-19 pandemic. Significant assumptions for equity release mortgage assets within the valuation of the no-negative-equity guarantee include the expected annual increase in house prices of 3.05% (2020: 2.86%) and the implied in house price volatility of 13.00% (2020: 13.00%).

	31 December 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>With-profits*</b>				
Investment properties	—	—	7,039	7,039
Equity securities and portfolio holdings in unit trusts	53,569	2,596	4,080	60,245
Debt securities	24,823	12,898	4,707	42,428
Loans	—	452	999	1,451
Other investments (including derivative assets)	343	3,177	9,168	12,688
Derivative liabilities	(36)	(1,170)	—	(1,206)
Total financial investments, net of derivative liabilities	78,699	17,953	25,993	122,645
Percentage of total	64%	15%	21%	100%
<b>Unit-linked</b>				
Assets held to cover linked liabilities	6,546	—	—	6,546
Total investments net of derivative liabilities	6,546	—	—	6,546
Investment contract without discretionary participation features held at fair value	—	(7,116)	—	(7,116)
Total	6,546	(7,116)	—	(570)
Percentage of total	N/A	N/A	N/A	100%
<b>Non-linked shareholder-backed**</b>				
Investment properties	—	—	1,057	1,057
Equity securities and portfolio holdings in unit trusts	—	—	1	1
Debt securities	4,889	6,553	6,673	18,115
Loans	—	—	2,185	2,185
Other investments (including derivative assets)	—	560	60	620
Derivative liabilities	—	(1,123)	(4)	(1,127)
Total financial investments, net of derivative liabilities	4,889	5,990	9,972	20,851
Percentage of total	23%	29%	48%	100%
<b>Company total</b>				
Investment properties	—	—	8,096	8,096
Equity securities and portfolio holdings in unit trusts	53,569	2,596	4,080	60,245
Debt securities	29,712	19,451	11,380	60,543
Loans	—	452	3,184	3,636
Other investments (including derivative assets)	343	3,737	9,228	13,308
Assets held to cover linked liabilities	6,546	—	—	6,546
Derivative liabilities	(36)	(2,293)	(4)	(2,333)
Total financial investments, net of derivative liabilities	90,134	23,943	35,964	150,041
Investment contract without discretionary participation features held at fair value	—	(7,116)	—	(7,116)
<b>Total</b>	<b>90,134</b>	<b>16,827</b>	<b>35,964</b>	<b>142,925</b>
<b>Percentage of total</b>	<b>63%</b>	<b>12%</b>	<b>25%</b>	<b>100%</b>

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

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

**Notes on the financial statements (continued)**

	31 December 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>With-profits*</b>				
Investment properties	—	—	6,548	<b>6,548</b>
Equity securities and portfolio holdings in unit trusts	50,776	2,304	3,329	<b>56,409</b>
Debt securities	15,307	23,399	4,671	<b>43,377</b>
Loans	—	671	1,005	<b>1,676</b>
Other investments (including derivative assets)	112	5,618	6,613	<b>12,343</b>
Derivative liabilities	(36)	(2,004)	—	<b>(2,040)</b>
Total financial investments, net of derivative liabilities	<b>66,159</b>	<b>29,988</b>	<b>22,166</b>	<b>118,313</b>
Percentage of total	<b>56%</b>	<b>25%</b>	<b>19%</b>	<b>100%</b>
<b>Unit-linked</b>				
Assets held to cover linked liabilities	6,310	—	386	<b>6,696</b>
Total financial investments net of derivative liabilities	6,310	—	386	<b>6,696</b>
Investment contract without discretionary participation features held at fair value	—	(7,453)	—	<b>(7,453)</b>
Total	<b>6,310</b>	<b>(7,453)</b>	<b>386</b>	<b>(758)</b>
Percentage of total	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>100%</b>
<b>Non-linked shareholder-backed**</b>				
Investment properties	—	—	1,529	<b>1,529</b>
Equity securities and portfolio holdings in unit trusts	—	—	1	<b>1</b>
Debt securities	3,085	10,180	6,942	<b>20,207</b>
Loans	—	—	2,260	<b>2,260</b>
Other investments (including derivative assets)	—	778	1	<b>779</b>
Derivative liabilities	—	(1,052)	—	<b>(1,052)</b>
Total financial investments, net of derivative liabilities	<b>3,085</b>	<b>9,906</b>	<b>10,733</b>	<b>23,724</b>
Percentage of total	<b>13%</b>	<b>42%</b>	<b>45%</b>	<b>100%</b>
<b>Company total</b>				
Investment properties	—	—	8,077	<b>8,077</b>
Equity securities and portfolio holdings in unit trusts	50,776	2,304	3,330	<b>56,410</b>
Debt securities	18,392	33,579	11,613	<b>63,584</b>
Loans	—	671	3,265	<b>3,936</b>
Other investments (including derivative assets)	112	6,396	6,614	<b>13,122</b>
Assets held to cover linked liabilities	6,310	—	386	<b>6,696</b>
Derivative liabilities	(36)	(3,056)	—	<b>(3,092)</b>
Total financial investments, net of derivative liabilities	<b>75,554</b>	<b>39,894</b>	<b>33,285</b>	<b>148,733</b>
Investment contract without discretionary participation features held at fair value	—	(7,453)	—	<b>(7,453)</b>
<b>Total</b>	<b>75,554</b>	<b>32,441</b>	<b>33,285</b>	<b>141,280</b>
<b>Percentage of total</b>	<b>53%</b>	<b>23%</b>	<b>24%</b>	<b>100%</b>

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

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

Assets held to cover unit-linked liabilities, shown in the table, only covers those assets which are required to be disclosed under the provisions of FRS 102.34 for the fair value hierarchy. There are a further £1,150m (2020: £1,445m) of assets which comprise the total assets held to cover unit-linked liabilities, which consist mainly of cash at bank, other debtors and property.

**Notes on the financial statements (continued)**

**Interest expense**

The interest expense on financial liabilities not at fair value through profit and loss was £5m for the year ended 31 December 2021 (2020: £5m).

**B. Risk Management**

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

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

<b>Risk Type:</b>	<b>Definition:</b>
Market risk	The risk of loss, or of adverse change in the Company's financial situation, or the with-profits fund estate, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets, currencies, liabilities and financial instruments.
Credit risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Insurance risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from changes in the level, trend or volatility of mortality; longevity; morbidity; persistency; expense and margin pricing experience.
Liquidity risk	Treasury liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (for example claims, creditors and other corporate costs as they fall due).  Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

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

**With-profits business**

With-Profits Sub-Fund (WPSF) business

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

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

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

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, including the shareholder transfers expected to emerge from recent tranches of PruFund new business.

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

**Notes on the financial statements (continued)**

On 1 April 2021 Scottish Amicable Insurance Fund (SAIF) merged with the WPSF and the assets and liabilities of SAIF were combined with the WPSF.

**Defined Charge Participating Sub-Fund (DCPSF) business**

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

**Unit-linked business**

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

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

**Annuity and other shareholder business**

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

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

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

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

**C. Market Risk**

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

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

- Interest rate risk: fluctuations in the level or volatility of interest rates or the shape or curvature of the yield curve or spread relationships.
- Inflation risk: fluctuations in actual or implied inflation rates.
- Equity risk: fluctuations in the level or volatility of equity investments.
- Property risk: fluctuations in the level or volatility of property investments.

**Notes on the financial statements (continued)**

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

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

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

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

**Interest rate risk and inflation risk**

The majority of the Company's interest rate exposure arises from shareholder-backed annuity business. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The matching of assets of appropriate duration to the annuity liabilities is based on management of regulatory capital reporting requirements. The measurement of liabilities under regulatory capital reporting requirements and FRS 103 is not the same, with contingency reserves and some other margins for prudence not included for FRS 103 reporting purposes. As a result FRS 103 shareholders' funds are higher than regulatory capital and more sensitive to interest rate risk.

The assets held in excess of the liabilities, which back the capital requirements of the annuity business, also result in shareholder exposure to interest rate risk.

While the assets and liabilities of the with-profits and unit-linked businesses are also sensitive to changes in interest rates, movements in their value would not, in the normal course of events, be expected to directly impact the value of shareholder funds. The shareholder is, however, exposed to the impact that interest rate movements have on the on the value of shareholder transfers from with-profits business and charges levied on unit-linked business.

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

The estimated sensitivity of the shareholder-backed business to a movement in interest rates of 1% and 2% as at 31 December 2021 and 2020 are as follows:

	<u>2021</u>				<u>2020</u>			
	Fall of 1% £m	Rise of 1% £m	Fall of 2% £m	Rise of 2% £m	Fall of 1% £m	Rise of 1% £m	Fall of 2% £m	Rise of 2% £m
Carrying value of debt securities and derivatives	3,317	(2,774)	6,478	(5,193)	3,538	(2,948)	7,933	(5,526)
Long term business provision	(1,887)	1,586	(4,154)	2,931	(2,168)	1,809	(4,792)	3,331
Related tax effects	(357)	297	(581)	558	(260)	216	(597)	417
Net sensitivity of profit after tax and shareholders' funds	<b>1,073</b>	<b>(891)</b>	<b>1,743</b>	<b>(1,704)</b>	<b>1,110</b>	<b>(923)</b>	<b>2,544</b>	<b>(1,778)</b>

**Equity and property risk**

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



**Notes on the financial statements (continued)**

	<u>2021</u>		<u>2020</u>	
	<b>Decrease of 20%</b>	<b>Decrease of 10%</b>	Decrease of 20%	Decrease of 10%
	<b>£m</b>	<b>£m</b>	£m	£m
Pre-tax profit	<b>(211)</b>	<b>(106)</b>	(306)	(153)
Related deferred tax effects	<b>40</b>	<b>20</b>	58	29
Net sensitivity of profit after tax and shareholders' funds	<b><u>(171)</u></b>	<b><u>(86)</u></b>	<u>(248)</u>	<u>(124)</u>

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

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

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

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

	<u>2021</u>		<u>2020</u>	
	<b>Decrease of 20%</b>	<b>Decrease of 10%</b>	Decrease of 20%	Decrease of 10%
	<b>£m</b>	<b>£m</b>	£m	£m
Pre-tax profit	<b>111</b>	<b>58</b>	35	10
Related deferred tax effects	<b>(40)</b>	<b>(21)</b>	(7)	(2)
Net sensitivity of profit after tax and shareholders' funds	<b><u>71</u></b>	<b><u>37</u></b>	<u>28</u>	<u>8</u>

**Currency Risk**

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

As at 31 December 2021 the Company held 30% and 2% (2020: 39% and 1%) of its financial assets and financial liabilities, respectively in currencies, mainly US Dollar and Euro, other than the functional currency of the relevant business unit.

The financial assets, of which 81% (2020: 80%) are held by the with-profits fund, allow the Company to obtain exposure to foreign equity and debt markets.

The financial liabilities, of which 90% (2020: 90%) are held by the with-profits fund, mainly relate to investment contracts with discretionary participation features.

**Notes on the financial statements (continued)****D. Credit risk**

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

The Company is also exposed to credit risk through the holding of public and private fixed income investments for with-profits and unit-linked business to the extent that movements in the value of these assets impact the value of shareholder transfers from the with-profits business and charges levied on unit-linked business.

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

**Debt Securities and Other Fixed Income Securities**

The following table summarises by rating the securities held by the Company as at 31 December 2021 and 2020.

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

	2020 £m						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	
With-profits	5,578	7,063	8,464	12,749	1,752	6,124	41,730
Assets held to cover linked liabilities	478	1,218	754	690	26	2,317	5,483
Non-linked shareholder-backed	1,809	4,136	2,566	2,239	138	5,483	16,371
<b>Total debt securities and other fixed income securities</b>	<b>7,865</b>	<b>12,417</b>	<b>11,784</b>	<b>15,678</b>	<b>1,916</b>	<b>13,924</b>	<b>63,584</b>

The credit ratings, information or data contained in this report which are attributed and specifically provided by S&P, Moody's and Fitch Solutions and their respective affiliates and suppliers (Content Providers) is referred to here as the Content. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

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

Where no external ratings are available, internal ratings produced by the M&G plc group's asset management operations, which are prepared on a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2021 which are not externally rated, £8,586m (2020: £9,371m) were internally rated AAA to A-, £2,698m (2020: £2,527m) were internally rated BBB+ to B- and £913m (2020: £2,025m) were internally rated as below B- or unrated. The majority of the unrated debt security investments were held by the Company's with-profits fund and relate to convertible debt and other investments which are not covered by rating analysts nor have an internal rating attributed to them.

**Notes on the financial statements (continued)**

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

**Loans and receivables**

In accordance with accounting policy, impairment reviews were performed for loans and receivables. During the year ended 31 December 2021, impairment losses of £2m (2020: £9m) and £5m (2020: £8m) reversal of impairment losses were recognised for loans and receivables.

Of the total loans and receivables held £4m (2020: £6m) are past their due date but have not been impaired. 100% (2020: 100%) of the loans and receivables that are past due but not impaired are less than one year past their due date for 2021. The Company expects full recovery of these loans and receivables.

**Reinsurer's share of technical provisions**

Of the reinsurer's share of technical provisions at 31 December 2021 of £7,224m (2020: £17,510m), 10% (2020: 68%) of the balance relates to companies outside of the Group.

The following table summarises by rating the reinsurance asset held by the Company as at 31 December 2021 and 2020.

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

	2020 £m						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	
Reinsurance asset	—	264	20	11,251	—	303	11,838

**Securities lending and reverse repurchase agreements**

The Company has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements, depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Company's balance sheet; rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2021, the Company has £6,270m (2020: £5,796m) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements was £6,505m (2020: £6,115m).

At 31 December 2021, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £13,022m (2020: £13,810m).

During 2021 and 2020 the Company did not take possession of any other collateral held as security.

**Collateral and pledges under derivative transactions**

At 31 December 2021, the Company had pledged £1,278m (2020: £1,018m) for liabilities and held collateral of £1,661m (2020: £2,787m) in respect of over-the-counter derivative transactions.

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

**Notes on the financial statements (continued)**

**Collateral Pledged and Received for Reinsurance Contracts**

The Company has entered into several reinsurance agreements where the Reinsurer has agreed to reinsure the Company in respect of the reinsurance claims in consideration of the Company agreeing to pay to the Reinsurer the reinsurance premiums and reinsurance fees. Exposure collateral calculations are performed on each agreement on either a quarterly or annual basis, with relevant collateral then being pledged or held by the Company. As at 31 December 2021, the Company had pledged exposure collateral of £206m (2020: £80m), relating to these agreements.

**Collateral Pledges for Equity Release mortgages**

As at 31 December 2021 the Company had pledged collateral of £420m (2020: £470m) consisting of debt securities for the deferred purchase consideration for the mortgages purchased from Santander.

**E. Insurance Risk**

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

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

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

Longevity risk has been predominantly managed through:

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

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

A decrease in assumed mortality rates of 1% would decrease pre-tax profits by approximately £40m (2020: £45m). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £86m (2020: £98m). A decrease in renewal expenses (excluding asset management expenses) of 5% would increase pre-tax profits by £18m (2020: £28m). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £48m (2020: £66m). This analysis has been determined by varying the relevant assumption as at the reporting date while holding all other assumptions constant.

**F. Liquidity Risk**

The Company is exposed to two types of liquidity risk:

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

**Notes on the financial statements (continued)**

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

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

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

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

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

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

PAC customers have been impacted by fund liquidity in property funds. The M&G Property Portfolio Fund, which was suspended on 4 December 2019, reopened on 10 May 2021.

**Liquidity Analysis**

(i) Contractual maturities of financial liabilities

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

2021	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un- discounted cashflows	Total carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Financial Liabilities								
Amounts owed to credit institutions	—	—	—	—	—	8	8	8
Other borrowings not owed to credit institutions	—	97	—	—	—	—	97	97
	<b>0</b>	<b>97</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>105</b>	<b>105</b>

**Notes on the financial statements (continued)**

2020	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undiscounted cashflows	Total carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Financial Liabilities								
Amounts owed to credit institutions	1	1	1	1	1	9	14	14
Other borrowings not owed to credit institutions	—	124	—	—	—	—	124	124
	<b>1</b>	<b>125</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>9</b>	<b>138</b>	<b>138</b>

ii) Maturity analysis of derivatives and investment contracts

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

2021	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undiscounted value	Total carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets*	340	625	694	626	878	1,953	5,116	2,909
Derivative liabilities	(579)	(637)	(526)	(502)	(529)	(1,242)	(4,015)	(2,333)
Net derivative position	<b>(239)</b>	<b>(12)</b>	<b>168</b>	<b>124</b>	<b>349</b>	<b>711</b>	<b>1,101</b>	<b>576</b>

2020	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undiscounted value	Total carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets*	1,084	961	1,021	1,167	1,262	3,547	9,042	5,556
Derivative liabilities	(279)	(995)	(800)	(936)	(785)	(2,320)	(6,115)	(3,093)
Net derivative position	<b>805</b>	<b>(34)</b>	<b>221</b>	<b>231</b>	<b>477</b>	<b>1,227</b>	<b>2,927</b>	<b>2,463</b>

\* Includes assets held to cover index-linked liabilities.

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

	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undiscounted value	Total carrying value
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
<b>2021</b>								
<b>Life assurance investment contracts</b>	<b>10</b>	<b>32</b>	<b>30</b>	<b>22</b>	<b>14</b>	<b>18</b>	<b>126</b>	<b>90</b>
<b>2020</b>								
Life assurance investment contracts	10	33	31	22	14	17	127	87

**Notes on the financial statements (continued)**

This table has been prepared on an undiscounted basis and accordingly the amounts shown for life assurance investment contracts differ from those included in the balance sheet. Durations of long-term business contracts, covering both insurance and investment contracts, on a discounted basis are included in note 25.

**G. Derivatives and Hedging**

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

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

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

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

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

During 2013 the Company entered into a partial equity hedge of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, which has been extended subsequently (with the last extension in 2020). The effect in 2021 is an unrealised loss of £227m (2020: unrealised gain of £214m) and a realised loss of £81m (2020: realised loss of £36m) charged to the non-technical account.

Since 2018 the Company has entered into hedges of the shareholder transfers expected to emerge from the Company's with-profits sub-fund, specifically with regard to the PruFund new business, as arise over the contract period of 10 years. During 2021, the transaction resulted in £36m unrealised loss in the non-technical account (2020: £26m).

During 2019, and subsequently in 2020 and 2021, the Company's shareholder fund purchased interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2021, realised gains on these instruments of £18m were recognised (2020: £23m) and unrealised gains of £86m (2020: unrealised gains of £95m).

**28. Capital Requirements and Management**

The Company's estimated and unaudited shareholder Solvency II Surplus at 31 December 2021 is £3.9bn (2020: £3.5bn), after allowing for recalculation of transitional measures. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

The Solvency II surplus allows for the Transitional Measure on Technical Provisions (TMTP). The TMTP was formally recalculated, following approval from the regulator, at 31 December 2021. As a result, the estimated and unaudited Solvency II capital position will be the same as the position disclosed in the formal regulatory Quantitative Reporting Templates and the group's Solvency and Financial Condition Report.

**Notes on the financial statements (continued)**

The Solvency II Pillar I capital requirements at 31 December 2021 have been calculated using the Company's Internal Capital Model. The method used to calculate the capital has been to:

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

While the surplus position of the Company's with-profits funds remain strong on a Solvency II basis, it is ring-fenced from the shareholder balance sheet and is therefore excluded from the Company's shareholder Solvency II surplus results. The Solvency Capital Requirement (SCR) associated with the Company's with-profits funds is included in the Company's SCR and the Own Funds to cover this are included in the Company's Own Funds. The estimated and unaudited Solvency II capital position for the Company as at 31 December 2021 and 31 December 2020 is shown below:

	<b>2021</b>	2020
	<b>Unaudited</b>	Unaudited
	<b>£bn</b>	£bn
Solvency II Own Funds	<b>12.2</b>	13.5
Solvency II Capital Requirement (SCR)	<b>8.3</b>	10
Solvency II Surplus	<b>3.9</b>	3.5
Solvency II Coverage ratio	<b>147%</b>	135%

The Company focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more relevant reflection of the capital strength of the Company. The Company's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. The estimated and unaudited shareholder Solvency II capital position for the Company as at 31 December 2021 and 31 December 2020 is shown below.

	<b>2021</b>	2020
	<b>Unaudited</b>	Unaudited
	<b>£bn</b>	£bn
Shareholder Solvency II Own Funds	<b>8.3</b>	8.6
Shareholder Solvency II Capital Requirement (SCR)	<b>4.4</b>	5.1
Shareholder Solvency II Surplus	<b>3.9</b>	3.6
Shareholder Solvency II Coverage ratio	<b>187%</b>	169%

**Shareholder fund**

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

Projections are performed over three year time horizons to understand how the Own Funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by



**Notes on the financial statements (continued)**

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

**Policyholder Fund**

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

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

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

**29. Related Undertakings**

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

The following is a list of related undertakings of the Company at 31 December 2021.

(i) Direct subsidiary undertakings

**Investment**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
Cardinal Distribution Park Management Limited	Ordinary Shares	66%	United Kingdom	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carroway Guildford General Partner Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carroway Guildford Limited Partnership	Limited partnership interest	49.5%	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

**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
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	52.37%	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
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 Guillaume Kroll, L-1882, Luxembourg
Two Snowhill Birmingham S.a.r.l.	Ordinary shares	100%	Luxembourg	5, rue Guillaume 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

**Notes on the financial statements (continued)****Insurance**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
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**

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

**Holding company**

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

**Mortgage lending**

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

**Financing**

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

**Service**

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

**Dormant**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
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**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
Aldwych LP	Limited Partnership Interest	100%	USA	1209 Orange Street, Wilmington, Delaware 19801
ANRP II (AIV VI FC), L.P.	Limited Partnership Interest	43%	Cayman Islands	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands

**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
AO NON-QM UK LP	Limited Partnership Interest	99%	Cayman Islands	c/o Ogier Global (Cayman) Limited 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands KY1-9009
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-ELS, L.P.	Limited partnership interest	88%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	Limited partnership interest	63%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	Limited partnership interest	58%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	Limited partnership interest	61%	USA	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
China Bond Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
CJPT Real Estate No. 1 Trust	Units	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	Units	100%	Canada	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway Merchants Association Limited	Limited by Guarantee	20%	United Kingdom	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Debt Investments Opportunities IV	Units	25%	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Eastspring Investments - Asian Local Bond Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Smaller Companies Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Total Return Bond Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Customized Equity Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Dynamic Fund	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg

**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
Eastspring Investments - Japan Smaller Companies Fund	Units	60%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	Units	51%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity	Units	100%	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Elle 14 S.a.r.l	Ordinary Shares	45%	Italy	Via Alessandro Manzoni 38, Milan, 20121, Italy
Episode	Limited partnership interest	25%	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
Harben Finance 2017-1 Plc	Class G, R,Z	50% of G,R,Z Notes	United Kingdom	1 Bartholomew Lane, London, UK, EC2N 2AX
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
Maslow IV Limited	Equity & Loan	80%	United Kingdom	1 Batholemew Lane, London, United kingdom, EC2N 2AX
Maslow V Limited	Equity & Loan	99%	United Kingdom	1 Batholemew Lane, London, United kingdom, EC2N 2AX
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

**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
M&G ACS JAPAN EQUITY FUND	Units	98%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK 200 INDEX FUND	Units	88%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK ALL SHARE INDEX FUND	Units	88%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED EQUITY FUND	Units	88%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED MID CAP FUND	Units	98%	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 Alternatives, SCSp - RAIF - 2021 North American Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp - RAIF - 2021 PE Impact Fund	Limited Partnership Interest	100%	Luxembourg	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Asia Property Fund	Ordinary shares	45%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
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	Units	58%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European High Yield Credit Investment Fund	Units	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 Gilt & Fixed Interest Income Fund	Units	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	Units	29%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) - M&G Global Convertibles Fund	Units	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 Loan Fund Limited	Shares	86%	Ireland	5 Georges Dock, Ifsc, Dublin 1, Dublin, Ireland
M&G Sustainable Multi Asset Fund	Units	69%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
M&G UK Companies Financing Fund II LP	Limited partnership	48%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Mortgage Income Fund (Under the umbrella structure - Luxembourg Specialist Investment Fund FCP-RAIF )	Units held in the sub fund	100%	Luxembourg	16, Boulevard Royal, L-2249 Luxembourg
M&G UK Property Fund	Ordinary Shares	98%	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Residential Property Fund	Limited Partnership 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
NB Gemini Fund LP	Limited Partnership Interest	99%	Cayman Islands	Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY1-1104 Cayman Islands
Old Kingsway LP	Limited Partnership Interest	100%	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
PPM America Private Equity Fund III LP	Limited Partnership Interest	50%	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
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 Credit Opportunities 1 S.a.r.l.	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities 2 S.a.r.l.	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Equity Release Mortgages Limited	Ordinary Shares	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
Prudential Greenfield LP	Limited partnership	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
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	Limited partnership	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
Seeker Music, Inc	Class A Common Stock	PCO (50%)	USA	City of Wilmington, County of New Castle, State of Delaware
Sectordate Limited	Ordinary Shares	33%	United Kingdom	1st Floor, Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park Limited Partnership	Limited Partnership Interest	63%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	Limited Partnership Interest	100%	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
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, Uglund House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SKY FUND V ONSHORE, LP	Limited Partnership Interest	99%	USA	559 Pacific Avenue, San Francisco, CA 94133
SKY I Intermediate LP	Limited Partner	71%	Cayman Islands	Maples Corporate Services Limited, Uglund House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SMLLC	Limited Partnership Interest	100%	USA	1209 Orange Street, Wilmington, DE 19801, USA
SOFA Holding LP	Limited Partnership Interest	100%	USA	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808



**Notes on the financial statements (continued)**

<b>Name</b>	<b>Classes of Shares held</b>	<b>Proportion held</b>	<b>Country of Incorporation</b>	<b>Address</b>
StepStone Scorpio Infrastructure Opportunities Fund, L.P.	Limited Partnership Interest	100%	Cayman Islands	c/o Maples Corporate Services Limited, Uglan House, PO Box 309, Grand Cayman, KY1-1104, Cayman Islands
St Edward Homes Limited	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
The Car Auction Unit Trust	Units	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	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Vanquish Properties GP Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 1 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 2 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 3 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 4 Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee A Limited	Ordinary Shares	100%	Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Via Lodovico SRL	Ordinary Shares	100%	Italy	Via Alessandro Manzoni n.38, Milano, Italy
WFH Investments LLC	Limited Partnership Interest	100%	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**

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

**In liquidation**

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

**Notes on the financial statements (continued)**

**30. Transfers of business**

On 15 December 2021, the Company transferred part of its shareholder-backed annuity portfolio to Rothesay Life Plc via a Part VII transfer as sanctioned by the UK High Court of England and Wales.

The assets and liabilities transferred from the Company on 15 December 2021 are as follows:

<b>Assets</b>	<b>£m</b>
Reinsurers' share of technical provisions	
- Long-term business provision	8,073
- Technical provisions for linked liabilities	1,485
Cash at bank and in hand	64
<b>Total Assets</b>	<b>9,622</b>
<b>Liabilities</b>	
Technical provisions	
- Long-term business provision	8,073
- Claims outstanding	3
Technical provisions for linked liabilities	1,485
Creditors arising out of reinsurance operations	56
Other creditors including taxation and social security	5
<b>Total Liabilities</b>	<b>9,622</b>
<b>Net Assets transferred</b>	<b>—</b>

**31. Post balance sheet events**

On 24 February 2022, the Company announced the 2021 annual bonus rates for the with-profits fund. The Company also announced an additional bonus of 1.75% to enhance the unsmoothed value of plans for customers with traditional and accumulating policies. It may be necessary to take back the additional bonus in order to protect the interest of all customers and the strength of the fund at a future date, although this is not expected to happen. For PruFund customers, additional surplus has been shared by increasing the unit price by 1.25%.

On 3 March 2022 the Company approved a final dividend of £333m to be paid to M&G plc. This is not recognised in the 2021 financial statements.