

Registered No: 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2023

PRUDENTIAL PENSIONS LIMITED

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

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PRUDENTIAL PENSIONS LIMITED

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

Mr C Bolton (appointed 25 September 2023)

Mr R S Bowie (Chairman)

Mr S Horgan

Mr S Paton Evans

Secretary

M&G Management Services Limited

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountant and Statutory Auditors

7 More London Riverside

London

SE1 2RT

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Principal activities

The principal activities of Prudential Pensions Limited ('the Company') in the course of 2023 were transacting long-term insurance business in the United Kingdom. This activity is expected to continue in 2024.

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

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

Business review

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

Reinsurance accepted consists of life insurance and pension products investing into the Company's unit linked life funds. The Company remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions.

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

The Company continues to make 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.

Transition to FRS 102

The financial statements have transitioned from being prepared under FRS 101 Reduced Disclosure Framework to FRS 102 and FRS 103 (Insurance Contracts). See note 1 (B) accounting policies for further details.

Strategic Direction and Corporate Transactions

Sustainability

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

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

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

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

Key Performance Indicators and measurement

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

Key Performance Indicators	2023	2022	Change
	£'000	£'000	%
Operating profit/(loss) on ordinary activities before tax	1,225	(2,574)	147.6 %
Shareholder funds	74,398	73,711	0.9 %
Assets held to cover linked liabilities	7,743,593	7,285,909	6.3 %
Estimated Solvency II capital surplus	48,837	44,236	10.4 %

Profit on ordinary activities has increased from loss of £2.6m in 2022 to a profit of £1.2m in 2023. The profit arises mainly due to lower unrealised loss on UK gilt valuation. Previous year reported higher unrealised loss due to increased interest rates reducing UK gilt valuations. The increase has been partially offset by a reduction in net annual maintenance charges following reduction in average funds under management.

The Company is regulated under Solvency II and supervised as an insurance company by the Prudential Regulation Authority ('PRA'). The Company has been granted approval by the 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 insurance risk (primarily expense risk and persistency risk).

The Solvency II surplus allows for the Transitional Measure on Technical Provisions (TMTP). The TMTP was last formally recalculated, following approval from the regulator, at 31 December 2022 in line with expectations of recalculation every 24 months.

The increase in the estimated Solvency II capital surplus is primarily driven by decrease in SCR requirement. The underlying movements resulted in a £3m reduction due to partially offsetting impacts from the reduction in capital as the business runs off and the increase in capital as new business is written. Other operating items resulted in a £2m decrease in SCR. Restructuring and other items resulted in a £1m decrease in the SCR. Market movements increased the SCR by £1m. The Solvency II basis is covered in more detail in Note 15.

Section 172(1) Statement

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

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

In discharging the Board's section 172 duties, regard has been given to the factors applicable to PPL. The Board also recognises 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 of the Board's decisions and that they are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with the Group's overarching culture, vision and values.

As is normal for large companies, authority for day-to-day management of the Company is delegated to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Directors review at each regular Board meeting: financial and operational performance, risk, compliance and regulatory reporting. The Board also reviews other areas over the course of the financial year including the

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

Company's business strategy; financial reporting; key risks; stakeholder-related matters; and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

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

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

Principal decisions

The Board sets out below the principal decisions they have made with regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duties and the effect of that on decisions taken. The Board defines 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 – Decision not to pay a Dividend

Each year the Board makes an assessment of the strength of the Company's balance sheet and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. In determining whether a dividend should be paid, considerations were made in respect of the current solvency position relative to its risk appetite, the resilience of the Company's balance sheet, allowing for the capital support arrangements in place; the quality of capital and liquidity and distributable reserves. In addition, further analysis was undertaken in respect of the Company's balance sheet sensitivity to expenses and persistency, and to ensure the stated risk appetite was appropriate. The base solvency and liquidity position of the Company continued to be strong. However, recognising the current market volatility and the need to protect against potential future lapse and expense volatility, the Board agreed the proposal not to make a dividend payment to its sole shareholder, The Prudential Assurance Company Limited.

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

During the year, the Board reviewed and approved the 2023 ORSA report for submission to the Regulators. The ORSA presented a current and forward-looking view of the risk landscape and solvency profile of the Company's business and was also built around three key existing processes, i.e. strategy and business planning, risk management and capital management. The ORSA was produced with inputs from Subject Matter Experts from the Finance, Risk and Compliance functions.

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.

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

The types of risk to which the Company is exposed have not changed significantly over the year.

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

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

Financial and Insurance risks

(a) Market, Credit, Insurance and Liquidity Risk

As a unit-linked pensions business, the Company's profits are driven by the income arising from management charges taken over the lifetime of the business, offset by the expenses incurred in administration. The Company is therefore exposed to unexpected changes in expenses (including expense inflation) and persistency (the rate of policyholder exits). The Company is also exposed to market and credit risk, primarily through the impact on the value of Assets Under Management and Administration (AUMA), and therefore the value of management charges taken by the Company. However, the Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are directly linked to the value of assets backing those liabilities.

Under normal circumstances, policyholders bear most of the investment and fund liquidity risk for unit-linked business. However, if product terms and conditions are such that the deferral of claims is only permitted for a limited period of time, or not at all, the mismatch relative to fund mandates can give rise to risk to the shareholder.

The Company has a small amount of annuity business, but this is reinsured internally within the Group and as such, the financial risk resides with the reinsurer.

The financial and insurance risk factors affecting the Company are discussed further in Note 21.

(b) Investment risk

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

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

Non-financial risks

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

(a) Operational risk

A material failure in the processes and controls supporting the Company's activities, that of third-party suppliers or of technology could result in poor customer outcomes, reputational damage, increased costs and regulatory censure. The Company has a high dependency on technology and the unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact the

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

Company's ability to operate effectively. Additionally, serious failings in the delivery and/or persistent under performance of third-party supplier arrangements could impact the delivery of services to customers.

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

(b) Business environment and market forces risk

Changing customer preferences and economic and political conditions could adversely impact the Company's performance against its strategy. Economic factors and the associated impacts on financial markets may affect product demand and the Company's ability to generate an appropriate return. Increased geopolitical risks and conflicts, and policy uncertainty, may impact products, investments and operating model.

The annual strategic planning considers the potential impact of the wider business environment and economy. The Company's strategy is aligned to the Group's strategy with the PAC Business Plan incorporating the financial impact of the Company.

(c) Sustainability and ESG risk

A failure to address and embed sustainability within the Company's strategy, products, operating model and communication approach could adversely impact profitability, reputation, and future growth. A broad range of issues are considered across the Group including those concerning greenwashing, climate impact, diversity and inclusion, and corporate governance.

The Group ESG Risk Management Framework and Policy enhances the identification, assessment and management of ESG risks supported by the ESG Risk Policy which sets out key business requirements. ESG risks are considered within key strategic decisions.

(d) Change risk

A failure to deliver change programmes within cost and capacity constraints may impact the business model and ability to deliver against the business plan and strategy.

A Group project standard in place which all business units must follow and attest compliance with. The Group Executive Committee is responsible for prioritisation decisions to ensure activities which help to achieve the strategy and comply with new regulations are appropriately prioritised. A suite of metrics is used to monitor and report on the delivery, costs and benefits of transformation programmes.

(e) People risk

Although the Company does not directly employ staff, as this is done through servicing companies within the wider Group, it is still exposed to people risk in relation to those employees that service the Company. The success of the Company 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 positive culture and growth. As the Group strategy continues to be implemented, people risk is heightened in areas including pay practices, workloads and morale, the conduct of individuals or groups of individuals and industrial relations.

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

(f) Regulatory compliance risk

Regulatory risk can arise from potential failure to meet regulatory requirements or to adequately consider regulatory expectations, standards or principles. The Company operates in a highly regulated environment and

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

is subject to a number of regulatory initiatives. There are wide-ranging consequences of regulatory non-compliance, including client detriment, reputational damage, fines and restrictions on operations or products.

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

(g) Reputational risk

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

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

(h) Conduct risk

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

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

By order of the Board



M&G Management Services Limited
Company Secretary
19 March 2024

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

Likely developments, business strategies and prospects

Likely future developments in the business of the Company are discussed in the strategic report in accordance with Section 414C(11) of the Companies Act 2006.

Ultimate parent company

The Company is a wholly owned subsidiary undertaking of The Prudential Assurance Company Limited. The Prudential Assurance Company Limited is a wholly owned subsidiary of its intermediate 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.

Statement of corporate governance arrangements for large private companies

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

No specific governance code has been applied to the Company in the 2023 year, as it has an established set of governance procedures and practices. It is a regulated entity and so follows certain regulatory requirements and is working within the established system of internal controls and risk management. The overall risk appetite and tolerance set for the Company is set making reference to all relevant Group policies and limits.

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

- Composition of Board - comprised of an independent Non-executive Chairman, alongside executives who are employees of the Group. The operational management of the Company is delegated to the CEO.
- Director Appointment - all directors are appointed only following regulatory approval and internal approval processes.
- Company Secretary - the Company Secretariat function comprises of appropriately qualified and experienced Company Secretaries who are responsible for ensuring that ongoing governance principles and processes are adhered to.
- Terms of Reference - The Board has in place Terms of Reference which have been followed in 2023 and are periodically reviewed.

Other disclosures

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

Stakeholder relationships and engagement

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

Corporate responsibility

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

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

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

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 ambition is to build inclusive and resilient communities through urban regeneration, economic empowerment and community building. Social mobility is a 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 does 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 establishes long-term relationships with charity partners to improve lives, build communities and provide support, not only through funding, but also with the experience and expertise of colleagues. The projects we support are sustainable and partners are worked with closely to ensure that our programmes continuously improve.

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

The 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 sustainability report and strategy on an annual basis.

Post balance sheet events

To the knowledge of the directors, there are no material post balance sheet events which are required to be disclosed in the financial statements.

Financial performance and dividends

The state of affairs of the Company at 31 December 2023 is shown in the balance sheet on page 22. The profit and loss account appears on pages 19 to 20. No interim dividend was paid in the year (2022: nil). The directors have not proposed a final dividend for the year (2022: nil).

Financial instruments

The Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are essentially the same as the net asset values backing those liabilities. The financial risk factors affecting the Company include expense risk, market risk, persistency risk, liquidity risk and credit risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in Note 21.

Share capital

There were no changes in the Company's share capital during 2023.

Directors

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

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

Statement of directors' responsibilities

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

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

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

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

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

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

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

Disclosure to the auditors

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

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

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP (PwC) have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Group 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 2023 and remain in force.

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

Going concern

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

Streamlined energy and Carbon reporting

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

By order of the Board

A handwritten signature in blue ink, appearing to read 'Christina Hunt', is written over the text 'By order of the Board'.

M&G Management Services Limited
Company Secretary
19 March 2024

Independent auditors' report to the members of Prudential Pensions Limited

Report on the audit of the financial statements

Opinion

In our opinion, Prudential Pensions Limited's financial statements:

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

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

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

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Context

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

Overview

Audit scope

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

Key audit matters

- Valuation of hard to value financial investments - Level 3

Materiality

- Overall materiality: £20,000,000 (2022: £21,400,000) which is 0.27% of Total assets.
- Performance materiality: £13,000,000 (2022: £13,910,000).

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="137 264 549 320"><i>Valuation of hard to value financial investments - Level 3</i></p> <p data-bbox="137 353 687 472">Refer to note 1 (section E, G, I), 8, 9 and 21 to the financial statements for disclosures of related accounting policies, valuation methodologies and balances. PPL's financial investments are held to back the insurance contract liabilities and linked liabilities within its Life and Wealth business, and to meet regulatory capital requirements.</p> <p data-bbox="137 622 660 768">Most of the company's financial investments are valued by reference to prices on active markets. However the Company also holds investments in funds, including those with valuations determined to be Level 3.</p> <p data-bbox="137 801 687 976">The valuation of these hard to value financial investments was a key area of focus given the magnitude and the inherent uncertainty involved in the estimation. Changes in estimates could result in material changes in the valuation.</p> <p data-bbox="137 1010 360 1037">Investment funds</p> <p data-bbox="137 1043 676 1218">For the Level 3 funds, valuations are performed periodically by the fund managers. The investments are included at the most recent Net Asset Value (NAV) provided by the fund manager adjusted for cash movements, where applicable.</p>	<p data-bbox="699 264 1241 291">For the material unlisted fund investment, we:</p> <ul data-bbox="746 297 1457 472" style="list-style-type: none"> <li data-bbox="746 297 1457 383">• <i>Independently obtained the most recent NAV statement from the fund manager and agreed the valuation to underlying books and records;</i> <li data-bbox="746 389 1457 472">• Obtained and reviewed evidence supporting the NAV of the fund and recalculated the value of management's investment based on percentage holding. <p data-bbox="699 506 1422 591">Based on the work performed and the evidence obtained, we consider the valuations for hard to value assets to be appropriate.</p>

How we tailored the audit scope

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

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

The impact of climate risk on our audit

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

Materiality

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

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

<i>Overall company materiality</i>	£20,000,000 (2022: £21,400,000).
<i>Materiality benchmark</i>	0.27% of Total assets
<i>How we determined it</i>	In determining our materiality we have considered financial metrics and benchmarks which we believe to be relevant to the primary users of the consolidated financial statements. Due to the disparate size of the Profit and Loss Account and Balance Sheet, the materiality amount was selected judgmentally by the PPL audit team having considered a range of relevant benchmarks including Adjusted Operating Profit, Profit before tax, Total assets, and Solvency II own funds. A materiality amount was selected judgmentally and expressed as a percentage of total assets as an appropriate benchmark for materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 65% (2022: 65%) of overall materiality, amounting to £13,000,000 (2022: £13,910,000) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1,000,000 (2022: £963,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgmental areas of the financial statements as shown in our 'Key audit matter' and journals. Audit procedures performed by the engagement team included:

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

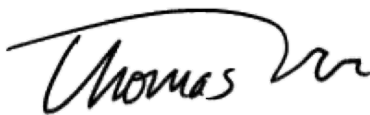
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

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



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

PRUDENTIAL PENSIONS LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2023

<u>Long-term Business Technical Account</u>	<u>2023</u>	<u>2022</u>	
	£'000	£'000	Note
Investment income/(expenses)	258,597	(24,615)	3
Unrealised gains/(losses) on investments	411,577	(1,402,531)	3
Other technical income	17,322	18,148	3
Foreign exchange gains/(losses)	706	(570)	3
	<u>688,202</u>	<u>(1,409,568)</u>	
Claims			
Gross claims paid - insurance contracts	(3,664)	(4,090)	
Claims paid - intercompany reinsurance (ceded)	<u>3,664</u>	<u>4,090</u>	
	—	—	
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
- gross amount	2,955	12,109	
- reinsurers' share	<u>(2,955)</u>	<u>(12,109)</u>	
	—	—	14
Change in technical provisions for linked liabilities	<u>(668,433)</u>	<u>1,427,356</u>	14
	<u>(668,433)</u>	<u>1,427,356</u>	
Net Operating Expenses			
- Acquisition costs	—	(82)	
- Administrative expenses	(6,160)	(4,391)	
Investment expenses and charges	(11,588)	(9,074)	
Interest payable	(160)	(5,397)	
Tax attributable to long-term business	<u>(1,603)</u>	<u>(934)</u>	4
	<u>(19,511)</u>	<u>(19,878)</u>	
Balance on the long-term business technical account	<u>258</u>	<u>(2,090)</u>	

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

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 28 to 45 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

<u>Non-Technical Account</u>	<u>2023</u> £'000	<u>2022</u> £'000	Note
Balance on the long-term business technical account	258	(2,090)	
Tax attributable to the balance on the long-term business technical account	407	(620)	4
Balance on the long-term business technical account before tax	665	(2,710)	
Investment income	636	181	3
Investment expenses and charges	(76)	(45)	
Operating profit/(loss) on ordinary activities before tax	1,225	(2,574)	
Tax on profit/(loss) on ordinary activities	(538)	595	4
Profit/(Loss) and comprehensive income/(expense) for the	687	(1,979)	

There is no other income/ expenses other than the Profit and Loss Account above. Hence, no separate Statement of Comprehensive Income is required.

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

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 28 to 45 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023**

	Share Capital £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Total £'000
Balance at 1 January 2022	6,000	4,088	65,602	75,690
Loss for the year	—	—	(1,979)	(1,979)
Total comprehensive expense for the year	—	—	(1,979)	(1,979)
Balance at 31 December 2022	6,000	4,088	63,623	73,711
Balance at 1 January 2023	6,000	4,088	63,623	73,711
Profit for the year	—	—	687	687
Total comprehensive income for the year	—	—	687	687
Balance at 31 December 2023	6,000	4,088	64,310	74,398

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 28 to 45 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2023**

	<u>2023</u> £'000	<u>2022</u> £'000	Note
Assets			
Investments			
Other financial investments	68,733	71,703	8
Assets held to cover linked liabilities	7,743,593	7,285,909	9
Reinsurers' share of technical provisions			
Long-term business provision	29,200	32,075	16
Debtors			
Other debtors	24,739	16,510	10
Other assets			
Cash at bank and in hand	3,866	13,479	11
Deferred tax asset	53	58	4
Prepayments and accrued income	152	120	
Total assets	<u>7,870,336</u>	<u>7,419,854</u>	
Equity and liabilities			
Capital and reserves			
Share capital	6,000	6,000	13
Capital redemption reserve	4,088	4,088	
Profit and loss account	64,310	63,623	
Total shareholders' funds	<u>74,398</u>	<u>73,711</u>	
Technical provisions			
Long-term business provision	29,280	32,155	16
Technical provisions for linked liabilities	7,743,593	7,285,909	14
Creditors			
Other creditors including taxation and social security	23,065	28,079	17
Total equity and liabilities	<u>7,870,336</u>	<u>7,419,854</u>	

The accounting policies on pages 23 to 27 along with the accompanying notes on pages 28 to 45 form an integral part of these financial statements.

The financial statements on pages 19 to 47 were approved for issue by the board of directors on 19 March 2024 and were signed on its behalf by-



S Horgan
Director
19 March 2024

Registered No: 992726

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company information

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

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

B. Basis of preparation

The financial statements are prepared in accordance with Part 15 of the Companies Act 2006 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.

Changes between FRS101 and FRS102

Previously the Company financial statements were prepared under the FRS 101 Reduced Disclosure Framework. The Company has chosen to keep align with its immediate parent company and its financial statements are now prepared under FRS 102. The recognition and measurement requirements of FRS 101 and FRS 102 financial statements are the same. The changes in relation to the adoption of FRS102 are all presentational as the Company already valued its business on a fair value basis and had previously adopted IFRS9 which it has continued to do as permitted under FRS102. The Statement of comprehensive income has been renamed to the Profit and loss account and the Statement of financial position is renamed to as the Balance sheet. The basis of preparation has been updated and the disclosures to reflect the new preparation basis.

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.

The immediate parent company is The Prudential Assurance Company Limited. The Company's ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. Details of where to obtain copies of the consolidated accounts of M&G plc are disclosed in note 20.

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:

- Cash Flow Statement and related notes;
- Related party transactions with wholly owned subsidiary undertakings of the M&G plc group;
- Disclosures in respect of the compensation of Key Management Personnel; and

The financial statements are prepared in pounds sterling (£) which is the functional currency of the Company and are rounded to the nearest thousand (£000).

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

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

Critical accounting judgements

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

Sources of estimation uncertainty

Financial Statement asset or liability	Key estimate and assumptions	Accounting policy
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 are the assumed rates of policyholder mortality, maintenance expenses and the valuation rate of interest used when establishing policyholder liabilities for annuities.	C
Financial Investments	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.	E

Going Concern

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

- The Company, is a subsidiary within the M&G plc group ('the Group') and its parent company and the ultimate parent company are continuing to trade profitably on an operating profit basis and there are no plans for liquidation. The Prudential Assurance Company Limited and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available to the Company. The drawdown of support would be triggered by a breach of pre-specified solvency conditions in the Company. 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 estimated capital surplus, well in excess of the regulatory capital requirement (as shown in Note 15) and no debt financing. In addition, consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report, and the management of financial risk as set out in Note 21, including its exposure to liquidity risk and credit risk.
- 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 cash flow forecasts for at least the next 12 months from the

NOTES ON THE FINANCIAL STATEMENTS (continued)

date of signing these financial statements, various market scenarios as well as changes in the Company's principal risks. In addition, the directors have also considered the results of reasonably plausible severe downside scenarios to assess the potential implications on the Company's solvency and liquidity. The results of these assessments demonstrated the ability of the Company to meet all obligations and future business requirements. In addition, these assessments demonstrated that the Company was able to remain above its regulatory solvency requirements in reasonably plausible severe downside scenarios.

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

C. Long-term business

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

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

The Company's contracts are mainly unit-linked contracts which are investment contracts without discretionary participation features ('DPF'). The Company also has a small amount of non-profit annuity business.

Investment contracts without DPF are accounted for as financial liabilities under 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. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and recognised directly on the statement of financial position as movements in the financial liability. The liabilities for investment contracts without DPF are included in Technical Provisions for Linked Liabilities in the balance sheet.

The long-term business provision for insurance contracts is determined by the Company's directors based on advice from the Company's actuarial function, who determined the provision using recognised actuarial methods.

Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised and unrealised gains in respect of other investments not forming part of long-term business are included in the non-technical account. Realised gains are determined as the difference between net proceeds on disposal and the purchase price. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

D. Reinsurance

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

E. Financial instruments - recognition and measurement

Financial assets

Recognition and initial measurement

A financial asset is initially measured at fair value plus, for a financial asset not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or FVTPL.

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

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

These assets include deposits and other receivables.

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This comprises assets designated by management as fair value through profit or loss on inception or assets that are part of a portfolio that is managed on a fair value basis and derivatives.

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

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

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

Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised.

Financial liabilities

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

F. Premiums and claims

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

Unit-linked business is accounted for as Investment contracts without DPF. Unit-linked premiums and claims are reflected as deposits and withdrawals and taken directly to the balance sheet as a movement on the Technical provisions for linked liabilities. Fee income, change in technical provisions for linked liabilities, expenses, and taxation on these contracts is included in the long-term technical account in the profit and loss account.

G. Securities lending and reverse repurchase agreements

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

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

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

H. Tax

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

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

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

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

I. Foreign currencies

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 .

J. Cash at bank and hand

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

2. Analysis of premiums

Gross Premiums

Premiums comprise corporate pension business where investment risk is borne by policyholders and which are transacted within the UK. All direct single and regular premiums are group pension business. Premiums for 2023 and 2022 are nil as all business is investment contracts without discretionary participation features and is deposit accounted for, as described in the accounting policies.

	2023	2022
	£'000	£'000
Single premiums – Pensions – Investment-linked contracts		
Direct	357,477	268,848
External reinsurance accepted	49,573	51,397
Intragroup reinsurance accepted	270,608	241,482
	<u>677,658</u>	<u>561,727</u>

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

3. Revenue and investment return

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

	Technical Account		Non-technical account	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Investment income				
Income from listed investments	186,201 ¹	189,731	—	—
Income from other investments	49,315	22,114	636	181
Profits/(losses) on the realisation of investments at fair value through profit or loss other than derivatives	12,314	(229,678)	—	—
Profits/(losses) on the realisation of derivatives	10,767	(6,782)	—	—
	<u>258,597</u>	<u>(24,615)</u>	636	181
Unrealised gains/(losses) on investments				
Debt securities	(451)	(8,850)	—	—
Linked assets - other than derivatives	402,174	(1,396,092)	—	—
Linked assets - derivatives	9,854	2,411	—	—
	<u>411,577</u>	<u>(1,402,531)</u>	—	—
Foreign exchange gains/(losses)	706	(570)	—	—
Fee income from investment contracts	17,322	18,148	—	—
Total revenue and investment return	<u>688,202</u>	<u>(1,409,568)</u>	636	181

¹ Income of £236m (2022: £212m) is from assets measured at fair value with the exception of income from other investments which was £9m for the year ended 31 December 2023 (2022:£2m).

NOTES ON THE FINANCIAL STATEMENTS (continued)

4. Tax on profit/(loss) on ordinary activities

(a) Tax charged

	Long-term business technical account		Non-technical account	
	<u>2023</u> £'000	<u>2022</u> £'000	<u>2023</u> £'000	<u>2022</u> £'000
Current tax				
UK Corporation tax	125	—	131	—
Adjustments in respect of previous years	277	(222)	—	25
	<u>402</u>	<u>(222)</u>	<u>131</u>	<u>25</u>
Foreign tax	1,196	1,554	—	—
Total current tax	<u>1,598</u>	<u>1,332</u>	<u>131</u>	<u>25</u>
Deferred tax				
Origination and reversal of temporary differences	5	(397)	—	—
Effect of changes in tax rate	—	(1)	—	—
Tax charge on profit/(loss) on ordinary activities	<u>1,603</u>	<u>934</u>	<u>131</u>	<u>25</u>

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

	<u>2023</u> £'000	<u>2022</u> £'000
Current tax	402	(222)
Deferred tax	5	(398)
	<u>407</u>	<u>(620)</u>
Total	<u>538</u>	<u>(595)</u>

(b) Factors affecting tax charge for period

Deferred tax is provided at the rate applicable when the temporary differences are expected to reverse. The rate of UK corporation tax increased from 19% to 25% with effect from 1 April 2023, as enacted into UK law. This has been reflected in the carrying values of deferred tax assets and liabilities of the Company and has been reflected in the effective tax rate from 2023 onwards.

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

	<u>2023</u> £'000	<u>2022</u> £'000
Profit/(loss) on ordinary activities before tax	<u>1,225</u>	<u>(2,574)</u>
Profit/Loss on ordinary activities multiplied by effective rate of corporation tax in the UK of 23.52% (2022: 19%)	288	(489)
Effects of		
Adjustment to current tax in respect of previous periods	166	(107)
Permanent differences	84	—
Impact of changes in local statutory tax rates	—	1
Total tax charge/(credit) for the period	<u>538</u>	<u>(595)</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)

4. Tax on profit/(loss) on ordinary activities (continued)

(c) Balance Sheet

	<u>2023</u>	<u>2022</u>
	£'000	£'000
Deferred tax asset		
Accelerated capital allowances	<u>(53)</u>	<u>(58)</u>
Undiscounted provision for deferred tax liability	<u>(53)</u>	<u>(58)</u>
Deferred tax (asset)/liability at start of the period	(58)	340
Deferred tax charged/(credited) in technical/non-technical account for the period	<u>5</u>	<u>(398)</u>
Deferred tax (asset) at the end of period	<u>(53)</u>	<u>(58)</u>

5. Staff costs

The Company has no employees (2022: nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies. The majority of employees in the UK are employed by Prudential Distribution Limited, a service company within the Group.

6. Directors' emoluments

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

	<u>2023</u>	<u>2022</u>
	£'000	£'000
Aggregate emoluments and benefits	<u>Nil</u>	<u>34</u>

The aggregate emoluments of the directors of the Company were borne by related Group undertakings. The value of directors' emoluments is based upon the apportionment of time spent providing qualifying services both as directors for the Company and as directors of the fellow subsidiary undertakings. No apportionment is made to companies where directors are deemed to spend an inconsequential amount of time providing qualifying services. The financial statements for the year ended 31 December 2022 disclosed Directors' emoluments that comprised the value attributable to prior year time allocations, subsequently been deemed to be inconsequential. There is no impact on the primary statements of the revised disclosure.

The Company's directors perform services for other group companies. These costs are not included in the amounts charged to the Company as shown in the table above. Contributions were made to a defined contribution pension scheme on behalf of two directors in 2023 (2022: one). Two directors (2022: three) exercised share options during the year. None of the directors (2022: Two) was entitled to retirement funds under a defined contribution pension scheme.

Three directors were entitled to shares under M&G plc's long term incentive schemes in 2023 (2022: nil).

7. Auditors' remuneration

	<u>2023</u>	<u>2022</u>
	£'000	£'000
Audit of these financial statements	<u>677</u>	<u>615</u>

The above table shows the auditor remuneration. Total fees paid to PwC and its network firms for services to the M&G plc group are disclosed in the consolidated 2023 M&G plc Annual Report Accounts which are publicly available.

NOTES ON THE FINANCIAL STATEMENTS (continued)

8. Other financial investments

	Cost		Carrying value	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	21,102	21,101	15,653	16,103
Deposits with credit institutions	53,080	55,600	53,080	55,600
	<u>74,182</u>	<u>76,701</u>	<u>68,733</u>	<u>71,703</u>

All debt securities and other fixed income securities are listed on a recognised UK investment exchange.

9. Assets held to cover linked liabilities

	2023	2022
	£'000	£'000
Shares and other variable yield securities	4,000,517	3,982,437
British government securities - fixed income	804,180	471,611
British government securities - index-linked	129,680	135,841
Debentures and loan stocks	2,028,505	2,094,676
Provincial and municipal stocks	85,718	105,164
Deposits with credit institutions	615,430	416,359
Derivatives	14,668	2,166
Other assets / (liabilities)	64,895	77,655
Assets held to cover linked liabilities – carrying value	<u>7,743,593</u>	<u>7,285,909</u>
Assets held to cover linked liabilities - cost	<u>7,517,616</u>	<u>7,398,217</u>

Included within shares and other variable yield securities is a Fond commun de placement called M&G UK Property Fund FCP - FIS, which at 31 December 2023 was 97.58% owned by Prudential Pensions Limited (2022: 97.58%). The value of the investment in this fund at 31 December 2023 was £94.4m (2022: £111.2m). The registered office of this investment is 16 Boulevard Royal, L-2449 Luxembourg.

Included within other assets / (liabilities) are derivatives owned by the fund to offset currency movements. These can have a negative valuation.

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

10. Other debtors

All debtors are due within one year.

	2023	2022
	£'000	£'000
Amounts owed by group undertakings	—	108
Other debtors	20,901	16,402
Debtors arising from reinsurance operations	3,838	—
	<u>24,739</u>	<u>16,510</u>

Other debtors includes seed capital of £12m (2022: £16m). The units held in the suspended funds are now treated as shareholder units. When the units are sold the cash is due to The Prudential Assurance Company Limited (PAC). See note 17 on page 35.

11. Cash in bank and in hand

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

12. Assets attributable to the long-term business fund

Of the total amount of assets shown on the Balance Sheet, £7,839m (2022: £7,388m) is attributable to the long-term business fund.

13. Share capital

	2023	<u>2022</u>
	£'000	£'000
Issued and fully paid:		
6 million ordinary shares (2022: 6 million) of £1 each	<u>6,000</u>	<u>6,000</u>

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

14. Policyholders liabilities

	Long-term business provision net of reinsurance £'000	Provision for linked liabilities net of reinsurance £'000
Balance at 1 January 2022	80	9,871,876
Movement in technical provisions for year		
Gross amount	(12,109)	(1,427,356)
Reinsurers' share	12,109	—
Deposits received from policyholders under investment contracts	—	561,725
Payments made to policyholders of investment contracts	—	(1,720,336)
As at 31 December 2022/1 January 2023	<u>80</u>	<u>7,285,909</u>
Movement in technical provisions for year		
Gross amount	(2,955)	668,433
Reinsurers' share	2,955	—
Deposits received from policyholders under investment contracts	—	677,658
Payments made to policyholders of investment contracts	—	(888,407)
Balance at 31 December 2023	<u>80</u>	<u>7,743,593</u>

All of the reinsurer's share of technical provisions for long-term business relates to reinsurance agreements with other Group companies. There are no gains or losses arising from these reinsurance agreements. The long term business provision is fully reinsured and the technical provision for linked assets is asset backed, therefore neither are sensitive to risk and as such no sensitivity analysis is prepared.

NOTES ON THE FINANCIAL STATEMENTS (continued)

15. Capital Requirements and Management

The Company is regulated under Solvency II and supervised by the Prudential Regulation Authority. The Company manages Solvency II own funds as its measure of capital. The Company's estimated and unaudited Solvency II surplus at 31 December 2023 is £49m (2022: £44m), allowing for the Transitional Measure on Technical Provisions ('TMTP') basis.

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

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

A. Regulatory capital position

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

	<u>2023</u>	<u>2022</u>
	Unaudited	Unaudited
	£'000	£'000
Solvency II Own Funds	78,126	77,883
Solvency II SCR	(29,289)	(33,647)
Solvency II surplus	48,837	44,236
Solvency II capital ratio	267%	231%

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

The increase in the estimated Solvency II capital surplus is primarily driven by decrease in SCR requirement. The underlying movements resulted in a £3m reduction due to partially offsetting impacts from the reduction in capital as the business runs off and the increase in capital as new business is written. Other operating items resulted in a £2m decrease in SCR. Restructuring and other items resulted in a £1m decrease in the SCR.

There has been a material reduction in risk margin, and transitional measures have reduced to nil, as a result of the PRA implementation of risk margin reforms at year-end 2023. The risk margin reforms reduced the cost of capital percentage and increased the speed at which the risk margin runs off resulting in a material reduction in risk margin. As the financial resource requirement (FRR) test is not the biting constraint for PPL, there is no further impact on the transitional measures from the PRA approved removal of the FRR test.

B. Meeting of capital management objectives

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

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

In addition, projections are performed to understand how the Own Funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the Own Funds position, including (but not limited to) changes to investment strategy, dividend policy and risk transfer.

NOTES ON THE FINANCIAL STATEMENTS (continued)

16. Long-term business provision

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

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

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

The reinsurers' share of the long-term business provision relates to cessions to The Prudential Assurance Company Limited, the immediate parent company. As the balance is fully reinsured, the net movement in the long term-business provision and reinsurers' share is reported in Note 14, Policyholder liabilities under 'Long-term business provision net of reinsurance'. As long term business provision is fully reinsured therefore neither are sensitive to risk and as such no sensitivity analysis is prepared.

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

	<u>2023</u>	<u>2022</u>
Discount Rate assumption	5.157% for annuities	5.228% for annuities
Expense Inflation	This has been replaced by market inflation curve	3.09% gross
Market inflation curve - Single Equivalent Inflation Rate	3.5%	3%
Renewal expenses:		
Reassured annuity business	£32.47 per policy p.a. plus third party (TCS) costs	£33.13 per policy p.a. plus third party (TCS) costs
Annuity mortality	Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on England & Wales General Population mortality tables (E&W_Reference_Population for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality.	Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on England & Wales General Population mortality tables (E&W_Reference_Population for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality.
	Future mortality improvements: Calibration of CMI2021 with a long term rate of 1.6% for both males and females, an Sk parameter of 7.25 for males and 7.75 for females, an age dependent A parameter varying between 0% - 0.2% for males and females plus 0.5% constant increase to per annum improvement rates. Nil weighting applied to 2020-21 data within the CMI model.	Future mortality improvements: Calibration of CMI2020 with a long term rate of 1.6% for males and females, an Sk parameter of 7.25 for males and 7.75 for females, an age dependent A parameter varying between 0% - 0.2% for males and females plus 0.5% constant increase to per annum improvement rates. Nil weighting applied to 2020 data within CMI model

NOTES ON THE FINANCIAL STATEMENTS (continued)**17. Creditors**

All creditors are due within one year.

	<u>2023</u>	<u>2022</u>
	<u>£'000</u>	<u>£'000</u>
Creditors arising from reinsurance operations	—	8,892
Amounts owed to group undertakings	2,057	4,586
Tax payable	657	348
Sundry creditors	20,351	14,253
	<u>23,065</u>	<u>28,079</u>

Creditors arising from reinsurance operations have reduced due to the repayment to Prudential Assurance Company (PAC) on sale of units in two suspended property funds. PAC had provided the cash in 2021 to purchase units in the continuing funds. This balance forms part of the debtors arising from the reinsurance operations in 2023 along with receivable of similar nature. Sundry creditors includes £16m of (2022: £ 9m) AMC rebates payable, £3m of outstanding settlements on investment securities (2022: £0.4m) and £2m (2022: £5m) of other creditors.

18. Charges

In the normal course of business, certain reinsurance liabilities are secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reinsurance) policies, over the long-term insurance assets of the Company. Amounts secured by charges of this nature were £5,054.2m, £260.8m, £46.6m, £33.6m and £25.5m, representing liabilities to five different customers (2022: £4,719.8m, £268.3m, 268.3m, £39.0m, £33.4m and £17.5m representing liabilities to five different customers).

19. Guarantees and commitments

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

20. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited.

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 financial statements can be obtained from the Company Secretary at 10 Fenchurch Avenue, London EC3M 5AG.

21. Financial Assets and Financial Liabilities**A. Financial assets and financial liabilities – classification and measurement**

All financial assets of the Company are designated as either fair value through profit and loss or amortised cost. Financial liabilities are designated as either fair value through profit and loss, amortised cost or investment contracts with discretionary participation features accounted for under FRS 103 as described in note 1 (accounting policies).

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

2023

	Fair value through profit or loss £'000	Amortised Cost £'000	Total carrying value £'000	Fair value where applicable £'000
Financial Assets				
Deposits with credit institutions	—	53,080	53,080	53,080
Debt securities	15,653	—	15,653	15,653
Assets held to cover linked liabilities	7,743,593	—	7,743,593	7,743,593
Other debtors	—	24,739	24,739	24,739
Cash at bank and in hand	—	3,866	3,866	3,866
Accrued investment income	—	152	152	152
Total	7,759,246	81,837	7,841,083	7,841,083
Financial Liabilities				
Investment contracts without discretionary participating features	7,743,593	—	7,743,593	7,743,593
Other creditors	—	—	—	—
Total	7,743,593	—	7,743,593	7,743,593

2022

	Fair value through profit or loss £'000	Amortised Cost £'000	Total carrying value £'000	Fair value where applicable £'000
Financial Assets				
Deposits with credit institutions	—	55,600	55,600	55,600
Debt securities	16,103	—	16,103	16,103
Assets held to cover linked liabilities	7,285,909	—	7,285,909	7,285,909
Other debtors	—	16,510	16,510	16,510
Cash at bank and in hand	—	13,479	13,479	13,479
Deferred tax asset	—	58	58	58
Accrued investment income	—	120	120	120
Total	7,302,012	85,767	7,387,779	7,387,779
Financial Liabilities				
Investment contracts without discretionary participating features	7,285,909	—	7,285,909	7,285,909
Other creditors	—	8,892	8,892	8,892
Total	7,285,909	8,892	7,294,801	7,294,801

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

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

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

21. Financial Assets and Financial Liabilities (continued)

the price at which an orderly transaction would take place between market participants on the measurement date.

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

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

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

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

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

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

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

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

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)

NOTES ON THE FINANCIAL STATEMENTS (continued)

Level 3 principally includes investments in unlisted funds and debt securities which are exposed to bespoke properties or risks.

21. Financial Assets and Financial Liabilities (continued)

	31 December 2023			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Unit-linked				
Equity securities	3,894,517	5,316	100,684	4,000,517
Debt securities	1,069,995	1,968,111	9,977	3,048,083
Derivative assets	15,522	2,883	—	18,405
Derivative liabilities	(3,400)	(337)	—	(3,737)
Total financial investments, net of derivative liabilities	4,976,634	1,975,973	110,661	7,063,268
Investment contracts without discretionary participation features held at fair value	—	(7,743,593)	—	(7,743,593)
Total	4,976,634	(5,767,620)	110,661	(680,325)
Non-linked				
Debt securities	15,653	—	—	15,653
Total	15,653	—	—	15,653
Company total				
Equity securities	3,894,517	5,316	100,684	4,000,517
Debt securities	1,085,648	1,968,111	9,977	3,063,736
Derivative assets	15,522	2,883	—	18,405
Derivative liabilities	(3,400)	(337)	—	(3,737)
Total financial investments, net of derivative liabilities	4,992,287	1,975,973	110,661	7,078,921
Investment contracts without discretionary participation features held at fair value	—	(7,743,593)	—	(7,743,593)
Total	4,992,287	(5,767,620)	110,661	(664,672)

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

	31 December 2022			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Unit-linked				
Equity securities	3,786,427	967	111,265	3,898,659
Debt securities	723,540	2,069,006	14,746	2,807,292
Derivative assets	4,345	1,631	—	5,976
Derivative liabilities	(2,077)	(1,733)	—	(3,810)
Total financial investments, net of derivative liabilities:	4,512,235	2,069,871	126,011	6,708,117
Investment contracts without discretionary participation features held at fair value	—	(7,285,909)	—	(7,285,909)
Total	4,512,235	(5,216,038)	126,011	(577,792)
Non-linked				
Debt securities	16,103	—	—	16,103
Total	16,103	—	—	16,103
Company total				
Equity securities	3,786,427	967	111,265	3,898,659
Debt securities	739,643	2,069,006	14,746	2,823,395
Derivative assets	4,345	1,631	—	5,976
Derivative liabilities	(2,077)	(1,733)	—	(3,810)
Total financial investments, net of derivative liabilities	4,528,338	2,069,871	126,011	6,724,220
Investment contracts without discretionary participation features held at fair value	—	(7,285,909)	—	(7,285,909)
Total	4,528,338	(5,216,038)	126,011	(561,689)

Additional disclosures required by IFRS 13 for items within Level 3

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

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

Reconciliation of Level 3 opening to closing balances 2023

2023	At 1 Jan	Total losses in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unit-linked							
Equity securities	111,265	(16,828)	6,077	(4)	174	—	100,684
Debt securities	14,746	(572)	73	(4,270)	—	—	9,977
Total	126,011	(17,400)	6,150	(4,274)	174	—	110,661

Reconciliation of Level 3 opening to closing balances 2022

2022	At 1 Jan	Total losses in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unit-linked							
Equity securities	409,054	(294,332)	1	(605)	68	(2,921)	111,265
Debt securities	13,946	(3,446)	111	—	4,135	—	14,746
Total	423,000	(297,778)	112	(605)	4,203	(2,921)	126,011

As at 1 January 2023, £126.0m of level 3 assets were held (2022: £423.0m). During 2023, £0.2m of transfers were made into level 3 (2022: £4.2m) and there were sales of level 3 items of £4.3m (2022: £0.6m).

Of the total loss in the long-term technical account of £411.6m (2022: loss of £1,402.5m), the unrealised loss on level 3 equity securities for 2023 was £17.4m (2022: loss of £297.8m). As stated above this is included within "unrealised gains/(losses)" in the long-term technical account.

As at 31 December 2023, the Company held £100.7m (2022: £111.3m) of equity investments classified as level 3 in the fair value hierarchy of which £94.0m (2022: £111.0m) comprised of investments in a property fund.

As at 31 December 2023, the Company held £10m (2022: £14.7m) of debt securities classified as level 3 in the fair value hierarchy which comprise unquoted debt securities valued using broker quotes. For such instruments, the Company has determined that the unobservable input is the fair value itself, therefore sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase of 10% would result in the fair value of these debt securities increasing by £1m (2022 : £1.5m) ; a decrease of 10% would have an equal, but opposite, effect.

C. 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 and insurance risk categories affecting the Company's financial assets, financial liabilities and customer liabilities are set out below:

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

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

As a unit-linked pensions business, a significant part of the Company's profits are driven by the income arising from management charges taken over the lifetime of the business, offset by the expenses incurred in administration. The Company is therefore exposed to unexpected changes in expenses (including expense inflation) and persistency (the rate of policyholder exits). The Company is also exposed to market risk, primarily through the impact on the value of AUMA, and therefore the value of management charges (which are generally expressed as a percentage of AUMA) taken by the Company. However, the Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are directly linked to the value of assets backing those liabilities.

D. Market risk

Market risk comprises four types of risk, namely:

- Interest rate risk: fluctuations in the level or volatility of interest rates or the shape or curvature of the yield curve or spread relationships;
- Inflation risk: fluctuations in actual or implied inflation rates;
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures; and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk) such as equity risk and property risk.

Market risk primarily arises in relation to the income generated from management charges. Falls in the values of equities and property, changes in interest rates and fluctuations in currencies can negatively impact asset values, and therefore the value of charges. Market risk is managed through a robust market risk framework.

i. Interest rate risk and inflation risk

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

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

2023	Fair value interest rate risk £'000	Cash flow interest rate risk £'000	Total £'000
Financial Assets			
Deposits with credit institutions	—	53,080	53,080
Debt securities	15,653	—	15,653
Cash at bank and in hand	—	3,866	3,866
	<u>15,653</u>	<u>56,946</u>	<u>72,599</u>

2022	Fair value interest rate risk £'000	Cash flow interest rate risk £'000	Total £'000
Financial Assets			
Deposits with credit institutions	—	55,600	55,600
Debt securities	16,103	—	16,103
Cash at bank and in hand	—	13,479	13,479
	<u>16,103</u>	<u>69,079</u>	<u>85,182</u>

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

	31 December 2023			
	Fall of 1% £'000	Fall of 2% £'000	Rise of 1% £'000	Rise of 2% £'000
Carrying value of debt securities and derivatives	3,004	6,007	(3,004)	(6,007)
Interest on deposits with credit institutions	(2,774)	(2,774)	570	1,139
Related tax effects	(54)	(760)	572	1,145
Net sensitivity of profit after tax and shareholders' funds	<u>176</u>	<u>2,473</u>	<u>(1,862)</u>	<u>(3,723)</u>

	31 December 2022			
	Fall of 1% £'000	Fall of 2% £'000	Rise of 1% £'000	Rise of 2% £'000
Carrying value of debt securities and derivatives	3,251	6,501	(3,251)	(6,501)
Interest on deposits with credit institutions	(1,836)	(1,836)	691	1,382
Related tax effects	(269)	(886)	486	973
Net sensitivity of profit after tax and shareholders' funds	<u>1,146</u>	<u>3,779</u>	<u>(2,074)</u>	<u>(4,146)</u>

ii. Currency risk

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

iii. Other price risk

Due to the matching of policyholder liabilities to attaching asset value movements the unit-linked business is not directly sensitive to other price risk. The Company does not hold any investment property or equity securities outside of the unit-linked funds (2022: £nil), and so is not exposed to other price risk.

E. Credit risk

Due to the matching of policyholder liabilities to attaching asset value movements, the unit-linked business is not directly sensitive to credit risk. However, as a large proportion of the Company's income is earned via fund management charges expressed as a percentage of funds under management, a fall in asset values as a result

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

of credit defaults or credit spread widening could reduce the value of charges. The Company is directly exposed to credit-related losses in the event of non-performance by counterparties.

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, risk appetite statements, limits and triggers (including relevant governance and controls); investment constraints; regular reviews of the investment strategy adopted for surplus assets; 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.

Debtors arising from reinsurance operations relate principally to reinsurance agreements with The Prudential Assurance Company Limited, the immediate parent company. The Prudential Assurance Company Limited has a strong credit rating.

Debt securities

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
As at 31 December 2023	£000	£000	£000	£000	£000	£000	£000
Unit-linked	67,556	1,074,819	647,362	1,191,531	54,154	12,661	3,048,083
Other	—	15,653	—	—	—	—	15,653
Total debt securities	67,556	1,090,472	647,362	1,191,531	54,154	12,661	3,063,736

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
As at 31 December 2022	£000	£000	£000	£000	£000	£000	£000
Unit-linked	86,270	774,968	626,866	1,200,358	87,322	31,508	2,807,292
Other	—	16,103	—	—	—	—	16,103
Total debt securities	86,270	791,071	626,866	1,200,358	87,322	31,508	2,823,395

Reverse repurchase agreements

At 31 December 2023, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The value of these transactions at 31 December 2023 was £656.6m (2022: £472.0m). The fair value of the collateral held in respect of these transactions was £670.0m (2022: £486.2m).

During 2023 and 2022 the Company did not take possession of any other collateral held as security.

Impairment methodology

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

This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2023 to derive the Expected Credit Losses ('ECL').

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL.

The Company held cash and deposits with credit institutions balances of £53.1m at 31 December 2023 (2022: £55.6m). These balances are held with bank and financial institution counterparties.

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

F. Insurance risk

The Company is primarily exposed to two types of insurance risk as a result of its insurance business operations:

- Persistency risk: arises from unexpected changes in policyholder rates of exit; and
- Expense risk: arises from the risk that expenses (including expense inflation) could be higher than assumed.

The Company's persistency assumptions are set with reference to past experience with consideration of emerging trends in future persistency rates. If actual levels of policyholder exits are higher than assumed, then the Company's profitability could be negatively impacted due to a reduction in income from management charges. Similarly the Company's profitability could be negatively impacted if expenses are higher than assumed.

The Company fully reinsures its longevity risk and 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. Insurance risk is managed in accordance with requirements set out in the insurance risk policy and risk appetite statements. Persistency risk and expense risk are primarily managed through regular reviews of best estimate assumptions, supported by detailed assessments of actual experience and consideration of emerging trends.

G. Corporate liquidity risk

Under normal circumstances, policyholders bear most of the investment and fund liquidity risk for unit-linked business. However, if product terms and conditions are such that the deferral of claims is only permitted for a limited period of time, or not at all, the mismatch relative to fund mandates can give rise to corporate liquidity risk. Examples of situations where this could occur are:

- higher than expected customer withdrawals, and/or lower than expected market liquidity for assets in unit-linked funds which may be combined with a reduction in new business and/or reductions in asset values; and
- ineffective asset/liability matching leading to a mismatch between outgoing cash flows and incoming cash flows and/or asset liquidations.

Corporate liquidity risk is managed through a robust Liquidity Risk Management Framework, including governance and controls, a liquidity risk policy, a Liquidity Contingency Plan, regular monitoring of exposures and asset and liability management programmes.

To mitigate liquidity risk in those unit-linked funds which may be inherently more illiquid, in particular property funds, deferral clauses are in place which allow the deferral of cash payments to withdrawing customers in extreme adverse liquidity scenarios. The Company's M&G Pooled Pensions UK Property Fund which was deferred in May 2019, was closed to new money in September 2021 and continues to sell down its holdings and paying out to investors ahead of closure.

NOTES ON THE FINANCIAL STATEMENTS (continued)

21. Financial Assets and Financial Liabilities (continued)

Liquidity analysis - Contractual maturities

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

The majority of the in force business consists of pooled investment vehicles used for pension scheme business which by nature do not have any contractual repricing or maturity dates, as the benefits are the realisation values of the units held in the internal linked funds and may be surrendered at any time. As a consequence, the contractual maturity would be classed as 1 year or less. The long-term business contracts are annuity contracts which have no maturity date. The liabilities for these contracts are wholly reassured so the maturity profile for the liability is matched by the profile for the asset and so no liquidity risk arises from these contracts. All remaining financial liabilities are held as creditors which will be settled within one year, as disclosed at note 17.

22. Related Undertakings

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

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

Name	Class of Shares Held	Proportion Held	Country of Incorporation	Address
M&G UK Property Fund FCP - FIS	C' Units class	98%	Luxembourg	16 Boulevard Royal, L-2449 Luxembourg

23. Post balance sheet events

To knowledge of the directors, there are no material post balance sheet events which are required to be disclosed in the financial statements.