Registered No: 15454

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Annual Report and Financial Statements for the Year Ended 31 December 2020

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

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

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

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

Company Secretary

Ms J A Owens

Auditor

KPMG LLP, London

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Principal activity

The principal activity of The Prudential Assurance Company Limited (the Company) in the course of 2020 was transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2021. Throughout 2020 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 is a wholly owned subsidiary of M&G Group Regulated Entity Holding Company Limited. Ownership of the Company has been transferred from M&G plc to M&G Group Regulated Entity Holding Company Limited, effective from 23 July 2020. M&G Group Regulated Entity Holding Company Limited's principal activity is that of an intermediate holding company with subsidiaries engaged in underwriting long-term insurance business and asset management. The Company's ultimate parent company is M&G plc.

The Company'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 2020 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 undertaking of another company registered in England and Wales and therefore 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

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 Whilst the economic outlook remains uncertain, particularly once government support schemes are withdrawn, the rollout of vaccination programmes worldwide has had a positive impact on market sentiment.

The Company's brand benefits from a robust heritage spanning over 170 years, with a long history of finding innovative solutions for customers' changing needs. 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 their 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 its customers in this changing environment, the Company's product and distribution profile has evolved by increasing the range of product options to mirror the flexibilities of the pensions freedom era. There has been a shift away from a reliance on annuity business to a 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 is the Company's market-leading customer proposition managed by the Company's multi-asset management team. It is popular among UK retail investors for its established smoothing process. PruFund spreads risk over a wide range of assets and pools money from all investors, giving customers greater buying power and access to opportunities that would not be attainable as an individual investor.

In 2020, PruFund reached assets under management or administration (AuMA) of £56bn (2019:£54bn). While net inflows to PruFund remained positive, at £369m (2019:£6,400m) they were down by 94% on the previous year. Redemptions rose as some customers tapped into their savings during the first lockdown.

Despite the highly volatile markets of 2020, the performance of PruFund and the underlying £143bn (2019: £143bn) With-Profits Fund remained strong. This resilience derives from the large size of the With-Profits Fund and its exposure to a highly diverse range of assets, with the Company using its bonus process to smooth the impact of some of the highs and lows of investment performance in their return to policyholders. During 2020, investment returns for the With-Profits Fund were 2.0% before tax (2019: 11.5%) and over the last ten years the fund has delivered a cumulative investment return of 94.6% before tax.

The stability of the Heritage portfolio, mainly annuities and traditional with-profits policies, put the Company and its ultimate parent M&G plc in a strong position to weather the short-term impact of the pandemic. Through the With-Profits Fund, Heritage continued to seed new propositions, particularly to serve the increasing demand for sustainability products. For example, towards the end of 2020, the With-Profits Fund decided to allocate £5 billion of Prudential customer savings to a new sustainability-oriented private assets strategy, including impact investing. The mandate will be managed by Catalyst, a new global private assets team set up by M&G and specialising in sourcing attractive sustainable and impact investment opportunities in companies making a positive difference to society and the planet.

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

The transfer of a further 394,000 corporate and individual pensions was completed in 2020 in addition to 433,000 customers migrated in 2019 from a mix of complex legacy systems on to the strategic administration platform BaNCS managed by Diligenta, the UK subsidiary of Tata Consultancy Services, was a notable achievement in this area. The Company, as part of M&G plc, has continued to strengthen its strategic outsourcing relationship with Diligenta.

The Company continued to make progress in adopting digital processes. Active users of MyPru have increased to over 350,000 customers from 205,000 at the end of 2019. Digital transactions are accounting for around 7% of monthly interactions, while web portal sessions were up 59% for MyPru/PruRetire and up 13% for PruAdviser in the second half of 2020 compared to the same period in 2019.

The Company is also seeing improvements in its customer interactions, for example through the introduction of digital document uploads and electronic new business applications that remove the need for a wet signature. Over 25% of bereavements are now notified via our online tool compared to 5% in 2019, easing the burden for families and accelerating the process.

The Company continues to focus on enhancing its already strong relationships with independent financial advisers. A key part of the Company's service offering is the ongoing support from its regional sales units, technical helpline and business development and consultancy team. The Company also distributes products via other M&G plc companies.

In 2020, M&G plc created an integrated wealth management division, bringing together Prudential Financial Planning, The Advice Partnership (TAP), Ascentric (the platform that M&G plc acquired from Royal London in September 2020) and the M&G Direct funds business. These established advice, platform and investment management capabilities will help meet the rising demand for high quality advice and supporting wealth solutions, bringing the potential for new routes to market for products manufactured by the Company.

With regard to the effects of the ongoing COVID-19 outbreak, communicating with our customers has been crucial. We have taken a number of steps to address the needs of our customers in response to the pandemic. To help allay concerns over volatility in financial markets, we produced a video to reassure customers about their investments and explain how PruFund can help. We launched a PruFund Market Commentary, reporting on how each asset class within PruFund performed, and we are also producing a new video, which takes a more in-depth approach. Moreover, customers now have access to a COVID-19 Hub on our website, where they can find answers to their questions about their investments and how to manage their accounts, as well as information on a wide range of practical problems customers might face in these conditions.

Importantly, we knew that there was a heightened risk of scammers preying on unwary customers in times of confusion and distress. We took action to warn customers, using direct mail and emails to remind them about the increase in fraudulent activity and how to spot a scam.

In preparation for Brexit, on 1 January 2019 the Company transferred its long-term non-UK European business to PIA, a subsidiary of the Company which is based in the Republic of Ireland (see note 30). Following these transfers the implementation of Brexit on 1 January 2021 has had no material impact on the Company's ability to serve its customers.

Strategic Direction and Corporate Transactions

The Company plan to launch and continue roll out of smoothed solutions based on PruFund across Europe, to meet the needs of investors looking for volatility managed investments. During 2020 the Company established memoranda of understanding with two key European banking group clients to distribute volatility managed funds, based on a newly developed institutional version of PruFund, which will form the basis of an 'out of cash' proposition. 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.

Managing the Company's annuities and traditional with-profits policies contributes highly stable earnings and cash generation, providing resilience to the Company in times of stress, and a source of dependable income and stable capital for customers. To protect and increase resilience the Company migrates products onto modern and resilient IT architecture, progressing operational resilience, removing points of failure and improving disaster recovery. The Company aims to improve customer satisfaction and customer effort scores through better service and response times, adoption of digital processes and better operational performance.

With regard to digitalisation, the migration of corporate and individual pensions from legacy platforms during the year has delivered enhanced customer service adaptability, modernised customer benefit statements and greater transparency of all product features, costs and changes. Work is underway to migrate additional cohorts of pension and bond customers to the new platform.

M&G plc and its subsidiary entities, including the Company, have put sustainability at the forefront of strategy, from the impact the Company has on the planet and communities, to the opportunity to influence others through leading by example. In March 2020, M&G plc 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 M&G plc, the Company shares the same commitment for its investment portfolio, which is now informing the investment policy and asset allocation decisions of the Company for the With-Profits Fund and the pension savings and annuity books.

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

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

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

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

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

Scottish Amicable Insurance Fund (SAIF) is a separate With Profits Sub Fund within the Company. On 1 April 2021 it is the intention that SAIF will merge with the Company's main With-Profits Sub-Fund (WPSF) and the assets and liabilities of SAIF will be combined with the WPSF. SAIF policies will continue to participate in profits on a 100:0 basis with no shareholder profit transfers. This will not have a presentational impact on the Company's financial results in the future.

Key Performance Indicators and measurement

Key Performance Indicators	**2020** **£m**	**2019** **£m**
Adjusted Operating Profit:		
Shareholder transfer	308	324
Hedging of current year shareholder transfer	(57)	(82)
Shareholder Annuities business	438	460
Unit Linked and other	(25)	46
Total adjusted operating profit before tax	**664**	**748**
Non-Operating Profit:		
Short-term fluctuations in investment returns	667	217
Dividend income from shareholder subsidiaries	—	53
Transformation costs	(20)	(24)
Sale of annuity portfolio	—	53
Total non-operating profit before tax	**647**	**299**
Profit on ordinary activities before tax	**1,311**	**1,047**
Estimated Solvency II capital surplus:		
Company	3,521	3,057
Shareholder	3,521	3,057
Policyholder	6,968	7,628
Estimated Solvency II coverage ratio:		
Company	135%	131%
Shareholder	169%	159%
Policyholder	242%	267%

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, profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations. This measure is not defined under UK GAAP and other companies may calculate such measures differently. The Company has aligned this measure to the same KPI used by M&G plc.

For the Company's business written in the with-profits fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers, and can be separated into 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 future UK GAAP profits, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

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

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

Total adjusted operating profit before tax

The total adjusted operating profit of £664m (2019: £748m) consists of £251m (2019: £242m) relating to the shareholder transfer and associated hedges from the with-profits fund, £438m (2019: £460m) relating to the annuities business, and a loss of £25m (2019: £46m profit) on unit-linked and other business.

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

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

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

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

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

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

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 £1,311m (2019: £1,047m). 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 Transition Measure on Technical Provisions (TMTP). The results presented above assume a recalculation of the TMTP at the valuation date. The TMTP was last formally recalculated, following approval from the regulator, at 31 March 2020. Therefore the estimated and unaudited Solvency II capital position reported here will differ to the position disclosed in the formal regulatory Quantitative Reporting Templates and Company's Solvency and Financial Condition Report.

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

The Company retains a shareholder capital surplus of £3.5bn (2019:£3.1bn). The Company's shareholder surplus has increased over 2020, which predominately reflects the expected return over the period and a series of management actions taken, including the impacts of trading in the annuity portfolio and the purchase of hedges, offset by the payment of the dividend to M&G plc (£0.5bn).

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

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 set out above. 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;

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, it's 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 success of the Company.

Principal Decisions

The Board set out below, some examples of how they have had regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duties 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 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 £497m in dividends to M&G plc. £410m was declared on 4 March 2020 and the remaining £87m was declared on 28 September 2020.

The Directors noted that the payments were in accordance with the detailed financial planning, which took into account the other ongoing financial obligations for the Company. The Directors were provided with information on how quickly 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 Group's parent, M&G plc.

Principal decision 2 – 2021 – 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 2020, the Board's strategic review of 2021 – 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 2021 – 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.

Principal decision 3 – SAIF Merger and Scheme Amends

The 1997 Scottish Amicable Life Assurance Society (SALAS) Scheme requires 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 is expected to be reached by 2024. The Board considered that the WPSF would be the most appropriate fund for the SAIF to merge with. The Board also considers that the early merger, the merger of the SAIF with the WPSF prior to the specific trigger date (Early Merger), would be appropriate so as to ensure a fair distribution of the SAIF surplus assets as between the WPSF and SAIF policyholders, which would become increasingly difficult as the fund runs-off, as well as to avoid the other constraints, such as on investment strategy, that would arise as the SAIF reduced in size.

The Board gave 'in principle' approval of the Early Merger of the SAIF and WPSF and approved that the Company proceed 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 is expected to take effect on 1 April 2021.

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 2019, rated Aa3 by Moody's (stable outlook), A+ by Standard & Poor's (stable outlook) and AA- by Fitch (stable outlook).

Financial and Insurance risk

The Company is exposed to financial and insurance risk through its financial assets, financial liabilities, and customer liabilities. The financial risk factors affecting the Company include market risk, credit risk, insurance 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 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 asset 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.

(a) Market risk

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

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. Additional market risk exposure arises from interest rate 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 as, for example, adverse changes in the value of the assets backing the policyholder asset shares may lead to an increase in the expected cost of policyholder guarantees. 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.

Market volatility was experienced in 2020 largely due to the impact of the COVID-19 pandemic. Additionally, there is the potential for further market volatility as the COVID-19 pandemic continues to impact markets. However, the risks are well understood, and closely managed and monitored. As such, the Company does not expect its market risk exposure, net of risk reduction activity, to be materially impacted in the short term.

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 non-profit annuity business, on the surplus funds held in the shareholder fund and in relation to the shareholder transfers from the with-profits fund.

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

Rothesay Life plc in particular is a significant counterparty for the Company, following the reinsurance of some of the Company's annuity liabilities valued at £12.2bn as at 31 December 2020 (2019: £12.4bn). An application to complete a Part VII transfer of these liabilities to Rothesay Life, which would substantially eliminate this counterparty exposure, was initially rejected by the High Court. Rothesay Life and the Company have successfully appealed this decision; the date for a further sanction hearing is as yet unknown. The Company's reinsurance counterparty exposure to Rothesay Life is fully collateralised with assets that must meet certain eligibility criteria and are held in a custody account.

In the near term, there is a risk of a material deterioration in credit conditions as a result of the market effects of the COVID-19 pandemic.

See note 27 (D) for further details.

(c) Insurance risk

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

- Longevity risk 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 has materially reduced its shareholder exposure to longevity risk in recent years by entering into a number of reinsurance arrangements, including the aforementioned reinsurance arrangement with Rothesay Life.

  The Company's With-Profits Fund exposure to longevity risk primarily arises from both non-profit and with-profits annuity business.

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

- Persistency risk is the risk of unexpected changes in policyholder rates of exit on its insurance business with the shareholder exposure arising in relation to transfers from the With-Profits Fund. An increase in the rate of policyholder exits reduces the value of these transfers.

  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.

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

- Expense risk is the risk that expenses (including future expense inflation) could be higher than anticipated. This risk is expected to decrease as a result of the significant change programme being undertaken by the Company.

  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.

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;
- 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.

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. Operational Resilience is the preparedness and ability to anticipate, prevent, respond to, recover and learn from operational disruptions (whether unforeseen or not). Demonstrating resilience means upholding the continuity, performance and integrity of business services during times of disruption, planning on the basis of when, not if, disruptions occur.

Operational risk is primarily measured and monitored through the Integrated Control Framework and Risk and Control Self Assessment (RCSA) process, which provides a framework to assess the effectiveness of operational controls across the Group. The framework is further supported by a comprehensive suite of non-financial risk appetites and limits, key risk indicators and operational risk management information. Operational risk is managed through an operational risk framework and system that delivers processes and tools to identify, assess, manage and report operational risk exposures supported by additional policies and standards covering specific operational risk exposures. Change projects have strong project governance and oversight with metrics to monitor and report on delivery, costs and benefit assessments and deep dive assessments.

The Company does not actively seek to take operational risk to generate returns, instead it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities.

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

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

i. Technology and data risk

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

ii. Third party suppliers

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

iii. Change Risk

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

(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 whilst customer needs and expectations are changing rapidly. Economic factors, including those resulting from Brexit and the COVID-19 pandemic, may impact the demand for products and the ability to generate an appropriate return. In addition, increased geopolitical risks and policy uncertainty may impact the Company's products, investments and operating model.

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

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

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

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

(c) Sustainability

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

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

(d) Investment performance and risk

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

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

(e) People risk

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

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

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

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

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

(f) Regulatory compliance

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

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

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

(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. Champions also support the Company in creating processes that include full consideration of reputational risks in key decisions.

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

On behalf of the Board of directors.

J A Owens
J A Owens
Company Secretary

4 March 2021

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020.

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 2020 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.

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.

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 8-10. Being a Material Subsidiary of M&G plc, stakeholder engagement also takes place at a Group level.

With-profits governance

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

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

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

Independent Governance Committee

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

Corporate responsibility

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

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

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

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

The Group's 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 4 March 2021 the Company approved an interim dividend of £950m to be paid to M&G plc. This is not recognised in the 2020 financial statements.

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

Financial Performance

The state of affairs of the Company at 31 December 2020 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).

Share Capital

There have been no changes in the Company's share capital during 2020 as shown in note 20.

Dividends

Total dividends for 2020 were £497m.

The board declared dividends of £410m on 4 March 2020, A second interim cash dividend of £87 million was declared on 28 September 2020. The directors have not recommended a final dividend on the ordinary shares for 2020.

In 2019, the Board paid £340m as a normal dividend, and £1,083m as a special dividend to Prudential plc. There was also a non-cash dividend consisting of £537m of loan assets due from Prudential plc. Prudential Holborn Life Limited, a wholly owned subsidiary of the Company, completed the sale of Prudential Vietnam Finance Company and undertook a capital reduction to permit remittance of the £97m net disposal proceeds from the sale to the Company. The proceeds were remitted up to M&G plc, and then to Prudential plc (the previous ultimate parent undertaking). £63m of loans provided by the Company to Prudential Financial Services Limited, were cancelled. The directors did not recommended a final dividend on the ordinary shares for 2019.

Directors

The present directors are shown on page 1. Mr R S Bowie and Mr D K Watson were appointed on 28 September 2020 and 6 November 2020 respectively. Mr R Bennison, Mr M Evans and Mr P Spencer resigned on 24 April 2020, 29 July 2020 and 5 February 2021 respectively. Mr R S Bowie took on the role of Chairman of the Company on 5 February 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 themself 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. It is the intention that KPMG LLP be reappointed under the deemed appointment rules of section 487 of the Companies Act 2006.

On 28 October 2020, the Company approved the appointment of PricewaterhouseCoopers LLP as its auditor for the year ending 31 December 2022, subject to shareholder approval at the M&G plc 2022 Annual General meeting.

Directors' and officers' protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc group. In addition, the Articles of Association of the Company provide for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2020 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.

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.

JA Owens

J A Owens
Secretary
4 March 2021

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 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.

KPMG

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 2020 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.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2020 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 appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 22 financial years ended 31 December 2020.

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

Overview		
Materiality:	£50m (2019: £60m)	
financial statements as a whole	0.89% (2019: 0.99%) of net assets	
Key audit matters	**vs 2019**	
Recurring risks	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 2019), 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
Valuation of technical provisions (2020: £142,974 million, 2019: £143,030 million) The risk has increased compared to the prior year. Refer to page 40 (accounting policy) and pages 66 to 75 (financial disclosures).	**Subjective valuation:** The Company has significant technical provisions representing 75 percent (2019: 75 percent) of the Company's total liabilities. This is an area that involves significant estimation over uncertain future outcomes, mainly the ultimate total settlement value of technical provisions, and we consider the risk to have increased in the current year due to the higher degree of estimation uncertainty resulting from changes in both demographic and economic conditions caused by the Coronavirus pandemic's (COVID-19). The valuation of technical provisions in relation to the annuity business requires significant judgement in the selection of key assumptions covering both operating and economic assumptions. The key operating assumptions are mortality, which is determined by reference to the Company's own experience and levels of future mortality, and includes consideration of the impact of COVID-19, and the expected level of future expenses, which is based on the expected future costs for administering the underlying policies. The key economic assumption, which impacts the calculation of the discount rate applied to the annuity business, is credit risk that is based on the Company's view of expected future investment defaults including the impacts of COVID-19 on the investment markets. 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 reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 26 discloses the sensitivity estimated by the Company	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: – **Control design and operation:** We used our own IT specialists 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 over and above that originally planned. – **Methodology choice**: We have assessed the methodology for selecting assumptions and calculating the technical provisions. This included: – Assessing the methodology adopted for selecting the assumptions by applying our industry knowledge and experience and comparing the methodology used against standard industry actuarial practice; – 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 – Comparing changes in methodology to our expectations derived from market experience.

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

	The risk	Our response
	Calculation error and data capture 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.	– **Historical comparison:** – 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. – 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 Company actions on future costs. – Reconciled the completeness of accuracy of the assets used in the calculation of the Valuation Interest Rate to the assets used to back the technical provisions. – **Benchmarking assumptions and sector experience:** – Evaluating the analysis performed by the Company to compare expected against actual mortality experience of the policyholders in order to assess whether this supported the year end assumptions. – Evaluating the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience including assessing the impact of COVID-19 on the investment market. – 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 and expense assumptions. – **Model evaluation:** – 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. – Evaluating the completeness of data used in the valuation of annuity liabilities by reconciling the data from the policy administration system to the data in the model point files used in the actuarial models. – Using our own valuation models to perform an independent recalculation of a sample of policyholder liabilities to ensure that the models have been calibrated in line with the Company's specifications. – 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. – **Assessing transparency:** Considering whether the Company's 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.

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

	The risk	Our response
Valuation of investments that require judgement 2020: £33,285 million (2019: £31,516 million). The risk is unchanged compared to the prior year. Refer to page 42 (accounting policy) and pages 79 to 84 (financial disclosures of level 3 assets).	**Subjective valuation:** The areas that involve significant audit effort and judgement are the valuation of illiquid positions within the financial investments portfolio representing 24 percent (2019: 21 percent). We consider the risk to have increased in the current year due to the higher degree of estimation uncertainty resulting from the economic conditions and their outlook caused by the COVID-19 pandemic. These include private placement loans, unlisted Net Asset Value ('NAV') funds, equity release mortgages, terminal value loans and investment properties. For these positions an observable price was not readily available and therefore the application of expert judgement in the valuations adopted is required. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments that require judgement has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many tlmes that amount.	We used our own actuarial and valuation specialists to assist us in performing our procedures in this area. Our procedures included: – **Control design and observation:** 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. – **Methodology choice:** 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. – **Independent re-performance:** Producing our own valuations for certain investments that require judgement and comparing the output to the Company's valuations. – **- Benchmarking of assumptions and sector experience:** Agreeing the key inputs and assumptions used for the valuations and comparing these to our own market and industry benchmarks. – **Assessing valuers' credentials:** Assessing the competence and qualifications of external valuers and reconciling the valuations provided by them to the valuations recorded by the Company. – **Tests of detail:** – Independently obtaining the most recent NAV statements, investment manager and administrator control reports to assess the appropriateness of the fair value of the unlisted funds. – Performing 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. – **Assessing transparency:** Assessing whether the Company's disclosures in relation to the valuation of investments that require judgement are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes. **Our results** — We found the valuation of investments that require judgement to be acceptable (2019 result: acceptable).

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

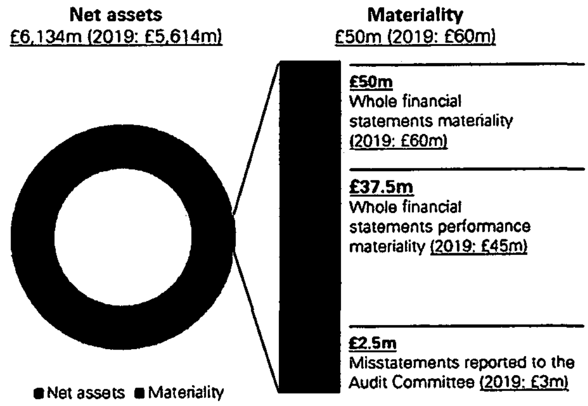
Materiality for the financial statements as a whole was set at £50m (2019: £60m), determined with reference to a benchmark of net assets (of which it represents 0.89% (2019: 0.99%) We consider net assets to be the most appropriate benchmark as we consider this to be the metric that is most relevant to the users of the financial statements.

In addition, we applied materiality of £175 million to the with-profits assets and liabilities in the balance sheet, profit and loss account and related notes, determined with reference to the lower of a benchmark of fund for future appropriations of the with-profits fund of which it represents 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% (2019: 75%) of materiality for the financial statements as a whole, which equates to £37.5m (2019: £45m). Performance materiality was set at 75% for policyholder assets, liabilities and profit and loss account, which equates to £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 £2.5m (2019: £3m) for the financial statements as whole and £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.



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 and the impact of Brexit on the economic environment and the resulting impact on the Company's capital resources.

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

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 also 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; 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 readily available observable price.

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 estimate for bias; and
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised personnel, those posted with unusual dates or descriptions and those posted with unusual account combinations.

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 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 identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the pension mis-selling review disclosed in Note 27 we have performed audit procedures over the provisions and reserves 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 these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

We have nothing to report in these respects.

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. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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 2021

Profit and Loss Account for the year ended 31 December 2020

Long-term Business Technical Account		2020 £m	2019 £m	Note
Gross premiums written		**5,730**	11,063	2
Outward reinsurance premiums		**(904)**	(949)	
Recaptured reinsurance premiums		**—**	1,086	17
Earned premiums, net of reinsurance		**4,826**	11,200	
Investment income		**9,925**	8,454	3
Unrealised (losses) / gains on investments		**(2,917)**	8,011	
Claims paid				
	Gross amount	**(12,211)**	(12,671)	
	Reinsurers' share	**1,664**	1,757	
Claims paid, net of reinsurance		**(10,547)**	(10,914)	
Change in provision for claims				
	Gross amount	**(97)**	(21)	
	Reinsurers' share	**2**	1	
Claims incurred, net of reinsurance		**(10,642)**	(10,934)	
Change in long-term business provision				
	Gross amount	**93**	(10,733)	
	Reinsurers' share	**(312)**	249	
	Recaptured reinsurance	**—**	(1,110)	16
		(219)	(11,594)	
Change in technical provision for linked liabilities		**531**	119	
Change in other technical provisions, net of reinsurance		**311**	(11,475)	
Net operating expenses		**(686)**	(767)	5
Investment expenses and charges		**(419)**	(435)	6
Tax attributable to the long-term business		**(397)**	(706)	7
Transfer from / (to) the fund for future appropriations		**471**	(2,607)	
Balance on the long-term business technical account		**472**	741	

The accounting policies on pages 38 to 46 along with the accompanying notes on pages 46 to 105 form an integral part of the financial statements.

Profit and Loss Account for the year ended 31 December 2020 (continued)

Non-Technical Account

	2020 £m	2019 £m	Note
Balance on the long-term business technical account	**472**	741	
Tax credit attributable to the balance on the long-term business technical account	**192**	274	7
Balance on the long-term business technical account before tax	**664**	1,015	
Investment income	**112**	82	3
Unrealised gains on investments	**530**	12	
Other income	**9**	2	
Other charges	**(4)**	(64)	
Total profit on other activities	**647**	32	
Profit on ordinary activities before tax	**1,311**	1,047	
Tax on profit on ordinary activities	**(244)**	(190)	7
Profit for the financial year	**1,067**	857	

The accounting policies on pages 38 to 46 along with the accompanying notes on pages 46 to 105 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 2020

	2020 £m	2019 £m	Note
Profit for the financial year	**1,067**	857	
Other comprehensive income:			
Revaluation of group-occupied property	—	(3)	12
Reclassification of group-occupied property	—	(79)	
Actuarial losses on defined benefit pension schemes*	**(77)**	(187)	9
Deferred tax gain*	**15**	32	
Transfer from the fund for future appropriations	**12**	236	
Exchange adjustments	—	1	
Total other comprehensive (loss) / income for the financial year, net of income tax	**(50)**	—	
Total comprehensive income for the financial year	**1,017**	857	

*Included within other comprehensive income is £62.0m (2019: £0.6m) of actuarial losses on defined benefit pension schemes and a £11.7m (2019: £0.1m) 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 46 along with the accompanying notes on pages 46 to 105 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 December 2020

	Share Capital	Other reserves*	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 January 2019	330	536	6,011	6,877
Profit for the financial year	—	—	857	857
Total comprehensive income for the financial year	—	—	857	857
Dividends	—	—	(2,120)	(2,120)
Total distribution to owners, recognised directly in equity	—	—	(2,120)	(2,120)
Balance as at 31 December 2019	**330**	**536**	**4,748**	**5,614**
Balance as at 1 January 2020	330	536	4,748	5,614
Profit for the financial year	—	—	1,067	1,067
Other comprehensive income 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)
Balance as at 31 December 2020	**330**	**536**	**5,268**	**6,134**

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

Balance sheet as at 31 December 2020

Assets	2020 £m	2019 £m	Note
Investments			
Land and buildings	**7,665**	8,418	12
Investments in group undertakings and participating interests	**5,496**	5,498	13
Other financial investments	**146,940**	145,862	14
	160,101	159,778	
Assets held to cover linked liabilities	**13,896**	14,427	15
Reinsurers' share of technical provisions			
Long-term business provision	**9,805**	10,117	
Claims outstanding	**135**	146	
Technical provisions for linked liabilities	**7,570**	7,304	
	17,510	17,567	16
Debtors			
Debtors arising out of direct insurance operations			
Policyholders	**18**	19	
Debtors arising out of reinsurance operations	**15**	8	
Other debtors	**907**	930	17
	940	957	
Other assets			
Cash at bank and in hand	**3,930**	3,332	18
Finance lease assets	**33**	33	12
	3,963	3,365	
Prepayments and accrued income			
Accrued interest and rent	**551**	690	
Deferred acquisition costs: long-term business	**19**	27	
Accrued external dividends receivable	**48**	80	
Other prepayments and accrued income	**198**	193	
	816	990	
Total Assets (excluding pension asset)	**197,226**	197,084	
Pension asset	**40**	28	9
Total Assets (including pension asset)	**197,266**	197,112	

Balance sheet as at 31 December 2020 (continued)

Equity and Liabilities	2020 £m	2019 £m	Note
Capital and reserves			
Share capital	**330**	330	20
Other reserves	**536**	536	
Profit and loss account	**5,268**	4,748	
Shareholders' funds – equity interests	**6,134**	5,614	2
Fund for future appropriations	**15,672**	16,153	25
Technical provisions			
Long-term business provision	**142,185**	142,323	25
Claims outstanding	**782**	698	8
Unearned revenue provision	**7**	9	
Total technical provisions	**142,974**	143,030	
Technical provisions for linked liabilities	**21,466**	21,731	
Provisions for other risks and charges			
Deferred taxation	**699**	820	7
Obligations under finance leases	**14**	14	12
Provision for pensions	**106**	28	9
Other provisions	**79**	159	21
	898	1,021	
Deposits received from reinsurers	**344**	231	
Creditors			
Creditors arising out of direct insurance operations	**77**	86	
Creditors arising out of reinsurance operations	**96**	84	
Other borrowings not owed to credit institutions	**124**	92	
Other creditors including taxation and social security	**9,304**	8,895	22
	9,601	9,157	
Accruals and deferred income	**177**	175	
Total Equity and Liabilities	**197,266**	197,112	

The accounting policies on pages 38 to 46 along with the accompanying notes on pages 46 to 105 form an integral part of the financial statements.

The accounts on pages 32 to 105 were approved by the Board of directors on 4 March 2021 and were signed on its behalf by:

P D Cooper
Director
4 March 2021

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).

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

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

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.

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) is sufficient to cover current estimates of future cash flows. 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 firm'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.

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 SAIF, the realistic liability calculation requires that all of the surplus within the fund is distributed to policyholders and therefore the FPRL is increased up to the point where the fund has no working capital.

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 EU) with the disclosure requirements of FRS 102.11 and FRS 102.12 *Other Financial Instruments* (FRS 102.12). Upon initial recognition financial investments are recognised at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases:

(i) Financial investments at fair value through profit and loss - this comprises assets designated by management as fair value through profit or loss on inception and derivatives. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses is disclosed separately in note 3 and note 14. The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cashflow analysis. Further information on valuation techniques is provided in note 27 (A).

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

Prior to demerger, there were group-occupied properties carried at fair value in the balance sheet and valued annually, by a number of different external valuers using the Royal Institution of Chartered Surveyors valuation standards. An increase in fair value was recognised in other comprehensive income, except to the extent that it was the reversal of a previous valuation decrease which was recognised in profit or loss. A decrease in fair value was recognised immediately in profit or loss, except to the extent that it reversed a previous revaluation surplus recognised in other comprehensive income. As from the date of demerger, these properties are no longer 'group-occupied' and are reflected as investment properties in line with the policy above.

G. Financial Liabilities

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

The Company holds financial liabilities on the following bases:

(i) Financial liabilities at fair value through profit or loss - these comprise derivatives, investment contracts without DPF and certain creditors. Derivative liabilities and certain creditors are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/ losses is disclosed separately in note 3 and note 14. The accounting policy for investment contracts without DPF is described at section C above.

(ii) Financial liabilities that are not valued at fair value through profit or loss and are not investment contracts with DPF are mainly creditors shown at settlement value.

(iii) Investment contracts with DPF. The accounting policy is covered at section C above.

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

H. Securities lending and reverse repurchase agreements

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

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

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

I. Tax

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

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

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

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

J. Foreign Currency

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

K. Defined benefit pension schemes

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

The assets and liabilities of the defined benefit pension schemes of the M&G plc group 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 defined 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 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 recognised as a liability.

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

2. Segmental Analysis

(a) Long-term business

Premiums and profit

	Gross premiums written		Balance on the long-term technical account before tax	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
United Kingdom	**5,160**	10,008	**665**	1,016
Poland *	**43**	20	**—**	—
Europe*	**527**	1,035	**(1)**	(1)
	5,730	11,063	**664**	1,015

New business

	Regular premiums		Single premiums	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
United Kingdom	**103**	150	**6,143**	10,581
Poland*	**15**	19	**—**	—
Europe*	**—**	—	**155**	974
	118	169	**6,298**	11,555

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

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

Notes on the financial statements (continued)

Analysis of premium income	**2020 £m**	2019 £m
Direct	**5,160**	9,988
Reinsurance accepted	**570**	1,075
	5,730	11,063
Direct business is analysed as follows:		
Individual business	**4,820**	9,393
Group contracts	**340**	595
	5,160	9,988
Regular premiums	**611**	681
Single premiums	**4,549**	9,307
	5,160	9,988
Participating contracts	**4,653**	9,022
Non-participating contracts	**139**	250
Linked long-term contracts (excluding investment contracts without discretionary participation features)	**369**	716
	5,160	9,988

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 income in respect of long-term business for the year ended 31 December 2020 was £717m (2019:£1,203m).

(b) General business

Analysis of technical account	Gross Claims Incurred		Reinsurance Balance	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Other*	**8**	7	**(8)**	(7)
	8	7	**(8)**	(7)

*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 (£6,134m) relate to the United Kingdom (2019: £5,614m).

3. Investment income

	Long-term business		Non-technical account	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Income from:				
Group undertakings	**119**	340	**—**	53
Other investments				
Land and buildings	**442**	554	**—**	—
Other investments	**4,066**	4,651	**76**	65
	4,627	5,545	**76**	118
(Losses) / gains on loans and receivables	**(21)**	(7)	**5**	—
Gains on the realisation of investments at fair value through profit and loss other than derivatives	**4,550**	3,290	**54**	69
Gains / (losses) on the realisation of derivatives – see note 27	**901**	(200)	**(22)**	(105)
Exchange losses	**(166)**	(212)	**(1)**	—
Fees for policy administration and asset management services arising from unit-linked investment contracts	**34**	38	**—**	—
	9,925	8,454	**112**	82

Income of £4,627m (2019: £5,545m) is from assets measured at fair value with the exception of interest income on loans and receivables which was £110m for the year ended 31 December 2020 (2019: £182m).

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 £2,531m (2019: £2,685m) analysed between the With-Profits Sub-Fund and Defined Charge Participating Sub-Fund of £2,313m (2019: £2,431m) and the Scottish Amicable Insurance Fund of £216m (2019: £254m).

Notes on the financial statements (continued)

5. Net operating expenses

	Long-term business	
	2020	2019
	£m	£m
Acquisition costs	**143**	169
Change in deferred acquisition costs	**8**	6
Administrative expenses	**535**	592
	686	767

Acquisition costs include commission receipts in respect of long-term direct insurance business acquisition of £1m (2019: receipts of £2m). Administrative expenses include commission payments in respect of long-term direct insurance business renewal of £30m (2019: payments of £33m).

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

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

Refer to note 10 for Directors emoluments and note 11 for 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 has now been set aside and a provision created for the remaining costs (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:

	2020	2019
	£m	£m
Less than 1 year	**4**	4
1 to 5 years	**8**	10
Over 5 years	**—**	1
Total	**12**	15

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

Notes on the financial statements (continued)

6. Investment expenses and charges

	Long-term business	
	2020	2019
	£m	£m
Investment management expenses	**372**	285
Interest on bank borrowings	**47**	38
Investment return payable to reinsurer	**—**	112
	419	435

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 the estimate of interest receivable. The position remains unchanged during 2020. As at 31 December 2020, the company has recognised a total policyholder tax credit of £122m (2019: £122m) in respect of its claim against HMRC. Of this amount, £39m has been paid by HMRC leaving a tax recoverable balance of £83m recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. It is expected the issue will be finalised in the first half of 2021 at which point PAC should receive full and final payment.

Under the terms of the agreement governing the domestication of the Company's Hong Kong branch in 2014, its 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 (2019: £12m) in respect of this liability which is included within other creditors (see note 22).

Notes on the financial statements (continued)

a) Tax charged (credited)

	Long-term funds		Shareholders' Profits	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Current Tax				
UK corporation tax	**420**	605	**52**	(44)
Overseas tax	**70**	67	**—**	—
Adjustments in respect of prior years	**24**	(131)	**(11)**	(16)
Total current tax	**515**	541	**41**	(60)
Deferred tax				
Origination and reversal of timing differences	**(116)**	162	**10**	(21)
Total deferred tax	**(116)**	162	**10**	(21)
Shareholders' attributable tax in respect of the long-term business				
Current	**—**	—	**220**	306
Deferred	**—**	—	**(28)**	(32)
Total shareholders' attributable tax	**—**	—	**192**	274
Tax allocated (to) from non-technical account	**(1)**	3	**1**	(3)
Tax charge on profit on ordinary activities	**397**	706	**244**	190

The calculation of the tax charge includes a degree of estimation and judgement. 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.

b) Factors affecting tax charge for the period

	2020	2019
	£m	£m
Profit on ordinary activities before tax	**1,311**	1,047
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19 per cent (2019: effective rate of 19 per cent)	**249**	199
Permanent differences	**(12)**	20
Adjustment to current tax in respect of previous periods	**(17)**	(11)
Different tax bases of long-term insurance (current tax)	**8**	—
Effect of tax rate changes	**10**	—
Non-taxable income	**—**	(5)
Revaluation of subsidiaries	**2**	(13)
Tax losses not recognised for DT purposes	**4**	—
Total tax charge for the period	**244**	190

c) Balance Sheet

	Attributable to Long-term funds		Attributable to Shareholders' funds	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Provision for Deferred Tax				
Accelerated capital allowances	**16**	17	—	—
Unrealised gains	**684**	782	—	—
Deferred acquisition costs	**(45)**	(53)	—	—
Life transitional arrangements	**68**	92	—	—
Pension asset (liability)	—	3	**(12)**	(3)
Unutilised tax losses	—	—	**(11)**	(18)
Undiscounted provision for deferred tax liability	**722**	841	**(23)**	(21)
Deferred tax liability at start of the period	**841**	711	**(21)**	—
Deferred tax (credit) charge in technical/non-technical account for the period	**(116)**	162	**10**	(21)
Deferred tax (credit) charge from statement of comprehensive income	**(3)**	(32)	**(12)**	—
Deferred tax liability (asset) at end of the period	**722**	841	**(23)**	(21)

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.

Deferred tax is provided at the rate applicable when the temporary differences are expected to reverse. In March 2020, the UK Government announced that the main rate of corporation tax was to remain at 19% for the financial years 2020 and 2021 rather than reducing it to 17% from 1 April 2020 as previously anticipated.

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 £534m (2019: £542m) 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. 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 £534m 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 (2019: £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 (2019 : 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.

Polish employees transferred to the new Polish branch of PIA with effect from 1 January 2019 following the Part VII. See note 13 and 30 for further details.

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 2020, the underlying PSPS liabilities account for 81% (2019: 82%) of the aggregate liabilities of the M&G plc group's defined benefit schemes. The Company also has a smaller defined benefit scheme, the Scottish Amicable Staff Pension Scheme (SASPS), as described below.

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

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

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

- 70% of the surplus in PSPS is allocated to the with-profits fund of the Company. Until 30 June 2019, the remaining 30% was allocated to Prudential plc, the previous parent company. As from 30 June 2019, 30% has been allocated to M&G Corporate Services Limited (previously named M&G Prudential Services Limited), a fellow subsidiary undertaking of the M&G plc group.

- 40% of the deficit and related costs of SASPS is allocated to the with-profits fund of the Company. Until 30 June 2019, the remaining 60% was allocated to Prudential Financial Services Limited, a fellow subsidiary undertaking of the M&G plc group. As from 30 June 2019, 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 2017 and was finalised during 2018. This valuation demonstrated the scheme to be 105% funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. There was a small change to the ongoing contributions into the scheme, which are payable at the minimum level required under the scheme rules. Excluding expenses, the contributions are now payable at approximately £3m per annum (2019: £5m) 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 (previously named M&G Prudential 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 2017 and was finalised in 2017. This valuation demonstrated the scheme to be 75% funded. Based on this valuation, it was agreed with the Trustees that the level of deficit funding would be £26m per annum from 1 April 2017 to 31 March 2027, subject to review at subsequent valuations.

The next triennial valuations for PSPS and SASPS are underway and are expected to conclude in the first six months of 2021.

In January 2019, following consultation, the Company reached agreement that salary increases for defined benefit scheme members who earn in excess of £35,000 will no longer be pensionable after 30 September 2019. Pension benefits will still relate to how many years they have been active scheme members, as they do now, as long as they remain working for the Company. The impact of this was a past service credit of £66m in the with-profits fund and was reflected in the 2019 results within net operating expenses in the long-term business technical account.

Corporate Governance

The Company's UK pension schemes are regulated by The Pension Regulator in accordance with the Pensions Act 2004. 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. In carrying out this responsibility, the Investment Managers are required by The Occupational Pensions Schemes (Investment) Regulations 2005 - Investment by trustees, to have regard to the need for diversification and suitability of investments. Subject to a number of restrictions contained within the relevant asset management agreements, the Investment Managers are authorised to invest in any class of investment asset. However, the Investment Managers will not invest in any new class of investment asset without prior consultation with the Trustee.

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

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

Notes on the financial statements (continued)

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:

	2020		2019	
	PSPS	**SASPS**	PSPS	SASPS
	%	**%**	%	%
Price inflation:				
Retail Price Index (RPI)	**3.0**	**2.9**	3.1	3.0
Consumer Price Index (CPI)	**2.2**	**2.1**	2.1	2.0
Rate of increase in salaries	**3.0**	**2.9**	3.1	3.0
Rate of increase of pensions in payment:				
PSPS				
Guaranteed - LPI (Max 5%)	**2.5**	**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**	**2.9**	n/a	3.0
Rate used to discount scheme liabilities	**1.2**	**1.3**	2.1	2.1

The current mortality assumptions used as at 31 December 2019 were amended to be specific to each scheme, instead of being based upon the largest scheme (PSPS). The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2020, this allowance was based on the CMI_2018 mortality improvements model with improvement factors of 1.75% for males and 1.5% for females. As at 31 December 2019, this allowance was based on the CMI_2017 mortality improvements model with improvement factors of 1.75% for males and 1.50% for females.

The most recent full valuations have been updated to 31 December 2020 applying the principles prescribed by FRS 102.28.

The combined assets and liabilities of PSPS and SASPS were:

	31 December 2020		31 December 2019	
	£m	**%**	£m	%
Equities	**33**	**—**	33	—
Bonds	**8,052**	**91**	7,531	91
Properties	**195**	**2**	211	3
Other assets	**573**	**6**	539	6
Total value of assets	**8,853**	**100**	8,314	100
Present value of underlying scheme liabilities	**8,184**		7,415	
Underlying surplus in the schemes	**669**		899	

Included within other assets is a £15m derivative liability in respect of the longevity swap transaction with Pacific Life Re Limited (2019: nil).

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

	2020	2019
	£m	£m
Attributable to the Company's with-profits fund	**(2)**	17
Attributable to the Company's shareholder fund	**(64)**	(17)
Total	**(66)**	—

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 gain of £884m (2019: gain of £785m) of which a gain of £584m (2019: gain of £523m) relates to the amounts attributable to the Company's with-profits fund and a gain of £70m (2019: £53m) 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 £40m as at 31 December 2020 (2019: £28m). The provision for pensions on the balance sheet of the Company and detailed in the table below is £106m as at 31 December 2020 (2019: £28m).

The surplus in the Prudential Staff Pension Scheme of £40m 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:

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)
Net surplus (deficit) at end of year	**8,851**	**(8,182)**	**669**	**(717)**	**(48)**	**(66)**
PSPS net surplus (deficit) at end of year	**7,884**	**(7,109)**	**775**	**(717)**	**58**	**40**
SASPS net surplus (deficit) at end of year	**967**	**(1,073)**	**(106)**	**—**	**(106)**	**(106)**

* 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 53.

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

Notes on the financial statements (continued)

2019 £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	7,881	(7,052)	829	(676)	153	130
Net surplus (deficit) transferred during the year***	—	—	—	—	—	(23)
Current service cost	—	(22)	(22)	—	(22)	(12)
Past service cost**	—	121	121	—	121	66
Net interest on net defined benefit	208	(186)	22	—	22	3
Administration expenses	(9)	—	(9)	—	(9)	(6)
Benefit payments	(395)	395	—	—	—	—
Company contributions*	42	—	42	—	42	29
Employee contributions	—	—	—	—	—	—
Actuarial gains and losses	587	(671)	(84)	(251)	(335)	(187)
Net surplus (deficit) at end of year	**8,314**	**(7,415)**	**899**	**(927)**	**(28)**	**—**
PSPS net surplus (deficit) at end of year	**7,447**	**(6,520)**	**927**	**(927)**	**—**	**28**
SASPS net surplus (deficit) at end of year	**867**	**(895)**	**(28)**	**—**	**(28)**	**(28)**

* 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. In light of this Court ruling, at 31 December 2019, the Group has recognised an estimated allowance for GMP equalisation within the FRS 102.28 valuation for all the schemes of £32m for PSPS and £17m for SASPS. A portion of these costs are allocated to the Company in line with the apportionments described on page 53.
*** PAC share of surplus (deficit) includes the shareholder portion of SASPS from 30 June 2019.

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

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

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

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

The amounts attributable to the Company's with-profits fund for both PSPS and SASPS are absorbed by the transfer to or from the FFA and therefore have no direct effect on shareholders' profit or shareholders' funds. In 2020, there was a pension debit of £34m (2019: debit of £55m).

The amount attributable to the Company's shareholders for SASPS has a direct effect on shareholders' profit and shareholders' funds. In 2020 there was a pension debit of £63m (2019: credit of £4m).

In 2020, the actuarial gains included a credit of £25m (2019: debit of £50m) 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 £16m (2019: actuarial loss of £186m) 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 £61m (2019: £1m) 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 2020 amounts to £40m, reflecting the annual accrual cost, deficit funding (SASPS only), and expenses, of which £37m relates to the Company.

The table below shows the sensitivity of the underlying PSPS and SASPS liabilities at 31 December 2020 of £7,109m (2019: £6,520m) and £1,073m (2019: £895m) to changes in discount rates, inflation rates and mortality rate assumptions.

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

Assumption	Change in assumption	Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis
2020		
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%

Notes on the financial statements (continued)

Assumption	**Change in assumption**	**Impact on PSPS and SASPS scheme liabilities on FRS102.28 basis**
2019		
Discount rate	Decrease by 0.2%: PSPS from 2.1% to 1.9% SASPS from 2.1% to 1.9%	Increase scheme liabilities by: PSPS 3.3% SASPS 4.7%
Discount rate	Increase by 0.2%: PSPS from 2.1% to 2.3% SASPS from 2.1% to 2.3%	Decrease scheme liabilities by: PSPS 3.1% SASPS 4.4%
Rate of inflation (RPI)	Decrease by 0.2%: PSPS from 3.1% to 2.9% SASPS from 3.0% to 2.8% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.5% SASPS 3.3%
Rate of inflation (CPI)	Decrease by 0.2%: PSPS from 2.1% to 1.9% SASPS from 2.0% to 1.8% with consequent reduction in salary increases	Decrease scheme liabilities by: PSPS 0.5% SASPS 3.3%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by: PSPS 3.7% SASPS 3.6%

10. Directors' emoluments

	2020	2019
	£	£
Aggregate emoluments	**1,939,333**	1,556,435
Excess retirement benefits:		
Current directors	**93,800**	73,384
Past directors	**—**	—
	2,033,133	1,629,819
Highest Paid Director:		
Aggregate emoluments and amounts receivable (excluding shares) under long term incentive schemes	**583,106**	477,838

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. During 2019, in preparation for and following the demerger of M&G plc from Prudential plc, the duties of the executive directors holding office for the Company changed, and there were changes in the membership of the Board. 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 2020 (2019: three). No directors (2019: none) exercised share options during the year. Three directors (2019: five) were entitled to shares under M&G plc's main long-term incentive scheme and two director (2019: none) were entitled to retirement funds under defined benefit schemes. Prudential plc shares previously awarded to the directors under the long-term incentive scheme were converted to M&G plc shares at the point of demerger.

The highest paid director in 2020 (and 2019) 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):

	2020	2019
	£000's	£000's
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2,498	2,663
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	606	435
Audit of the Company's subsidiaries, pursuant to legislation	1,072	161
Other assurance services	30	50
Total fees payable	4,206	3,309

12. Land and buildings

	2020	2019
	£m	£m
Current value		
Freeholds	4,740	4,941
Leaseholds with a term of over 50 years	2,399	2,842
Leaseholds with a term of less than 50 years	525	635
	7,665	8,418
Cost	6,024	6,149

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

	2020	2019
	£m	£m
At cost	6,024	6,149
Aggregate depreciation	(3,921)	(3,765)
Net book value based on historical cost	2,103	2,384

(a) Group-occupied property

	2020	2019
	£m	£m
Balance at 1 January	—	144
Additions	—	3
Revaluations	—	(3)
Transfers to Investment Property	—	(144)
Balance at 31 December	—	—

On 18 October 2019, Group-occupied property was transferred to investment property following the de-merger from Prudential plc.

(b) Investment property

	2020	2019
	£m	£m
Balance at 1 January	**8,418**	8,920
Additions		
Resulting from acquisitions	**93**	268
Resulting from expenditure capitalised	**35**	76
Disposals	**(162)**	(123)
Net loss from fair value adjustments	**(713)**	(864)
Transfers from Group-occupied property	**—**	144
Other changes	**(6)**	(3)
Balance at 31 December	**7,665**	8,418

The 2020 profit and loss account includes rental income from investment properties of £442m (2019: £554m).

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:

	2020			2019		
	£m			£m		
	Future minimum payments	**Future finance charges**	**PV of future minimum payments**	Future minimum payments	Future finance charges	PV of future minimum payments
Less than 1 year	**1**	**—**	**1**	1	—	1
1 to 5 years	**2**	**—**	**2**	2	—	2
Over 5 years	**103**	**(92)**	**11**	104	(93)	11
Total	**106**	**(92)**	**14**	107	(93)	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 £1m (2019: £2m) has been recognised as income with an expense charge of £3m (2019: £6m). There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. The contractual obligations to purchase or develop investment properties at 31 December 2020 were £909m (2019: £1,199m).

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 investment properties are receivable in the following periods:

	2020	2019
	£m	£m
Less than 1 year	**248**	254
1 to 5 years	**869**	978
Over 5 years	**1,766**	2,159
Total	**2,882**	3,391

Notes on the financial statements (continued)

(c) 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:

	2020 £m			2019 £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**	9	(2)	7
Over 5 years	**365**	**(341)**	**24**	367	(343)	24
Total	**375**	**(342)**	**33**	378	(345)	33

13. Investments in group undertakings and participating interests

	Cost		Current value	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Long-term fund investments	**2,310**	2,127	**3,502**	3,506
Shareholder investments	**289**	289	**440**	450
Total	**2,599**	2,416	**3,942**	3,956
Interest in joint ventures and associate long-term fund investments	**347**	344	**421**	487
Debt securities issued by, and loans to group undertakings – long term funds	**1,134**	1,055	**1,133**	1,055
Total	**4,080**	3,815	**5,496**	5,498

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

14. Other financial investments

	Cost		Carrying value	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	**47,096**	44,188	**56,410**	55,842
Debt securities and other fixed income securities	**51,543**	58,169	**58,101**	63,824
Derivative assets	**1,846**	1,094	**5,315**	3,641
Participation in investment pools	**6,707**	5,306	**7,566**	6,288
Loans secured by mortgages	**2,622**	2,531	**2,820**	2,697
Amortised cost				
Loans to policyholders secured by insurance policies	**2**	2	**2**	2
Other loans	**1,013**	1,047	**995**	1,027
Deposits with credit institutions	**15,731**	12,541	**15,731**	12,541
	126,560	124,878	**146,940**	145,862

Notes on the financial statements (continued)

The change in carrying value of other financial investments included in the Profit and Loss account was a loss of £1,137m (2019: £8,306m gain) analysed between a loss of £1,677m (2019: £8,541m gain) included in the Long-term business technical account and a £540m gain (2019: £235m loss) included in the Non-technical account.

The change in carrying value of £1,137m loss (2019: £8,306m gain) included a loss of £2,341m (2019: £4,667m gain) in respect of equity securities, gain of £731m (2019: £1,860m gain) in respect of debt securities, a gain of £562m (2019: £1,495m gain) in respect of derivatives and a loss of £89m (2019: £284m gain) in respect of other financial instruments.

	Carrying value	
	2020	2019
Amounts included in the above relating to listed investments:	**£m**	£m
Shares and other variable yield securities and units in unit trusts	**47,097**	50,955
Debt securities and other fixed income securities	**49,695**	56,201
	96,792	107,156

The table below analyses the derivative positions of the Company:

	2020 **£m**		2019 £m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	**3,879**	**1,902**	2,406	509
Cross currency swaps	**43**	**418**	16	403
Currency exchange forward contracts	**877**	**207**	820	142
Bond futures	**1**	**20**	37	23
Credit default swaps	**51**	**1**	41	17
Inflation swaps	**287**	**494**	255	389
Derivative financial instruments held to manage market risk and efficient investment management:				
Equity options	**67**	**35**	36	321
Equity futures	**110**	**17**	30	8
Total	**5,315**	**3,093**	3,641	1,812

The nature of the derivative financial instruments used by the Company in 2020, are similar to those used in 2019. 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 £142m (2019: liability of £321m). 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.

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 PRIL, which were subsequently transferred to the Company, at the fair value of the mortgage book.

Notes on the financial statements (continued)

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

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

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

The fair value of this equity release mortgage portfolio at 31 December 2020 was £1,391m (2019: £1,306m).

15. Assets held to cover linked liabilities

	Cost		**Carrying value**	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Assets held to cover linked liabilities	**10,870**	11,081	**13,896**	14,427

16. Reinsurers' share of technical provisions

At 31 December 2020, longevity swap reinsurance covered £6.0bn (2019: £6.2bn) of annuity liabilities in the non-profit sub fund, equivalent to 20% (2019: 21%) of total annuity liabilities. In addition, of the business reinsured to Rothesay Life, longevity swap reinsurance covered £6.3bn (2019 £6.3bn) of annuity liabilities, equivalent to 21% (2018: 22%) of total annuity liabilities.

Included in income and expense in the profit and loss account is £0.1bn reflecting the movement in the reinsurers' share of technical provision to £17.5bn at 31 December 2020 from £17.6bn at 31 December 2019.

During the year the Company recognised no profit or loss from the purchase of reinsurance.

17. Other debtors

	2020	2019
	£m	£m
Amounts owed by ultimate parent company	**25**	18
Amounts owed by fellow subsidiaries	**83**	197
Amounts owed by subsidiary companies, associate and joint ventures	**264**	181
Tax recoverable	**358**	368
Other	**177**	166
	907	930

Other debtors include £3m (2019: £2m) 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, £196,243m (2019: £196,154m) is attributable to the long-term business fund.

20. Share capital

The Company's issued ordinary share capital is £329,517,064 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

	2020	2019
	£m	£m
At 1 January	**159**	401
Charged to income statement:		
Additional provisions	**51**	33
Unused amounts released	**(35)**	(17)
Used during the year	**(96)**	(258)
Total at 31 December	**79**	159

Provisions in relation to annuity sales practices

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

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

Notes on the financial statements (continued)

22. Other creditors including tax and social security

	2020	2019
	£m	£m
Amounts owed to fellow subsidiaries and ultimate holding company	**110**	174
Amounts owed to subsidiary companies, associate and joint ventures	**529**	454
Current tax payable	**182**	296
Derivative liability (see note 14)	**3,093**	1,812
Other creditors*	**5,390**	6,159
	9,304	8,895

*The majority of the amount within other creditors is in relation to reverse repurchase agreements that have traded but not settled at 31 December 2020.

23. Ultimate parent company

On 23 July 2020 the Company's legal ownership was transferred from its previous parent company M&G plc to a new holding company M&G Group Regulated Entity Holding Company Limited which is a subsidiary of M&G plc.

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

24. Related party transactions

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

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.

Notes on the financial statements (continued)

The SAIF is a closed sub-fund that contains the bulk of the business originally written by the Scottish Amicable Life Assurance Society and acquired by the Company on 30 September 1997. Under the terms agreed at the time of the purchase, the SAIF inherited estate will be distributed to with-profits policyholders as an addition to the with-profits benefits arising in SAIF. The SAIF policyholders therefore receive 100 per cent of the distribution from the sub-fund as bonus additions to their policies.

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 accrue to the with-profits sub-fund.

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

Notes on the financial statements (continued)

i. Analysis of movements in insurance liabilities including FFA

	Technical Provisions		
	Technical Provisions £m	**Linked liabilities £m**	**Total £m**
As at 1 January 2019			
Comprising			
Technical provisions	132,770	21,681	154,451
Fund for future appropriations	13,487	—	13,487
	146,257	21,681	167,938
Premiums	11,778	339	12,117
Surrenders	(5,010)	(894)	(5,904)
Maturities/Deaths	(5,998)	(936)	(6,934)
Shareholders' transfers post tax	(263)	—	(263)
Switches	(156)	156	—
Investment-related items and other movements	12,983	1,388	14,371
Foreign exchange translation differences	(63)	—	(63)
Transfer of business	(50)	(3)	(53)
Assumption changes	(295)	—	(295)
As at 31 December 2019/1 January 2020	**159,183**	**21,731**	**180,914**
Comprising			
Technical provisions	143,030	21,731	164,761
Fund for future appropriations	16,153	—	16,153
	159,183	21,731	180,914
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)
As at 31 December 2020	**158,646**	**21,466**	**180,112**
Comprising			
Technical provisions	142,974	21,466	164,440
Fund for future appropriations	15,672	—	15,672
	158,646	**21,466**	**180,112**

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 for the year ended 31 December 2020 includes reclassifications between insurance contract liabilities and the unallocated surplus of the with-profits fund.

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 SAIF and 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:

2020	With-profits business			Policyholder Annuities	Shareholder Annuities	Other		
	Insurance contracts %	Investment contracts %	Total %	Insurance contracts %	Insurance contracts %	Insurance contracts %	Investment contracts %	Total %
0-5 years	34	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

2019	With-profits business			Policyholder Annuities	Shareholder Annuities	Other		
	Insurance contracts %	Investment contracts %	Total %	Insurance contracts %	Insurance contracts %	Insurance contracts %	Investment contracts %	Total %
0-5 years	35	38	37	34	27	45	30	35
5-10 years	24	26	26	26	23	24	24	24
10-15 years	16	16	16	17	19	15	19	17
15-20 years	11	9	9	10	14	8	13	12
20-25 years	6	5	5	6	9	4	7	6
Over 25 years	8	6	7	7	8	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.

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, SAIF and DCPSF

With-profits options and guarantees

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

Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if 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 2020 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)	SAIF
Gross return	1.69%	3.51%	4.41%	1.97%
Net return	1.52%	2.93%	3.64%	1.70%

Notes on the financial statements (continued)

The 2019 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	11.50 %	11.50 %	11.00 %	11.70 %
Net return	9.60 %	9.50 %	9.00 %	9.70 %

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.

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

Notes on the financial statements (continued)

The table below shows the mortality bases used for the valuation at 31 December 2019:

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	75 / 75
Personal Pensions	AMC00/AFC00	-1 / -1	80 / 80
Ordinary Branch assurances	AMC00/AFC00	-0.5 / -0.5	85 / 85
Industrial Branch	PAC78WL	0 / 0	55 / 55
With-Profits Deferred Annuities	AMC00/AFC00	-1 / -1	100 / 100
Group Pension Deferred Annuities	PCMA00_CMI_2017_M_LTR_1.75_Sk_7.50_pl50bps / PCFA00_CMI_2017_F_LTR_1.50_Sk_7.75_pl50bps	0 / 0	96/84 (PAC) 97/91 (ex-PAL)
SAIF Conventional With-Profits	AMC00/AFC00	1 / 1	55 / 55 Life & 35 / 35 Pensions
SAIF/Ex-SAL Accumulating With-Profits Life	AMC00/AFC00	1 / 1	45 / 45 Life & 40 / 40 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.

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuitant business, longevity remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Company's portfolio. The best estimate annuity longevity assumptions have been updated to allow for additional population data and to reflect recent emerging experience.

Notes on the financial statements (continued)

The slowdown in life expectancy improvements observed during 2018 in population data were considered as part of the judgement exercised in setting the 2020 mortality basis. New mortality projection models are released regularly by the Continuous Mortality Investigation (CMI). The CMI 2018 model was used to produce the 2020 results albeit with an uplift to the calibration to reflect the lighter mortality seen in 2019 that is not included in the CMI 2018 model, 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 2017 model was used to produce the 2019 results. The default calibration of CMI 2017 was adopted for males with a slightly stronger calibration for females to reflect the Company's view of future mortality improvements based on a range of possible outcomes, with an appropriate margin for prudence. The mortality improvement assumptions used were the default calibration of CMI 2017 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.

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

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

	Interest Rate %
UK (excluding Scottish Amicable Insurance Fund)	
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 rates were used for annuity business at 31 December 2019:

	Interest Rate %
UK (excluding Scottish Amicable Insurance Fund)	
Ex-PAL Annuities (Fixed)	2.08
Ex-PAL Annuities (Linked)	2.04
NPSF Annuities (Fixed)	2.38
NPSF Annuities (Linked)	2.30
Other Shareholder Annuities (Fixed)	2.38
Other WPSF Annuities (Fixed)	2.75
Other WPSF Annuities (Linked)	4.37

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*
UK (excluding Scottish Amicable Insurance Fund)		
Term assurances - life business	0.18	85% to 100% AMC00/AFC00 +1
Term assurances - pensions business	0.23	80% to 90% AMC00/AFC00 +1
Scottish Amicable Insurance Fund		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	0.72	80% AMC00/AFC00 +1

The following discount and mortality bases were used for term assurances at 31 December 2019:

	Interest Rate %	Actuarial Mortality Table Reference*
UK (excluding Scottish Amicable Insurance Fund)		
Term assurances - life business	0.71	80% to 85% AMC00/AFC00+1
Term assurances - pensions business	0.89	65% AMC00/AFC00+1
Scottish Amicable Insurance Fund		
Term assurances - life business	n/a	n/a
Term assurances – pensions business	1.38	65% AMC00/AFC00+1

C. Linked business in the Shareholder Fund and 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 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 £169 depending on product type
Expense Inflation	Shareholder: 3.57%. SAIF: 4.57% for retained expenses, 3.07% 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 2019:

Discount Rate	0.89% Gross
Fund Growth	4.62% Gross
Mortality	AMC00/ AFC00 Ultimate+1 age adj 70%-100% depending upon product type
Administration Expenses	£73 to £136 depending on product type
Expense Inflation	Shareholder: 3.62%. SAIF: 4.62% for retained expenses, 3.12% for third party expenses

D. Linked business in the With-Profits Sub-Fund

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	£128 to £135 depending on product type
Expense Inflation	4.57% for retained expenses, 3.07% for third party expenses for SAA

The provision for mortality, morbidity and expenses is calculated using a discounted cashflow method on the following bases at 31 December 2019:

Discount Rate	0.89% Gross
Fund Growth	4.62% Gross
Mortality	AMC00/ AFC00 Ultimate+1 age adj 75%-100% depending upon product type
Administration Expenses	£90 to £133 depending on product type
Expense Inflation	4.62% for retained expenses, 3.12% 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 2020 was a net increase to the FFA of £339m (2019: net increase of £219m), 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 2020 was a net profit before tax of £184m (2019: £166m), 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 2020, the pension mis-selling amount included within the long-term business provision was £304m (2019: £420m). The table below summarises the change for the year ended 31 December 2020.

	Year Ended 31 December 2020 £m	Year Ended 31 December 2019 £m
Balance at start of the period	**420**	777
Changes to actuarial assumptions and method of calculation	**(62)**	(93)
Release of provision in respect of closed cases	**(5)**	(64)
Redress paid to policyholders	**(47)**	(182)
Payment of administrative costs	**(2)**	(18)
Balance at end of the period	**304**	420

The pension mis-selling amount above at 31 December 2020 of £304m is stochastically determined on a 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 2020 of £-62m principally relate to an increase in the proportion of cases that are considered to be soft closed.

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

		Change in provision (£m)	
Assumption	**Change in assumption**	**31 December 2020**	**31 December 2019**
Average cost of redress	+/- 10%	+/- 10	+/- 20
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 was supported by related intra-group arrangements between Prudential plc (the previous ultimate parent) and the Company, which formalised the circumstances in which capital support would be made available to the Company by Prudential plc. These intra-group arrangements terminated on 21 October 2019, following the demerger of M&G plc from Prudential plc, at which time intra-group arrangements formalising the circumstances in which M&G plc would make capital support available to the Company became effective.

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 2020 an amount is held within the long-term business provision of £11m in respect of shareholder-backed business and £4m in respect of SAIF (2019: £54m and £8m 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.

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 1997, the business of Scottish Amicable Life Assurance Society, a mutual society, was transferred to the Company. In effecting the transfer, a separate sub-fund SAIF, was established within the Company's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund and the sub-fund is managed to ensure that all the invested assets are distributed to SAIF policyholders over the lifetime of the SAIF policies. With the exception of certain amounts in respect of the unitised with-profits life business, all future earnings arising in SAIF are retained for SAIF policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is offset by a change in the SAIF technical provisions (no FFA is shown for SAIF in 2020 because technical provisions are set to equal assets). Shareholders have no interest in the profits of SAIF but are entitled to the investment management fees paid on this business.

SAIF with-profits policies contain minimum levels of guaranteed benefit to policyholders. In addition, as mentioned earlier in this note, certain pensions products have guaranteed annuity rates at retirement. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the Company' would be liable to cover any such deficiency in the first instance.

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 described in note 13 and 30.

Litigation

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

Notes on the financial statements (continued)

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

Intra-group Capital Support Arrangements

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

Prutec Limited, a subsidiary of the Company, invests in partnerships, venture capital funds, private equity funds and private equity transactions. Prutec Limited's assets are predominantly fixed asset investments, and as a result the the entity has net current liabilities. Accordingly, a letter of support was provided by the Company to Prutec Limited in August 2020.

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 Prudential Financial Planning Ltd (PFPL), another group company, which became operational in 2013. Part of the acquisition costs incurred in the early years of the PFPL 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 PFPL to deliver cost savings to the Company's with-profits funds. In the event of closure of PFPL or PFPL not delivering cost savings to the Company's with-profits funds, the shareholder will reimburse the consequent estate drain. The time period for repayment is not defined.

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 PAC shareholder 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.

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.

2020	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial Assets				
Deposits with credit institutions	—	15,731	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
Total	144,141	22,036	166,177	166,296

	Fair value through profit and loss £m	Amortised cost £m	Investment contracts with DPF £m	Total carrying value £m	Fair value £m
Financial Liabilities					
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
Total (note v)	10,955	6,275	79,591	96,821	17,230

Notes on the financial statements (continued)

2019	Fair value through profit and loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial Assets				
Deposits with credit institutions	—	12,541	12,541	12,541
Equity securities and portfolio holdings in unit trusts	55,842	—	55,842	55,842
Debt securities and other fixed income securities (note i)	63,824	—	63,824	63,824
Loans (note ii)	2,697	1,029	3,726	3,848
Participation in investment pools	6,288	—	6,288	6,288
Derivative assets	3,641	—	3,641	3,641
Assets held to cover linked liabilities	14,427	—	14,427	14,427
Debtors arising out of direct insurance operations	—	19	19	19
Debtors arising out of reinsurance operations	—	8	8	8
Accrued investment income	—	963	963	963
Other debtors	—	562	562	562
Cash at bank and in hand	—	3,332	3,332	3,332
Finance Lease asset (see note 12)	33	—	33	33
Total	146,752	18,454	165,206	165,328

	Fair value through profit and loss £m	Amortised cost £m	Investment contracts with DPF £m	Total carrying value £m	Fair value £m
Financial Liabilities					
Finance lease obligations (see note 12)	—	14	—	14	14
Other borrowings not owed to credit institutions (note iii)	—	92	—	92	92
Investment contracts with discretionary participation features (note iv)	—	—	78,022	78,022	—
Investment contracts without discretionary participation features	7,542	—	—	7,542	7,542
Creditors arising out of direct insurance operations	—	86	—	86	86
Creditors arising out of reinsurance operations	—	84	—	84	84
Deposits received from reinsurers	—	231	—	231	231
Other creditors	390	6,397	—	6,787	6,787
Derivative liabilities	1,812	—	—	1,812	1,812
Total (note v)	9,744	6,904	78,022	94,669	16,648

Notes

(i) As at 31 December 2020, £525m (2019: £433m) 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 £19m (2019: £20m losses).

(iii) As at 31 December 2020, £124m (2019: £92m) 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 2020 and 2019.

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.

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 which were valued internally using discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the internally derived discount rate (risk-free rate plus a liquidity premium) and

property values. During 2019, there was a change to the deferment rate assumption which resulted in an increase in assumed property values at redemption, however, during 2020, the assumed future property growth assumption has been adjusted to make 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 2.86% (2019: 3.05%) and the implied in house price volatility of 13% (2019: 13%).

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

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

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

Notes on the financial statements (continued)

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
With-profits*				
Investment properties	—	—	7,086	**7,086**
Equity securities and portfolio holdings in unit trusts	50,623	1,856	3,362	**55,841**
Debt securities	18,287	26,821	4,119	**49,227**
Loans	—	773	916	**1,689**
Other investments (including derivative assets)	67	3,876	5,586	**9,529**
Derivative liabilities	(31)	(646)	—	**(677)**
Total financial investments, net of derivative liabilities	**68,946**	**32,680**	**21,069**	**122,695**
Percentage of total	**56%**	**27%**	**17%**	**100%**
Unit-linked				
Assets held to cover linked liabilities	6,750	—	435	**7,185**
Total financial investments net of derivative liabilities	6,750	—	435	**7,185**
Investment contract without discretionary participation features held at fair value	—	(7,542)	—	**(7,542)**
Total	**6,750**	**(7,542)**	**435**	**(357)**
Percentage of total	**N/A**	**N/A**	**N/A**	**100%**
Non-linked shareholder-backed**				
Investment properties	—	—	1,644	**1,644**
Equity securities and portfolio holdings in unit trusts	—	—	—	**—**
Debt securities	4,308	9,799	6,207	**20,314**
Loans	—	—	2,159	**2,159**
Other investments (including derivative assets)	—	603	1	**604**
Derivative liabilities	—	(1,135)	—	**(1,135)**
Total financial investments, net of derivative liabilities	**4,308**	**9,267**	**10,011**	**23,586**
Percentage of total	**18%**	**39%**	**42%**	**100%**
Company total				
Investment properties	—	—	8,730	**8,730**
Equity securities and portfolio holdings in unit trusts	50,623	1,856	3,363	**55,842**
Debt securities	22,595	36,620	10,326	**69,541**
Loans	—	773	3,075	**3,848**
Other investments (including derivative assets)	67	4,479	5,587	**10,133**
Assets held to cover linked liabilities	6,750	—	435	**7,186**
Derivative liabilities	(31)	(1,782)	—	**(1,813)**
Total financial investments, net of derivative liabilities	**80,004**	**41,946**	**31,516**	**153,466**
Investment contract without discretionary participation features held at fair value	**—**	**(7,542)**	**—**	**(7,542)**
Total	**80,004**	**34,404**	**31,516**	**145,924**
Percentage of total	**55%**	**24%**	**22%**	**100%**

* 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 £1,445m (2019: £1,286m) of assets which comprise the total assets held to cover unit-linked liabilities, which consist mainly of cash at bank, other debtors and property.

Interest expense

The interest expense on financial liabilities not at fair value through profit and loss was £5m for the year ended 31 December 2020 (2019: £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 instruments and insurance assets and liabilities are set out below:

Risk Type:	Definition:
Market risk	The risk of loss, or of adverse change in the Company's financial situation, or that of its customers and clients, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Insurance risk	The risk of loss or of adverse change in the Company's financial situation, or that of its customers and clients, resulting from changes in the level, trend or volatility of a number of insurance risk drivers.
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 and liabilities attaching to the Company's life assurance business are, to varying degrees, subject to the risks described above that 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) is only sensitive to market and credit risk through the indirect effect 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, movements in its value do not affect shareholders' profit and funds, so the shareholder is not directly exposed to changes in the assets and liabilities within the WPSF.

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, as are shareholder transfers expected to emerge from the 2018, 2019 and 2020 tranches of PruFund new business.

Defined Charge Participating Sub-Fund (DCPSF) business

For similar reasons to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities of the DCPSF. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges arising on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

Scottish Amicable Insurance Fund (SAIF) business

SAIF is a ring-fenced fund and shareholders have no entitlement to the profits of the fund. Accordingly, the Company's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities. On 1 April 2021 it is the intention that SAIF will merge with the PAC WPSF and the assets and liabilities of SAIF will be combined with the WPSF.

Unit-linked business

Unit-linked business represents a comparatively small proportion of the Company's in-force business. Due to customer liabilities moving in line with attaching asset value movements, the shareholder's exposure to the unit-linked business is not directly affected by market or credit risk.

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 due to investment performance, as well as persistency experience. 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. Except to the extent of any asset/liability duration mismatch, the sensitivity to market risk arising from movements in the value of annuity liabilities net of covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk. These assets are primarily debt securities.

The shareholder is directly 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 directly exposed to interest rate risk on surplus assets; this risk is hedged through interest rate swaps.

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, credit and insurance risks, but especially to property, interest rate and credit risks.

C. Market Risk

As described in Section B market risk is the risk of loss, or adverse change in the financial situation, or that of its customers and clients, resulting directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

Market risk comprises six types of risk, namely:

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

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

The primary market risks that the Company faces are equity risk, property risk, and interest rate risk. Most 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 bonds, 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 investment 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; strategic asset allocations; investment and hedging strategies; and investment constraints.

Interest rate risk and inflation risk

The majority of the Company's interest rate exposure arises from shareholder-backed annuities. 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.

The assets and liabilities for with-profits business are sensitive to interest rates, but the shareholder is not directly exposed to changes in the value of these assets and liabilities. The liabilities for the unit-linked business component are sensitive to interest rates, but as these move in line with the underlying assets, there is no direct exposure to the shareholder.

There is, however, some indirect exposure to the shareholder through the impact on shareholder transfers from with-profits business and charges levied on unit-linked business.

The estimated sensitivity of the shareholder-backed business to a movement in interest rates of 1% and 2% as at 31 December 2020 and 2019 are as follows:

	2020				2019			
	Fall of 1%	**Rise of 1%**	**Fall of 2%**	**Rise of 2%**	Fall of 1%	Rise of 1%	Fall of 2%	Rise of 2%
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Carrying value of debt securities and derivatives	**3,538**	**(2,948)**	**7,933**	**(5,526)**	3,150	(2,663)	7,027	(4,971)
Long term business provision	**(2,168)**	**1,809**	**(4,792)**	**3,331**	(2,155)	1,798	(4,765)	3,312
Related tax effects	**(260)**	**216**	**(597)**	**417**	(169)	147	(385)	282
Net sensitivity of profit after tax and shareholders' funds	**1,110**	**(923)**	**2,544**	**(1,778)**	826	(718)	1,877	(1,377)

Equity and property risk

While the Company holds significant amounts of equity and property assets, these are primarily held to back with-profits and unit-linked business, where there is no direct exposure to the shareholder. The majority of the direct shareholder exposure to these risks arises in respect of property assets held in the annuity funds.

There is, however, some indirect exposure to the shareholder through the impact on shareholder transfers from with-profits business and charges levied on unit-linked business.

Notes on the financial statements (continued)

	2020		2019	
	Decrease of 20%	**Decrease of 10%**	Decrease of 20%	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**(306)**	**(153)**	(329)	(164)
Related deferred tax effects	**58**	**29**	56	28
Net sensitivity of profit after tax and shareholders' funds	**(248)**	**(124)**	(273)	(136)

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.

	2020		2019	
	Decrease of 20%	**Decrease of 10%**	Decrease of 20%	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**35**	**10**	(9)	(8)
Related deferred tax effects	**(7)**	**(2)**	2	1
Net sensitivity of profit after tax and shareholders' funds	**28**	**8**	(7)	(7)

Currency Risk

The Company invests significant amounts of assets backing with-profits business in overseas assets as part of its investment strategy. This is partially mitigated through the use of derivatives. The shareholder is exposed to changes in foreign exchange values (particularly the US Dollar and Euro) in relation to shareholder transfers. The direct currency risk exposure to the shareholder from the unit-linked business components is low. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity funds is mitigated through the use of derivatives.

As at 31 December 2020 the Company held 39% and 1% (2019: 41% and 3%) of its financial assets and financial liabilities, respectively in currencies, mainly US Dollar and Euro, other than the functional currency of the relevant business unit.

The financial assets, of which 80% (2019: 73%) 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% (2019: 89%) are held by the with-profits fund, mainly relate to investment contracts with discretionary participation features.

The exchange risks inherent in these exposures are partially mitigated through the use of derivatives, mainly forward currency contracts.

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.

While the with-profits and unit-linked funds have large holdings of assets subject to credit risk, the shareholder results of the Company are not directly exposed to credit defaults on assets held in these components. However, the shareholder is indirectly exposed to credit risk on these components through the impact on 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, appetite statements, limits and triggers (including relevant governance and controls); investment constraints and limits on the asset portfolios, in relation to credit rating, seniority, sector and issuer, and counterparties in particular for derivatives, reinsurance and cash; 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 2020 and 2019.

	2020 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
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**
Total debt securities and other fixed income securities	**7,865**	**12,417**	**11,784**	**15,678**	**1,916**	**13,924**	**63,584**

	2019 restated* £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
With-profits	5,236	8,257	11,763	14,014	1,899	6,314	47,483
Assets held to cover linked liabilities	521	1,513	1,026	428	26	2,203	5,717
Non-linked shareholder-backed	2,041	4,350	3,349	1,609	62	4,930	16,341
Total debt securities and other fixed income securities	7,798	14,120	16,138	16,051	1,987	13,447	69,541

*2019 comparatives have been restated to include ratings for unit-linked and indexed linked debt securities in line with the 2020 presentation. These assets were previously excluded from the table.

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 2020 which are not externally rated, £9,371m (2019: £9,129m) were internally rated AAA to A-, £2,527m (2019: £2,863m) were internally rated BBB+ to B- and £2,025m (2019: £1,455m) were internally rated as below B- or unrated. The majority of the unrated debt security investments were held by the Company's with-profits fund and relate to convertible debt and other investments which are not covered by rating analysts nor have an internal rating attributed to them.

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

Loans and receivables

In accordance with accounting policy, impairment reviews were performed for loans and receivables. During the year ended 31 December 2020, impairment losses of £9m (2019: £5m) and £8m (2019: £22m) reversal of impairment losses were recognised for loans and receivables.

Of the total loans and receivables held £6m (2019: £1m) are past their due date but have not been impaired. 100% (2019: 100%) of the loans and receivables that are past due but not impaired are less than one year past their due date for 2020. 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 2020 of £17,510m (2019: £17,567m), 68% (2019: 69%) 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 2020 and 2019.

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

	2019 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
Reinsurance asset	—	314	17	11,379	—	350	12,060

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 2020, the Company has £5,796m (2019: £7,180m) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements was £6,115m (2019: £7,613m).

At 31 December 2020, 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 £13,810m (2019: £11,217m).

During 2020 and 2019 the Company did not take possession of any other collateral held as security.

Collateral and pledges under derivative transactions

At 31 December 2020, the Company had pledged £1,018m (2019: £760m) for liabilities and held collateral of £2,787m (2019: £2,511m) in respect of over-the-counter derivative transactions.

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

Collateral Pledged and Received for Reinsurance Contracts

The Company has entered into several reinsurance agreements where the Reinsurer has agreed to reinsure the Company in respect of the reinsurance claims in consideration of the Company agreeing to pay to the Reinsurer the reinsurance premium and reinsurance fee. 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 2020, the Company had pledged collateral of £80m (2019: £63m), relating to these agreements.

Collateral Pledges for Equity Release mortgages

As at 31 December 2020 the Company had pledged collateral of £470m (2019: £417m) consisting of debt securities for the deferred purchase consideration for the mortgages purchased from Santander.

E. Insurance Risk

The Company is exposed to significant levels of insurance risk. This arises mainly from the annuity business in the form of longevity risk, the risk of unexpected changes in the life expectancy (longevity) of policyholders. If mortality improvement rates significantly exceed the levels assumed, the Company's results could be adversely affected. Further to this, any major medical breakthrough (for example in the treatment of cancer or other life-threatening diseases) that would require the Company to strengthen its longevity assumptions would have an impact on its results.

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.

Shareholder fund business
Profits from shareholder-backed annuity business are most sensitive to:

- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities;
- the variance between actual and expected mortality experience; and
- changes in renewal expense levels.

A decrease in assumed mortality rates of 1% would decrease pre-tax profits by approximately £45m (2019: £40m). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £98m (2019: £98m). A decrease in renewal expenses (excluding asset management expenses) of 5% would increase pre-tax profits by £28m (2019: £25m). 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 £66m (2019: £68m). This analyses has been determined by varying the relevant assumption as at the reporting date while holding all other assumptions constant.

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.

With-Profits business
Mortality and other insurance risk are relatively minor factors in the determination of the bonus rates. Adverse persistency experience can affect the level of profitability from with-profits but in any given one year, the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect shareholder profits to the extent that likely lead to changes in future shareholder transfers.

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.

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.

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

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.

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 un-discounted cashflows**	**Total carrying value**
Financial Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Amounts owed to credit institutions	**1**	**1**	**1**	**1**	**1**	**9**	**14**	**14**
Other borrowings not owed to credit institutions	**—**	**124**	**—**	**—**	**—**	**—**	**124**	**124**
	1	**125**	**1**	**1**	**1**	**9**	**138**	**138**

2019	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted cashflows	Total carrying value
Financial Liabilities	£m	£m	£m	£m	£m	£m	£m	£m
Amounts owed to credit institutions	1	1	1	1	1	9	14	14
Other borrowings not owed to credit institutions	—	92	—	—	—	—	92	92
	1	93	1	1	1	9	106	106

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.

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 un-discounted 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	**805**	**(34)**	**221**	**231**	**477**	**1,227**	**2,927**	**2,463**

2019 restated**	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total un-discounted value	Total carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets*	920	583	682	825	907	2,431	6,348	3,845
Derivative liabilities	(282)	(771)	(490)	(525)	(422)	(987)	(3,477)	(1,812)
Net derivative position	638	(188)	192	300	485	1,444	2,871	2,033

* Includes assets held to cover index-linked liabilities.

** 2019 table has been restated to separately show the derivative assets and derivative liabilities on an undiscounted basis.

Notes on the financial statements (continued)

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 un-discounted value	Total carrying value
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
2020								
Life assurance investment contracts	**10**	**33**	**31**	**22**	**14**	**17**	**127**	**87**
2019								
Life assurance investment contracts	10	33	31	21	12	16	123	86

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, credit and other business risks. The Company also hedges against the equity risk affecting future shareholder transfers from the with-profits sub fund. The Company has opted not to apply hedge accounting to derivatives.

The Company uses various interest rate derivative instruments such as interest rate swaps and swaptions to reduce exposure to interest rate volatility.

The Company also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than sterling.

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 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 in 2020 and 2019. The effect in 2020 is an unrealised gain of £214m (2019: unrealised loss of £150m) and a realised loss of £36m (2019: realised loss of £100m) 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 2020, the transaction resulted in £26m unrealised loss in the non-technical account (2019: £25m).

During 2019, 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 2020, realised gains on these instruments of £23m were recognised (2019: Nil) and unrealised gains of £95m (2019: unrealised losses of £60m).

28. Capital Requirements and Management

The Company's estimated and unaudited shareholder Solvency II Surplus at 31 December 2020 is £3.5bn (2019: £3.1bn), 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 Transition Measure on Technical Provisions (TMTP). The results presented below assume a recalculation of the TMTP at the valuation date. The TMTP was last formally recalculated, following approval from the regulator, at 31 March 2020. Therefore the estimated and unaudited Solvency II capital position will differ to the position disclosed in the formal regulatory Quantitative Reporting Templates and the Company's Solvency and Financial Condition Report.

The Solvency II Pillar I capital requirements at 31 December 2020 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 2020 and 31 December 2019 is shown below:

	2020	2019
	Unaudited	Unaudited
	£bn	£bn
Solvency II Own Funds	**13.5**	12.8
Solvency II Capital Requirement (SCR)	**10.0**	9.7
Solvency II Surplus	**3.5**	3.1
Solvency II Coverage ratio	**135%**	131%

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 2020 and 31 December 2019 is shown below.

	2020	2019
	Unaudited	Unaudited
	£bn	£bn
Shareholder Solvency II Own Funds	**8.6**	8.2
Shareholder Solvency II Capital Requirement (SCR)	**5.1**	5.2
Shareholder Solvency II Surplus	**3.5**	3.1
Shareholder Solvency II Coverage ratio	**169%**	158%

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 four 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 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 2020.

(i) Direct subsidiary undertakings

Investment

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

Notes on the financial statements (continued)

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

Notes on the financial statements (continued)

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

Insurance

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

Pension

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

Holding company

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

Mortgage lending

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

Financing

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

Service

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

Notes on the financial statements (continued)

Dormant

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

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

Investment

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

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Eastspring Investments - Asian Smaller Companies Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Total Return Bond Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Developed and Emerging Asia Equity Fund	Ordinary shares	79 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Customized Equity Fund	Ordinary Shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Dynamic Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Japan Smaller Companies Fund	Ordinary Shares	60 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	Ordinary Shares	51 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity FUND	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Equity Income Fund	Ordinary shares	100 %	Luxembourg	26, Boulevard Royal, L-2449, Luxembourg
Episode Inc	Class A B C shares	94 %	Cayman Islands	Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands
Folios III Designated Activity Company	Ordinary Shares	49 %	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	Ordinary Shares	77 %	Ireland	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	Ordinary Shares	50 %	United Kingdom	York House, 45 Seymour Street, London, W1H 7LX, UK
HCR Canary Fund	Limited Partner	100 %	USA	300 ATLANTIC STREET SUITE 600 STAMFORD CT 06901
Infracapital Greenfield Partners I LP	Limited Partnership Interest	22 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II LP	Limited partnership interest	26 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	Limited partnership interest	33 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
KBI ACWI Equity Fund	Units	20 %	USA	KBI Global Investors (North
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

Notes on the financial statements (continued)

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

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
M&G UK Companies Financing Fund II LP	Limited partnership interest	48 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Fund	Ordinary Shares	98 %	Luxembourg	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Residential Property Fund	Limited Partnership Interest	26 %	Luxembourg	34-38, avenue de la Liberté, L-1931, Luxembourg
MCF S.r.l.	Ordinary shares	45 %	Italy	Via Montenapoleone 29 CAP, 20121, Milan, Italy
Old Kingsway LP	Limited Partnership Interest	100 %	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
PPM America Private Equity Fund III LP	Limited Partnership Interest	50 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	Limited Partnership Interest	50 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	Limited Partnership Interest	50 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	Limited Partnership Interest	40 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	Limited Partnership Interest	46 %	USA	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
Property Partners (Two Rivers) Limited	Ordinary Shares	50 %	United Kingdom	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Prudential Credit Opportunities SCSp	Limited Partner	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities 2	Ordinary Shares	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments 1 S.a.r.l	Ordinary Shares	100 %	Luxembourg	1, Rue Hildegard von Bingen, L-1282, Luxembourg
LF Prudential Risk Managed Active 2	Ordinary Shares	26 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 3	Ordinary Shares	27 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 4	Ordinary Shares	36 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 5	Ordinary Shares	32 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Passive Fund 1	Ordinary Shares	47 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Passive Fund 3	Ordinary Shares	22 %	United Kingdom	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	Ordinary Shares	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	Limited partnership	100 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
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	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 LP	Limited partnership interest	32 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	Limited Partnership Interest	100 %	USA	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Sectordate Limited	Ordinary Shares	33 %	United Kingdom	1st Floor, Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park Limited Partnership	Limited Partnership Interest	63 %	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2005 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2006 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	Limited Partnership Interest	100 %	Guernsey	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	Limited Partnership Interest	100 %	Guernsey	1 Carter Lane, London, EC4V 5ER, UK
SKY Fund I LP	Limited Partner	99 %	Cayman Islands	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SKY I Intermediate LP	Limited Partner	71 %	Cayman Islands	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman,
SMLLC	Limited Partnership	100 %	USA	1209 Orange Street, Wilmington, DE 19801, USA
St Edward Homes Limited	Ordinary Shares	50 %	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	Limited Partnership	50 %	United Kingdom	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK

Notes on the financial statements (continued)

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
The Car Auction Unit Trust	Ordinary shares	49 %	Guernsey	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
The Project Hoxton LP	Limited Partnership Interest	100 %	United Kingdom	12 Throgmorton Avenue, London, EC2N 2DL, UK
The Strand Property Unit Trust	Limited Partnership Interest	50 %	Jersey	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	Ordinary shares	50 %	Jersey	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Vanquish Properties (UK) Limited Partnership	Limited Partnership	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	Equity & Debt	91% voting 50% NAV/ economic	USA	2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808
Wynnefield Private Equity Partners II, L.P.	Limited Partnership Interest	99 %	USA	1209 Orange Street, Wilmington, DE 19801, USA

Service

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

In liquidation

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

Notes on the financial statements (continued)

30. Transfers of business

On 1 January 2019 the Company transferred its long-term non-UK European business to PIA, a subsidiary of the Company which is based in the Republic of Ireland. This was effected on 1 January 2019 via a Part VII transfer as sanctioned by the UK High Court of England and Wales. The terms and conditions of these policies did not change as a result of the transfer. PIA issued 36,037,717 ordinary shares of €1.27 each to the Company in consideration for the businesses transferred.

The assets and liabilities transferred from the Company on 1 January 2019 are as follows:

Assets	**£m**
Intangible assets	6
Assets held to cover linked liabilities	3
Reinsurers' share of technical provisions	47
Debtors	2
Cash at bank and in hand	15
Deferred acquisition costs: long-term business	7
Total Assets	**80**
Liabilities	
Technical provisions	50
Technical provisions for linked liabilities	3
Creditors	9
Accruals and deferred income	3
Total Liabilities	**65**
Net Assets transferred	**15**

31. Post balance sheet events

On 4 March 2021 the Company approved an interim dividend of £950m to be paid to M&G plc. This is not recognised in the 2020 financial statements.

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