Prudential Pensions Limited

Solvency and Financial Condition Report

31 December 2017

Contents

This report has been prepared in compliance with the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009|138|EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ('Delegated Regulation'). The structure of this report follows the structure set out in Annex 20 and discloses the information referred to in Articles 292 to 298 of the Delegated Regulation. The report also contains narrative information in quantitative and qualitative form supplemented, where appropriate, with quantitative templates.

Summary

Company background

Prudential established Prudential Pensions Limited ('PPL', 'the Company', 'we') in 1971, as a subsidiary to The Prudential Assurance Company Limited ('PAC'). PAC is the main insurance subsidiary of the Prudential Group in the UK.

The original purpose of the Company was to manage the unit-linked funds for trustee corporate pension defined benefit business. From 1991 the Company accepted reassured policies from PAC's defined contribution business.

Business and performance

The fundamentals underpinning the UK's retirement market are changing. Risk and responsibility for for retirement provision continues to transfer away from the state and corporates to individuals. As customers adjust to the reforms introduced by the Pensions Freedoms in 2015, the new flexible arrangements to control their own pensions have been accompanied by significant complexity which is adding to the burden of personal responsibility to secure an income in retirement. Investment risk, longevity risk and inflation risk are to be mitigated by today's retirement saver.

The Company’s long-term products mainly consist of unit-linked pensions business and some pension annuities which are wholly reinsured to PAC.

The Company continues to focus on securing new members and incremental business from its current portfolio of customers and on additional voluntary contribution plans within the public sector, where it is the market leader providing schemes for 73 of the 101 public sector authorities in the UK. For any members who invest into unit-linked funds, the Company will be the likely recipient of that investment.

In August 2017, Prudential plc, the ultimate parent of the Company, brought together M&G, the investment management business, with Prudential's UK and Europe life insurance business, of which the Company forms a part, to create M&G Prudential. The Company continues to write the same business within M&G Prudential.

In March 2018 Prudential plc announced its intention to demerge the newly formed M&G Prudential from Prudential plc, resulting in two separately-listed companies, with different investment characteristics and opportunities. M&G Prudential as a standalone Group will continue to drive its transformation into a more capital-efficient and customer-focused business, targeting growing customer demand for comprehensive financial solutions in the retirement and savings markets.

The performance of the Company for the year ended 31 December 2017, as provided in Section A, is described using the Company’s results as presented in its UK GAAP financial statements.

The Company’s total operating profit in 2017 was £6.9 million, 19 per cent lower relative to 2016. This reduction is primarily due to an increase in expenses in 2017. The Company’s total non-operating result has reduced by £2.2 million to a loss of £0.1 million in 2017. This loss in 2017 is driven by a reduction in the value of the Company’s non-linked investments. The Company holds non-linked UK gilts, which have reduced in value over the year due to an increase in interest rates.

The Company's performance has contributed to an increase in Solvency II own funds. Own funds have increased from £70.2 million at 31 December 2016 to £82.9 million at 31 December 2017. In addition to the changes noted above, there has been a reduction in the Company's risk margin. This has reduced from £22.9 million at 31 December 2016 to £17.9 million at 31 December 2017.

System of governance

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

The Company keeps its governance structures under constant review to ensure they suit the needs of the business and stakeholders. Further information on Prudential's system of governance including information on the composition of its Board, key functions, risk management and internal control system is provided in Section B.

Risk profile

The Company's Risk Management Framework is designed to ensure the business remains strong through stress events so that it can continue to deliver on its long term commitments to customers and shareholders.

2017 was a year of relative market stability and the financial strength of the Company remained robust throughout.

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

The Company has the necessary capabilities, expertise, processes and controls to manage appropriately the exposure to any retained risks.

Further information on the main risks inherent in the business (namely market risk, underwriting risk, liquidity risk, operational risk, business environment risk and strategic risk) and how the Company manages these evolving risks, with the aim of ensuring the Company maintains an appropriate risk profile is provided in Section C.

Valuation for solvency purposes

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

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

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

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

Capital management

The Company has been granted approval by the Prudential Regulation Authority to calculate its solvency capital requirement (SCR) based on its internal model. At 31 December 2017, the SCR was £54.0 million (2016: £57.7 million). The minimum capital requirement (MCR) is currently 45% (2016: 45%) of the SCR, £24.3 million at 31 December (2016: £26.0 million). The Company's SCR and MCR have been met at all times throughout 2017 and 2016. At 31 December 2017, the Company's

Solvency II surplus was £28.9 million (2016: £12.5 million). This increase in Solvency II surplus is primarily due to the increase in own funds.

Additional information on the components of the Company's own funds and solvency capital requirement is provided in section E.

A Business and performance

(Unaudited)

A1 Business

A1.1 Overview

Name and legal form

The Company is limited by shares incorporated and registered in England and Wales.

The Company is a wholly owned subsidiary of The Prudential Assurance Company Limited ('PAC') registered in England and Wales. PAC is a wholly owned subsidiary of Prudential plc. Prudential plc is a public limited company, limited by shares incorporated and registered in England and Wales. Prudential plc is the parent company of the Prudential Group (the 'Prudential Group' or 'the Group'). The Group is an international financial services group, with significant operations in Asia, the United States and the United Kingdom. Prudential plc has dual primary listings in London (premium listing) and Hong Kong and has therefore adopted a governance structure based on the UK and Hong Kong Corporate Governance Codes. Prudential plc also maintains secondary listings on the New York Stock Exchange and the Singapore Stock Exchange.

The address of the registered office of PPL, PAC and Prudential plc is:

Laurence Pountney Hill
London
EC4R 0HH

This Solvency and Financial Condition Report ('SFCR') covers PPL on a solo basis.

Supervisory authority

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

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH
United Kingdom

The Company is authorised by the PRA to provide regulated products and services, including carrying out contracts of insurance, accepting deposits, arranging deals in investments and safeguarding and administration of assets.

External auditor

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

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL
United Kingdom

Holders of qualifying holdings

As at 31 December 2017, PAC is the only holder of qualifying holdings in PPL (being holdings of 10% or more of the voting rights).

A1.2 Company structure

Material subsidiaries of the Company

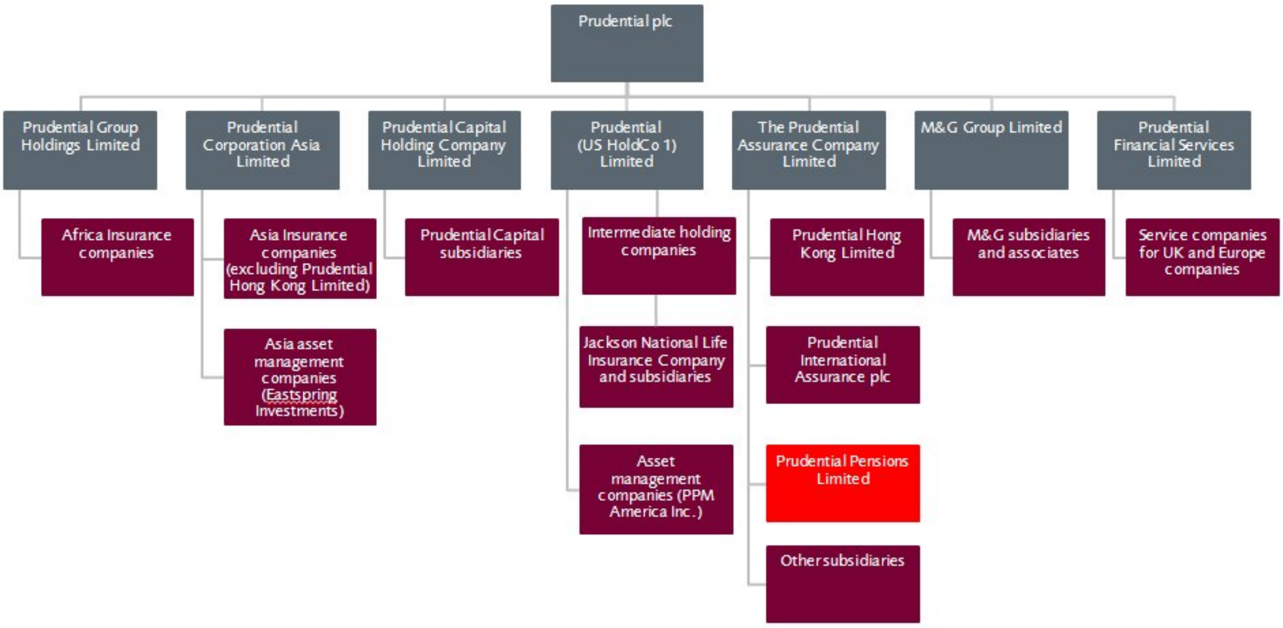
The only material subsidiary of the company is a Fond commun de placement collective investment fund called M&G UK Property Fund FCP-FIS, which is 99.79% owned by the Company. This subsidiary is held within the Company's unit-linked investment funds and enables the Company to manage funds that invest in property.

Legal structure of the Group and related undertakings

As noted above, the Company is part of Prudential Group. Following the combination during the year of the Group's UK insurance business and M&G to form M&G Prudential, the Prudential Group is restructured around three main business units: Prudential Corporation Asia (incorporating the asset management business, East Spring Investments), North America Business Unit and M&G Prudential in the UK and Europe. These are supported by central functions which are responsible for Prudential strategy, cash and capital management, leadership development and succession, reputation management and other core Group functions. The Company forms part of M&G Prudential.

Figure 1 below shows, in simplified form, the direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees) and Prudential's significant subsidiaries as at 31 December 2017. Subsequent to the year-end, Prudential plc announced its intention to demerge its UK & Europe business ('M&G Prudential') from Prudential plc, resulting in two separately-listed companies.

Figure 1: Simplified structure of Prudential plc as at 31 December 2017



A1.3 Business and performance

Material lines of business and material geographical areas

The Company's long-term products consist of pension products and pension annuities. All of the products offered by the company are non-participating products.

All of the Company's long-term insurance business is transacted in the UK. This is mainly into its unit-linked funds, either directly from trustee corporate pension defined benefit business or reassured from PAC's defined contribution business.

All of PPL's products are long-term insurance products.

Approximately two thirds of the Company's unit-linked assets is due to business written directly with defined benefit trustees. The remainder of the Company's linked assets are due to a reassurance of defined contribution corporate pension customers from PAC. The majority of the unit-linked corporate pension business written by PAC is reassured to the Company.

PPL has a small amount of non-profit annuity business, the best estimate liability for which is £62.7 million (gross of reinsurance) (0.5% of the Company's technical provisions at 31 December 2017). These annuities are fully reassured to PAC and PPL is closed to new pension annuity business.

A1.4 Significant business or other events that have had a material impact on the Company over reporting period.

In August 2017, Prudential plc, the ultimate parent company of PPL, brought together M&G, the investment management business, with Prudential's UK and European life insurance business, to create M&G Prudential. There have been no significant changes to the role or activities of PPL due to the merger.

A2 Underwriting performance

Operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns, which gives a more relevant measure of the performance of the business.

The Company uses UK GAAP to prepare its solo entity statutory financial statements.

Operating profit is equal to the operating profit on ordinary activities before tax as shown in the statutory accounts less any realised or unrealised gain on the companies non-linked UK gilt investment. Given the linkage between the movement of technical provisions and movement in investments for unit-linked technical provisions, the Company has defined operating profit as its underwriting performance as discussed in this section. Similarly, the core discussion of the investment performance of the Company in Section A.3 is by reference to short-term fluctuations in investment returns.

An analysis of premiums, claims and expenses is given in Section A.5.2 below.

A2.1 Operating profit overview

Figure 2: Profit for the year-ended 31 December 2017 (with 31 December 2016 comparison)

	2017 £m	2016 £m	Change %
Operating profit based on longer- term investment returns	**6.9**	**8.5**	**(19)**
Short-term fluctuations in investment returns	(0.1)	2.1	(103)
Profit before tax attributable to shareholders	**6.8**	**10.6**	(36)

The operating profit is attributable to the Company's unit-linked insurance business. As noted in section A1.3, the Company has written some non-profit annuity business this is fully reassured to PAC and therefore does not contribute towards the operating profit.

The short-term fluctuations in investment returns (non-operating profit as noted in section A1.3) reflects the unrealised gains and losses achieved on the Company's non-linked UK gilt investment as a result of interest rate movements.

A3 Investment performance

A3.1 Short-term fluctuations

As explained in Section A.2, the Company describes its UK GAAP performance by reference to operating profit and non-operating profit, the key component of whIch is UK GAAP short-term fluctuations in investment returns (as described below).

For the Company this short-term fluctuation equates to its return on its non-linked UK gilt investment.

A3.2 Investment management expenses

The total investment management expenses incurred by the Company’s operations, including those that were paid to the Company’s asset management operations totalled £16.9 million (2016: £14.0 million).

An analysis of investment return in the income statement by asset class is given in Section A.5.2.2.

A4 Performance of other activities

A4.1 Investments in subsidiaries

As stated in Section A1.2 the Company's only subsidiary is a Fond commun de placement collective investment fund. This investment is held within the Company's unit-linked investments, and therefore is subject to changes in investment as policyholders move in and out of the fund.

A5 Any other Information

A5.1 Additional analysis of profits before tax by nature of revenue and charges

Total profit before tax attributable to shareholders for the year-ended 2017 is £6.9 million (2016: £10.6 million), representing operating profit of £6.9 million (2016: £8.5 million), as set out in Figure 2 and discussed in Section A.2.1, and non-operating loss of £0.1 million (2016: profit of £2.1 million). Analysis of profit before tax is shown in Figure 3 below by nature of revenue and charges.

Figure 3: Total revenue and charges for the year-ended 31 December 2017 (with 31 December 2016 comparison)

	2017 £m	2016 £m
Investment income	1,129	1,040
Unrealised gains / (losses) on investments	(93)	683
Other technical income	19	18
Total revenue, net of reinsurance	**1,055**	**1,741**
Change in provision for claims - gross amount	5	(8)
Change in provision for claims - reinsurers' share	(5)	8
Change in technical provision for linked liabilities	(1,045)	(1,719)
Net operating expenses	(5)	(5)
Investment expenses and charges	(6)	(5)
Foreign exchange gains / (losses)	10	1
Foreign taxation	(2)	(2)
Profit on ordinary activities before tax	**7**	**11**

A5.2 Premiums, claims and investment return

A5.2.1 Comparison of gross earned premiums and benefits and claims with the prior period

Figure 4: Premiums and claims by Solvency II line of business for the year ended 31 December 2017

	Index linked and unit linked insurance	Other Life insurance	Accepted life insurance	Total 2017	Total 2016
	£m	£m	£m	£m	£m
Premiums earned - gross	1,175	—	354	1,529	768
Claims net of reinsurance	(1,272)	—	(506)	(1,778)	(2,342)
Changes in other long term business and technical provisions	(398)		(378)	(776)	(126)

Further to the requirements clarified in the "Commission Implementing Regulation (EU) 2017/2190" regulation dated 24 November 2017, premium and claim figures are now included for investment contracts without discretionary participation features in S.05.01.

All of the Company's unit-linked insurance products are deemed to be investment only products and so, in the Company's financial statements, deposit accounting adjustments are made to remove these premiums and claims.

Deposits received in 2017 were £1,529 million (2016: £768 million). The Company made payments to policyholders of investment contracts of £1,778 million (2016: £2,342 million).

The Company's other life insurance business consists of an annuity product which is closed to new business. Claims of £5.3 million were paid to policyholders, but this was fully recovered from PAC as part of a reassurance agreement.

A5.2.2 Investment return by asset class

Figure 5: Investment return for the year-ended 31 December 2017 (with 31 December 2016 comparison)

	2017	2016
	£m	£m
Income		
Equity securities and portfolio holdings in unit trusts	654.8	520.2
Debt securities	479.6	604.4
Other investments	(5.1)	(84.2)
Total income	**1,129.3**	**1,040.4**
Investment appreciation (depreciation) and other investment return.		
Equity securities and portfolio holdings in unit trusts	(16.3)	375.9
Debt securities	(80.7)	310.6
Other investments	4.2	(3.8)
Total investment appreciation (depreciation) and other investment return.	(92.8)	682.7
Exchange gains	10.2	0.2
Total investment return	**1,046.7**	**1,723.3**

Investment return principally comprises interest income, dividends, investment appreciation/ depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit and loss.

During 2017 the Company made significant switches between its unit-linked funds in order to provide its policyholders with a new lifestyling investment option. This resulted in an increase in 'total income' with a consequential reduction in 'total investment appreciation (depreciation) and other investment return', due to significant realised gains.

A5.3 Post balance sheet events

A5.3.1 M&G Prudential Merger

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business (M&G Prudential') from Prudential plc, resulting in two separately-listed companies. The Company forms a part of M&G Prudential.

B System of governance

(Unaudited)

B1 General information on the system of governance

B1.1 Board governance

As noted in Section A.1.1, the Company is a wholly owned subsidiary of PAC which is a material subsidiary of Prudential plc within the Prudential Group.

The Group consists of a number of material Business Units (‘BU’) with management responsibility for the legal entities within the Group. These BUs include M&G Prudential, which incorporates Prudential UK, which is the management structure for PAC (the principal operating entity within Prudential UK), along with as its subsidiaries and associated entities, including the Company.

The Prudential UK Chief Executive Officer (‘Prudential UK CEO’) reports to the Board of Directors of the Company (‘the Board’) and to the Chief Executive Officer, M&G Prudential (‘CEO M&G Prudential’), who in turn reports to the Prudential Group Chief Executive.

The Prudential UK CEO holds the Senior Insurance Manager Function 1 (‘SIMF1‘) role for the Company and has been delegated responsibility for the operational management of the Company and its subsidiaries by the Board. The Prudential UK CEO runs the business through the executive operating structure including an Executive Committee (‘EXCOM’) and other committees to implement the three lines of defence model in operation across the Company and the whole Prudential Group.

The PPL Board has an independent non-executive Chairman and three executive directors . The quorum for the Board consists of at least two members, which must include the Chairman.

The current membership of the PPL Board is detailed in Figure 5 below.

PPL Board members	Role
Paul Spencer	Chairman and Independent Non-Executive Director (SIMF 9)
Michael Hawes	Executive Director (CF1)
Clare Bousfield	Executive Director and CEO Prudential UK (SIMF 1)
David Macmillan	Executive Director (CF1)

The Board is authorised to exercise all the powers of the Company within any applicable legislation and the provisions of the Articles of Association subject to the limits imposed, approvals required and policy set by Prudential plc, including the Prudential Group Governance Manual (‘GGM’).

Material changes to the system of governance

In August 2017, Prudential plc announced that it would combine its asset manager, M&G, and the Prudential UK business. This was followed in March 2018 with the announcement of the intention to demerge the combined M&G Prudential business from the Prudential Group. At the date of this report there have been no material changes to the Company’s system of governance which is considered appropriate for the nature, scale and complexity of the risks inherent in the Company’s current business. This will continue to be considered as merger, transformation and demerger activity progresses.

B1.2 Decision making

The key areas of responsibility for the PPL Board include:

1. **Strategy and Business Plan**
   - Adopting the BU strategy, long-term objectives, annual budgets and business plan and approving any company specific subsidiary business plan.
   - Monitoring the implementation of the Company's strategy and long-term objectives, annual budgets and business plan, and overseeing any corrective action taken by the Company.

2. **Internal Control and Risk Management**
   - Ensuring an effective system of internal control and risk management is in place, maintained and reviewed annually.
   - Adopting the BU risk appetite and risk framework and policies and approving any company specific subsidiary risk appetite, risk framework and policies.
   - Ensuring the overall risk appetite and tolerance of the Company adheres to the BU risk framework, policies and limits.
   - Reviewing and approving where applicable, material disclosures to, and regular reporting required by, regulators.
   - Adopting BU internal model governance and major model changes and approving any company specific major model changes.

3. **Solvency and Finance**
   - Approving the Company's Annual Report and Accounts.
   - Reviewing the overall financial condition of the Company, and any relevant credit ratings and regulatory capital requirements.
   - Approving payment of dividends.
   - Approving, subject to the Group Governance Manual the following matters:
     – material changes to the Company's corporate structure, including decisions to cease operations in parts of the Company or to extend activities into new business or geographic areas;
     – material changes to the Company's capital structure, including reduction of capital, share issues and the re-organisation or restructuring of capital;
     – the raising of or committing to external finance and financing programmes;
     – material transactions and other matters that require referral to Prudential Assurance Company Limited.
   - Monitoring the operation of the long term funds to ensure the fair treatment of policyholders.
   - Approving any significant changes to the Company's investment strategy, including any significant changes to Investment Management Agreements.
   - Approving liquidity and funding requirements.

The key functional control areas of Risk, Internal Audit, Compliance and Actuarial report to the Company's Board. It is the responsibility of the Board to review the resources of Internal Audit and Compliance through its review of annual plans and progress of their delivery during the year.

Further information of the key functions, e.g. Risk, Compliance, Group-wide Internal Audit and Actuarial is given in Sections B.3.2, B.4.2, B.5 and B.6, respectively.

B1.3 Remuneration Policy

Prudential Group's Remuneration Policy and practices ensure that the BUs and the Group Head Office have an effective approach in place to reward employees in an appropriate way that:

– aligns incentives to business objectives in order to support the delivery of Group and BU business plans and strategies;
– enables the recruitment and retention of high calibre employees and incentivises them to achieve success for their BU and the Group; and
– is consistent with the organisation's risk appetite.

Remuneration practices within the Company and the other entities within Prudential UK follow the Prudential Group Remuneration Policy and there is no separate remuneration policy at the BU level.

The principles of the Remuneration Policy, implemented within Prudential UK are:

- pay for performance;
- tailored to the relevant market;
- interest in Prudential shares;
- BU and Group focus;
- shareholder value creation;
- fair and transparent system for all;
- designed to minimise regulatory and operational risk; and
- safeguards to avoid conflicts of interest

Remuneration architecture

Both fixed and variable remuneration is assessed against market data and internal benchmarks on an annual basis and balanced so that the fixed component represents a sufficiently high proportion of the total remuneration. This avoids employees being overly dependent on the variable components and helps to mitigate unintended consequences and inappropriate behaviours to the detriment of customer outcome.

Variable remuneration available to employees includes short-term incentives (i.e. annual bonus, quarterly sales incentives for sales staff) and long-term incentive plan ('LTIP') awards.

Annual bonus measures include various combinations of BU financial and / or strategic targets, Group financial targets, functional targets and individual performance reflecting the level, nature and scope of the role and the practice in the market in which the Company operates. This allows the Group and BUs to operate a fully flexible bonus policy, including the possibility of not paying an annual bonus based on financial and non-financial criteria.

Any awards made under the Group's LTIPs are based on Group and BU financial metrics and other non-financial metrics, such as the new Sustainability Scorecard which incorporates a conduct measure to be applied to all staff. The LTIP awards to senior executives are made under the Prudential LTIP and include a Group target to ensure their remuneration includes a link to the overall results of the Group.

Prudential does not operate any supplementary pension or early retirement schemes at Group or UK level. One key function holder for the Company participates in one of the legacy defined benefit schemes. The scheme provides an accrual of 1/60 of final pensionable earnings subject to the earnings cap for each year of pensionable service. The defined benefit schemes are closed to new members.

Governance processes deliver robust oversight of reward, effective management of conflicts of interest and reflect the need to link remuneration decisions with risk appetite and business strategy.

The Group Chief Risk Officer is actively involved in ensuring that remuneration across Prudential UK reflects the extent to which decisions were made within the organisation's risk appetite. The Group Chief Risk Officer reports to the Group Remuneration Committee, in writing, at least once a year providing:

- input to the Committee's decision on risk adjustment of bonus awards; and
- information on the performance of the Group against risk appetite.

Similarly, the M&G Prudential Remuneration Committee receives an annual report from the relevant Chief Risk Officer, covering behaviours and adherence to risk appetite and providing input on variable remuneration outcomes for those employees within the remit of the Committee. The 2017 report covering the Company was written by the M&G Prudential Chief Risk and Compliance Officer.

B1.4 Material transactions with directors and shareholders

Transactions with Directors

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

Details of the directors' remuneration are disclosed in the annual report.

In accordance with the Companies Act 2006, directors are required to disclose any transactions that may represent a conflict of interest to their roles. In 2017 and 2016 no transactions were notified.

Transactions with shareholders

The only transactions with shareholders were in relation to the reassurance treaties to reassure unit-linked corporate pension business into the Company and to reassure annuities from the Company back to its shareholder. There were no dividends paid in 2017 or 2016.

B2 Fit and proper requirements

The Company ensures that senior managers are fit and proper through the implementation of a Fit and Proper Policy.

There is an annual certification programme to demonstrate compliance with the GGM, which includes the Fit and Proper Policy, and the system of internal control each year end by each BU and the Group Head Office.

The Policy applies to:

- all persons approved as Prudential Regulation Authority ('PRA') SIMFs;
- all persons approved as Financial Conduct Authority ('FCA') Significant Influence Functions ('SIFs');
- all persons defined as Key Function Holders and notified to the regulator; and
- all persons defined as Notified Non-Executive Directors and notified to the regulator.

B2.1 Fit and proper criteria

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

- honesty, integrity and reputation, i.e. that they will be open and honest in their dealings and able to comply with the requirements imposed on them;
- competence and capability, i.e. that they have the necessary skills to carry on the function they are to perform; and
- financial soundness.

B2.2 Processes for assessments

Processes for assessing fitness and propriety

The Company has processes for assessing the initial fitness and propriety of persons covered under the Fit and Proper Policy. These processes are described below;

- during the recruitment process and before any regulatory application is made, an assessment of the person's fitness is conducted including:
  - the person's professional and formal qualifications;
  - knowledge and relevant experience within the insurance sector, other financial sectors or other businesses;

  - where relevant, the insurance, financial, accounting, actuarial and management skills of the person;
- during the recruitment process and before any regulatory application is made, an assessment of the person's propriety is conducted including integrity, honesty, and financial soundness, based on evidence regarding their character, personal behaviour and business conduct, including any criminal, financial and supervisory checks; and
- in relation to outsourced key functions, an individual who is responsible for assessing the fitness and propriety of the service provider is identified.

Ongoing assessment fitness and propriety

The Company has processes for assessing the ongoing fitness and propriety of persons covered under the Fit and Proper Policy, including:

- sufficient evidence is gathered at least annually, to assess the ongoing Fitness and Propriety of individuals captured by the Senior Insurance Managers Regime, including Key Function holders and notified non-executive directors. This includes;

  - an assessment of whether the individuals are adhering to the relevant PRA/FCA Conduct Standards and Rules;
  - credit and criminality checks
  - self-certification of regulatory Fitness & Propriety questions
  - confirmation that role profile remains up to date and is an accurate reflection of current responsibilities

- for individuals in scope, a specific Approved Persons / Key Function Holder and Performers objective is a requirement of the Performance Management process, against which individuals are appraised on an annual basis. This objective is tailored to the specific FCA and PRA conduct standards for the role being performed.

The activity above is supported by the following processes;

- the Compliance Function are notified where there is a change in the fit and proper status of any Senior Insurance Management Functions, Significant Influence Functions or Key Function Holder;
- the PRA and FCA are notified of any change to the fit and proper status of SIMFs, SIFs or Key Function Holders, including instances of where these individuals have been replaced because they are no longer fit and proper;
- the PRA and FCA is notified as soon as reasonably practicable when a breach has occurred in the Conduct Standards and Rules that has a material impact on the assessment of an individual's fitness and propriety; and
- the Compliance Function is notified as soon as reasonably practicable in the event of a breach of the Fit and Proper Policy requirements.

B3 Risk management system including the Own Risk and Solvency Assessment

B3.1 Risk governance, culture and the risk management cycle

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

The following section provides more detail on the Company's risk governance, culture and risk management process.

Risk governance

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

(i) Risk committees and governance structure

As a subsidiary of PAC, the Company's risk governance structure is led by the PAC Board Risk and Capital Committee (BRCC), the members of which are independent non-executive directors. The BRCC assists in providing leadership and oversight of overall risk appetite in addition to guidance on risk tolerance and strategy. The Committee oversees and advises on the current and potential future risk exposures of the Company, reviewing and approving the Company's Risk Management Framework, monitoring its effectiveness and adherence to the various risk policies. The BRCC also supports management in embedding and maintaining a supportive culture in relation to the management of risk.

In addition, there are various executive risk forums to ensure risk issues are considered and escalated appropriately. These are led by the Executive Risk Committee ('ERC') which is supported by a number of technical sub-committees that have members with the specialist skills required.

(ii) Risk management framework

The Company's risk management framework describes the approach to risk management, and the key arrangements and standards for risk management and internal control that support compliance with GGM and regulatory requirements. It provides a disciplined and structured process for the taking and management of risk, that covers the Prudential Group Code of Business Conduct and GRF, plus the statutory and regulatory requirements under Solvency II.

This is achieved through:

- outlining the governance structure and apportionment of accountabilities by which Prudential UK operates;
- providing a reference point when considering risks, by defining the risk management principles, strategy, policies and the risk management cycle;
- provision of a common language and framework for managing all types of risk which is important for consistency and enables understanding the overall risk exposure;
- promoting a responsible risk culture supported through the recruitment and training of the capabilities and behaviours needed to develop and control the business; and
- outlining the key processes for risk management and internal control that support compliance with the statutory and regulatory requirements; including UK Corporate Governance Code compliance, GGM, Solvency II, and the relevant rules of the PRA Rulebook and principles of the FCA Handbook.

(iii) Risk appetite, limits and triggers

The Company's risk appetite and tolerance to take on risk, is specified through risk appetite statements and limits that are aligned to the business model and subject to regular review. Risk appetite defines the amount of each type of risk an organisation is willing to accept in pursuit of its business objectives.

The Board maintains risk appetite statements and limits that inform decision making, reflect the business model and are compatible with Group-wide risk limits which are defined within the GRF and which apply in aggregate for earnings volatility, liquidity and capital requirements. The GRF sets out three types of measure (limits, triggers and indicators) that are used in applying the Group's stated appetite towards individual risk types.

The Company uses the Group Risk Appetite Statements as a basis for developing its own risk appetite statements, triggers and limits for each of the Group risk categories. The appetite statements for the Company are approved annually by the ERC and the PAC Board. Regular monitoring of such triggers and indicators facilitates the early identification, escalation and management of potential breaches.

The framework of risk appetite statement, limits and triggers are designed to adequately manage risk within agreed limits and tolerance, rather than eliminate it, although there may exist some risks for which Prudential has no tolerance and which are actively avoided - e.g. Compliance risk and losses from ineffective anti-money laundering and counter-terrorist financing processes and controls.

(iv) Risk policies

Risk policies set out the principles by which the Company conducts its business in the area covered by the policy, usually by the setting of specific requirements. Policy requirements are typically brief and principles based and seek to address fundamental concepts rather than operational procedures. This allows business users to determine how best to comply with requirements based on their expertise.

There are core risk policies for each of the key risk categories, with supporting policies to help define the internal control framework.

(v) Risk standards

The Company adopts and complies with the Group-wide Operating Standards which provide supporting detail to the higher level risk policies and provide more detail on minimum standards for certain key practices and procedures. In many cases they define the minimum requirements for compliance with Solvency II regulations which in some areas are highly prescriptive.

Risk culture

Risk culture is a perspective of broader organisational culture, which shapes the organisation-wide values that the Company uses to prioritise risk management behaviours and practices.

An evaluation of risk culture within the Company is part of the Risk Management Framework and in particular seeks to identify evidence of:

– articulation by the Board and Senior Management, which is visibly supported by the decisions they take, on the need for good risk management as a way to realise long-term value; and
– employee understanding of their role in managing risk including their awareness and open discussion of risk as part of the way they perform their role.

Key aspects of risk culture are reflected in the values and behaviours displayed both within the Company and its parent company, PAC, and are captured by the Prudential Code of Business Conduct. Prudential UK's performance management and reward structure balances risk with profitability and growth, in the performance evaluation of key individuals, including both senior management and those directly responsible for risk management In addition, every member of staff has a risk management objective to be achieved each year.

The risk management cycle

The Prudential UK risk management cycle consists of the procedures necessary to identify, measure and assess, manage and control, and monitor and report risks on a continuous basis.

(i) Risk identification and risk Analysis / measurement

Risk identification and measurement is derived through a number of processes, in particular the annual top-down and bottom-up risk identification processes, quarterly emerging risk process, and an annual exercise of stress and scenario testing in line with regulatory and Group requirements. Each of these is designed to identify and assess risk from a different perspective to form an overall understanding of the business' risk profile and its evolution.

(ii) Risk evaluation and risk treatment

Risks are evaluated against the defined risk appetite limits, triggers and indicators in order to establish whether the business is operating within risk appetite. Where risk appetite is exceeded, or in some cases the limit is close to being exceeded, management are expected to take action in the form of risk treatment.

Risk treatment is the process of selecting and implementing measures to modify the residual risk once evaluated. There are four options available:

- mitigate the risk by improving or adding to the internal controls in place;
- transfer the risk through risk transfer activities (e.g. insurance, reinsurance, hedging);
- avoid the risk through divestment or termination of activities which contravene company policy or the risk strategy (e.g. political risk); and
- accept the risk where the cost to control exceeds the potential impact of the risk, or where there insufficient time to immediately, or completely, address it.

(iii) Risk monitoring and oversight

Risk monitoring is an ongoing process to track the status of risks and is undertaken throughout the risk management cycle by both the risk owners and through oversight and assurance by the Risk, Compliance and Internal Audit Functions. Risk owners monitor risks against operating limits derived from the risk appetite statements and tolerance limits, monitoring the effectiveness of the controls against policy standards and identifying, responding and learning from incidents and loss events that occur.

(iv) Risk communication and reporting

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

- regular management information, prepared by the Prudential UK Risk Function on behalf of the Chief Risk and Compliance Officer ('CRCO'), which is presented to the ERC and BRCC to enable oversight of risks on an ongoing basis; and
- Own Risk and Solvency Assessment ('ORSA') reporting, further details of which are contained in Section B.3.4.

B3.2 The Risk Function

Risk Management System

The Company's risk governance arrangements, which support the Board, are based on the principles of the 'Three Lines of Defence' model: risk taking and management, risk control and oversight, and independent assurance.

Within the Three Lines of Defence model, the Risk Function is structurally independent of the 1st Line of Defence ('1st Line') and is responsible for risk control and oversight. While the 1st Line has responsibility for risk-taking, which is constrained within clear parameters, the Risk Function assists the Board to formulate, and then implement, the approved Risk Appetite and Limit Framework, risk management plans, risk policies, risk reporting and risk identification processes. The Risk Function also reviews and assesses the risk taking activities of the 1st Line, where appropriate challenging the actions being taken to manage and control risks and approving any significant changes to the controls.

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

- coordinating the identification and assessment of key risks to establish the risk profile used as a basis for setting qualitative risk appetite statements and quantitative limits, the management information received by risk committees and the Board;

– the assessment of solvency needs, and the stress and scenario testing;
– providing an overall coordination and control of the effectiveness and efficiency of risk management processes and systems;
– supporting the Board and management in embedding and maintaining a supportive culture in relation to the risk management;
– ensuring that the development of the Internal Model is within the framework of model governance and remains fit for purpose;
– reporting on material exposures against risk appetite which also includes ongoing developments in the Company's top and emerging risks;
– providing input and review of public and regulatory disclosures, such as the annual Solvency and Financial Condition Report;
– performing the ORSA, undertaking stress and scenario testing including Reverse Stress Testing, and informing the key areas of risk based decision making; and
– considering material findings from regulatory reviews and interactions with regulators which impact on risk governance or risk management processes.

In order to fulfil these responsibilities, the Risk Function liaises with other functions (e.g. Actuarial and Compliance), to provide technical expertise and advice throughout the risk management cycle.

B3.3 Internal model

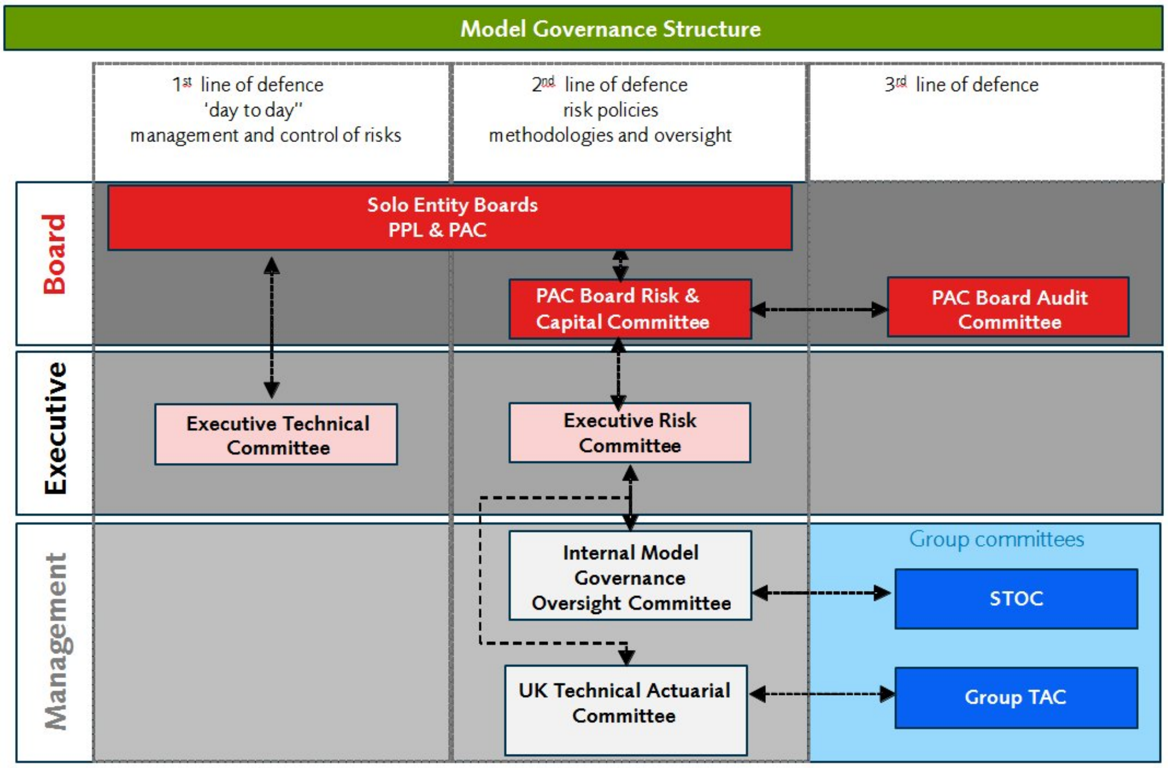
The Solvency II internal model is a key risk management tool and refers to the systems and processes used to identify, monitor and quantify risks for the purpose of calculating the Solvency II capital requirement ('SCR', 'Pillar I') and management's own assessment of economic capital ('ECap', 'Pillar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

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

– model use: to provide that the model is widely used in the business, playing an important role in the system of governance and decision-making processes;
– model change: where changes to the Internal Model are required (e.g. adjustments, enhancements), these are enacted in a consistent and controlled manner with consideration of any potential implications;
– model limitations, assumptions and judgements: to note the circumstances under which the Internal Model does not work effectively, including where assumptions and judgements are made, making sure these are reasonable and understood by those who may rely upon any model output; and
– model validation: to confirm that the capital requirements resulting from the Internal Model remain appropriate through an annual schedule of rigorous and independent testing.

This model governance framework is implemented in accordance with the Prudential UK Internal Model Risk Policy which, in turn, is aligned with the Prudential Group Internal Model Risk Policy and relevant requirements of the Solvency II Directive. Further Policies and Operational Standards support the application of the Internal Model Risk Policy, with a committee structure in place to manage and oversee the framework as set out in Figure 7 below.

Figure 7: Prudential UK Committee Structure to oversee the Internal Model Governance



Validation process

The Internal Model Governance Oversight Committee ('IMGOC') and the UK Technical Actuarial Committee ('UK TAC') have responsibility for ensuring that the Internal Model is, and continues to be, suitable to support the assessment of risk and capital and that it complies with all regulatory requirements. The IMGOC is responsible for overseeing use of the Internal Model within the Company and its subsidiaries, including independent validation of the model. The UK TAC is responsible for reviewing and approving the methodology, and assumptions for the Internal Model, including any changes to the model. The IMGOC and UK TAC report to the Prudential UK ERC, which is chaired by the CRCO. The CRCO reports to the Board(s) as necessary on matters relating to the Internal Model.

As noted above, the model oversight and governance is supported by the implementation of the Prudential UK Internal Model Risk policy which forms part of the Prudential UK Risk Management Framework. The policy defines:

– minimum standards for effective model risk management;
– processes for the Risk Function and relevant management bodies to monitor and manage model risk and ensure the Internal Model is fit for purpose ('model governance'); and
– flows of management information required to manage model risk and to meet the needs of external stakeholders and in doing so, fulfil the relevant legislation and supervisory requirements and rating agency requests.

The policy also gives rise to the following key requirements with respect to governance of the Internal Model:

– establish controls for the Internal Model;
– ensure appropriate documentation of the model, methodology, assumptions and inputs, which should include identification of the Internal Model's limitations and weaknesses;
– ensure the users of the model have an adequate understanding of the Internal Model;
– establish and maintain a system for making and managing changes to the Internal Model; and
– establish and maintain a system for validation for the Internal Model.

Compliance with the policy is attested to, and overseen by the IMGOC or UK TAC, on an annual basis.

Material changes to the internal model governance

There were no material changes to Internal Model governance in 2017.

B3.4 Own risk and solvency assessment

The Company defines the ORSA as the ongoing process of identifying, assessing, controlling, monitoring and reporting the risks to which the business is exposed, and of assessing the own funds necessary to ensure that the Company's solvency needs are met at all times. Risk appetite and limits are the key controls that apply on the current and future risk profile, as a result of the Company's strategy and business plan, and ensure that the company complies with its solvency requirements on a continuous basis under a reasonable range of scenarios. This process is documented and evidenced through an ORSA report. The ORSA is performed at least annually, and more frequently if there is a significant change in the Company's risk profile following any internal actions or a change in the external environment.

The ORSA report combines the analysis performed by, and the outcomes of, the ongoing risk and capital management processes that are embedded and which have been reviewed by various Committees such as the ERC and BRCC. It provides a quantitative and qualitative assessment of the Company's risk profile and solvency needs on a forward looking basis incorporating the Company's strategy and business plan.

The scope of the ORSA report covers all the known risks of the Company.

Figure 8: Key responsibilities of the ORSA stakeholders in the production of the ORSA report.

Stakeholder	Roles
PPL Board	Steer and challenge throughout the ORSA process, approving the ORSA report.
Prudential UK Chief Risk and Compliance Officer	Ownership of the ORSA report.
Prudential UK Risk	Preparation of the ORSA report, collaborating with functional areas as needed.
Prudential UK Finance	Preparation of quantitative inputs to ORSA report.

The Company's Risk Management Framework is designed to ensure adequate protection of policyholder and other stakeholder interests. The ORSA is recognised as a valuable component of this, providing to the means to understand the links between strategy, risk and capital. The Company holds capital with the objective of ensuring that the aggregate risk of not being able to meet liabilities as they fall due is kept to an acceptably low level. Embedding of the ORSA within the business drives top-down understanding of risks to the company and ensures the centrality of the Internal Model in business decision making.

B4 Internal control system

B4.1 Overview

The internal control system for the Company consists of the policies, processes, structures and other arrangements that are used - across the Three Lines of Defence - to give effect to the agreed approach to risk management. The internal control framework is a central part of the risk management system with a key role in the management of risks that are significant to the fulfilment of business objectives, and maintaining positions within agreed risk appetite and tolerance.

The purpose of the internal control system is to set the parameters and procedures that ensure the effectiveness and efficiency of operations, the reliability of reporting (both internal and external) and compliance with regulatory and other requirements.

The Board has responsibility to review the framework and effectiveness of the systems of internal control. The Board is supported in this responsibility by the assurance work carried out by Group-wide Internal Audit (‘GwIA’).

B4.2 Compliance Function

The Compliance Function provides dedicated support for regulatory interactions, including coordinating regulatory activity across the business, and provision of support and advice to the business on regulatory matters as well as future policy developments. The Compliance Function also provides guidance, advice and feedback on regulation, as well as setting, and advising on, compliance standards. Routine monitoring and deep dive activities are carried out, to assess compliance with regulatory rules and legislation. The Compliance Function reports to the CRCO.

The Group Compliance Policy sets out the principles and minimum requirement by which the Company conducts its business and controls the scope covered by the policy. The policy includes requirements to:

– treat customers fairly openly and honestly;
– provide and promote a range of products and services that meet customer needs, are easy to understand and that deliver real value;
– maintain honest, constructive and open relationships with governments and regulators to ensure mutual trust, respect and understanding;
– comply with all Group Policies, as well as applicable laws, rules and regulations in every country in which the Group operates;
– accept responsibility in all its activities for compliance with the spirit as well as the letter of all applicable laws, rules and regulations;
– act with due skill, care and diligence;
– ensure that an effective compliance culture thrives and operates at all levels of the business; and
– maintain appropriate means of identifying, assessing, managing and reporting regulatory compliance risks within BUs and on an aggregated basis across the Group.

B5 Internal Audit Function

Internal Audit is implemented through a Group-wide Function, therefore, references to GwIA are relevant to the Company’s Internal Audit Function.

How the Company’s Internal Audit Function is implemented

The work of GwIA is part of the overall Internal Control Framework of the Prudential Group in that it operates as a 3rd Line of Defence in providing independent and objective internal control assurance.

GwIA’s objective is to assist the Company's Board, along with PAC's Board, the Group Executive Committee, Group Audit Committee and Group Risk Committee in protecting the assets, reputation and sustainability of the organisation through the assessment and reporting of the overall effectiveness of risk management, control and governance processes across the Group; and by appropriately challenging Executive Management to improve the effectiveness of those processes.

GwIA activity is not restricted in scope in any way, is empowered by the Prudential Group Audit Committee to audit all parts of the Prudential Group and has full access to any of the organisation's records, physical properties and personnel. All employees are required to assist GwIA in fulfilling its roles and responsibilities.

In executing its responsibilities, GwIA adheres to;

– the Institute of Internal Auditors requirements as set out in the Institute of Internal Audit's 'Code of Ethics' and 'International Standards for the Professional Practice of Internal Auditing', and the Chartered Institute of Internal Auditor's revised guidance, 'Effective Internal Audit in the Financial Services Sector'.

– the requirements for internal audit functions set out in the Solvency II Directive 2009/138/EC (Level 1 text) Article 47 and Delegated Regulation (EU) 2015/35 (Level 2 text) Article 271.

– the requirements of the Senior Insurance Managers Regime and the Group's Fit and Proper Policy.

How the Company's Internal Audit Function maintains its independence and objectivity from the activities it reviews

GwIA maintains its independence and objectivity in the discharge of its responsibilities, and appropriate reporting lines are in place to support this goal:

– The internal audit function is led by the Prudential UK Audit Director who reports to the GwIA Director. For administrative purposes (excluding strictly all audit related matters) the Prudential UK Audit Director is a direct report of the Prudential UK CEO.

– The Prudential UK Audit Director reports audit related matters relevant to the Company to the Company's Board.

– The Prudential UK Audit Director, in consultation with the Prudential UK CEO, is empowered to attend and observe all or part of EXCOM and Board meetings and any other key management decision making committees and activities as appropriate.

– In accordance with the GwIA Charter, Prudential UK has an internal audit team, led by the Prudential UK Audit Director who reports to the Group-wide Internal Audit Director as functional head. The GwIA Director will consider the independence, objectivity and tenure of the Prudential UK Audit Director when performing their appraisals.

– The function also has an autonomous Quality Assurance Director, whose primary role is to monitor and evaluate adherence to industry practice guidelines and GwIA's own standards and methodology.

– The assessment of the adequacy and effectiveness of the Risk, Compliance and Finance Functions is within the scope of GwIA and as such GwIA is independent of these functions and is neither responsible for, nor part of, them.

– GwIA staff are expected to exhibit the highest level of professional objectivity in carrying out their duties; must make a balanced assessment of all relevant circumstances; remain impartial; and seek to avoid any professional or personal conflict of interest.

– GwIA has a Conflicts of Interest register. Potential conflicts are recorded and monitored by the GwIA Quality Assurance Director, including a quarterly review of reported conflicts to assess appropriate management oversight. Where deemed necessary, the Quality Assurance team will review audits where a potential conflict has been identified to ensure quality and independence of testing performed.

B6 Actuarial Function

Within Prudential UK, the Actuarial Function is defined as the Chief Actuary, their team within the Risk department, and specified individuals within the Finance Function who are responsible for carrying out the tasks of the Actuarial Function. The role of the Chief Actuary is a PRA SIMF and has responsibility for all of the activities of the Actuarial Function. The Prudential UK Chief Actuary and their team form part of Prudential Group's Actuarial Function. This role covers all UK Solvency II entities including the Company.

The need for, and the scope of, the Actuarial Function is defined in Article 48 of the Solvency II Directive. This sets out the tasks that the Actuarial Function is responsible for. In addition to the tasks defined in Article 48 of the Solvency II Directive, the CRCO as the head of the Risk Function has delegated a number of the Risk Management responsibilities to the Chief Actuary, in particular oversight of the calibration and calculation of the solvency capital requirement SCR. This ensures that the Actuarial Function is embedded in the key stages of the risk management system in relation to the calculation of the capital requirements.

The key activities undertaken by the Actuarial Function to meet its responsibilities are summarised below:

Valuation of technical provisions

The Prudential UK Finance Function propose the valuation methodology, assumptions and calculate the technical provisions. The Chief Actuary reviews the valuation methodology and assumptions, the models and data used in the calculation of the technical provisions and the technical provisions and advises the Board accordingly. The report to the Board constitutes a component report of the overall Actuarial Function Report.

Underwriting Policy

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

Reinsurance arrangements

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

Capital requirements

The Prudential UK Finance Function propose the valuation methodology and assumptions, and calculate the SCR. The Chief Actuary reviews the valuation methodology and assumptions and the SCR and advises the Board accordingly. The Chief Actuary also chairs the, UK Technical Actuarial Committee, the internal management committee with responsibility for internal capital model methodology and assumptions.

Actuarial Function Report

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

B7 Outsourcing

The Company uses outsource and third party supply providers to allow focus on its core business strengths, reduce costs and manage its delivery risks. The Company recognises that the use of outsourcers (whether intra-group or external third parties) can impact its risk profile. There is a risk with outsourcing and third party supply arrangements that the outsourcer / supplier could fail, which could result in significant business interruptions, liability for losses and costs, reputational damage and regulatory breaches. The Company retains ultimate responsibility for any activity that is supplied or outsourced.

The Company has external and intra-group outsource providers. The external providers supply customer servicing, policy administration, new business processing, claims activity and related IT support services located in the UK and India. The intra-group outsourcers provide IT infrastructure support services and investment strategy and portfolio management services located in the UK. The company has announced that, linked to strategic ambitions, the provision of some key services by intra-group outsourcers will move to external providers over the next 12-18 months.

The Company has an Outsourcing and Third Party Supply policy in place, which forms part of the overall Risk Management Framework and is aligned with the three lines of defence governance model. This policy sets out the requirements for the management of all outsourcing and third party supply arrangements across the Company and is aligned with relevant policies, which address specific outsourcing topics, e.g. data security, information risk, and business continuity. It is compliant with regulatory requirements for outsourcing and covers the full lifecycle of managing outsourcers and third parties, from procurement to managing and monitoring and relationship, and exiting a contract. The Outsourcing and Third Party Supply Policy provides definitions of types of outsourcer (e.g. external, intra-group) and criticality of arrangements, along with minimum requirements to manage them. Attestation of compliance with the Outsourcing and Third Party Supply Policy is completed on an annual basis by the Chief Financial Officer ('CFO') and is overseen by Prudential UK Risk.

B8 Any other Information

The effectiveness of the system of internal control and risk management is reviewed regularly and the outcomes are considered by the Board and / or BRCC. As part of the evaluation, the Prudential UK CEO and CFO, Prudential UK report on compliance with the Group's governance policies and the internal control and risk management requirements. The Prudential UK BU Risk Function facilitates a review of the matters identified by this certification process. This includes the assessment of any risk and control issues reported during the year, and the findings from the reviews undertaken by GwIA. Issues arising from any external regulatory engagement are also taken into account.

C Risk Profile

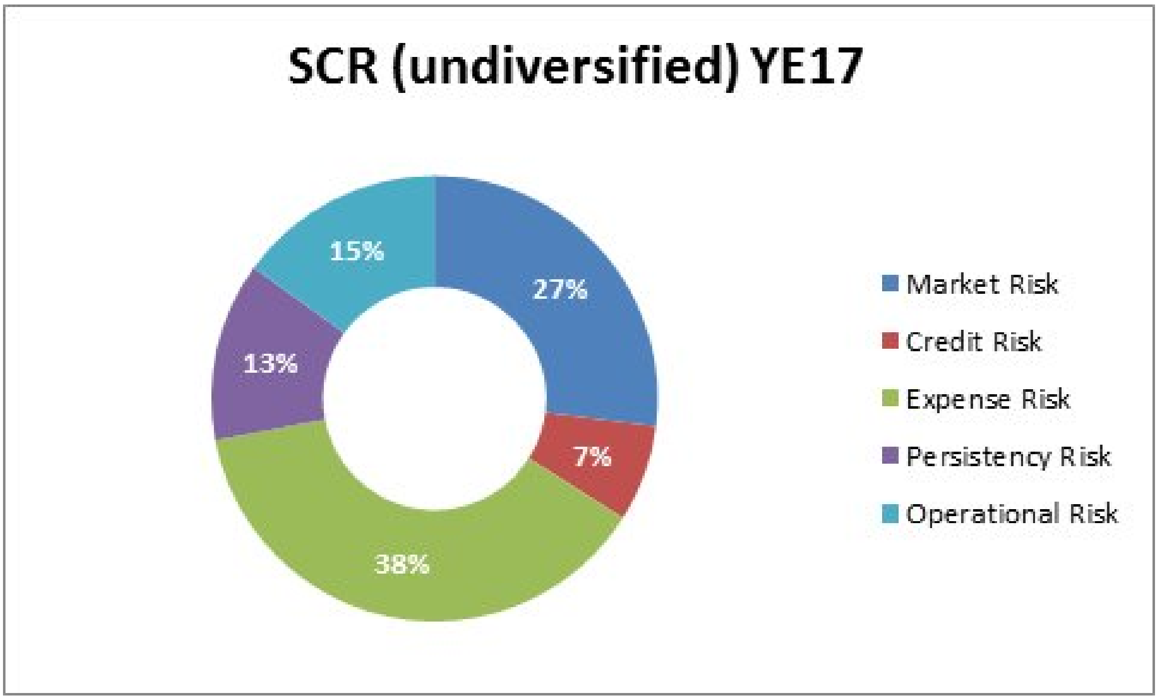
(Unaudited)

Under the Solvency II regime, companies are required to manage their solvency position in line with the Solvency II regulatory SCR. Companies are also required to form their own views of the capital needed to ensure that they can meet liabilities as they fall due, allowing for the risks that they retain (Solvency II Pillar II or Economic Capital requirements). For the Company, the regulatory basis is the focus for the purpose of the capital assessments.

Due to the nature of the Company's unit-linked business whereby policyholder liabilities are essentially the same as the net asset values backing those liabilities, its exposure to financial risk is limited. Nevertheless, the business does have some exposure to insurance (i.e. persistency and expense) risk and market (i.e. investment return) risk. The Company has limited exposure to credit risk due to the close matching of policyholder liabilities to attaching asset value movements.

Figure 9 below shows the undiversified SCR risks in relation to the Company at 31 December 2017. Detailed information on how the SCR allocation has changed during 2017 is set out in Section E.2.

Figure 9: The undiversified SCR risks in relation to PPL at 31 December 2017.



The key risk exposures are discussed in the following sections:

- Underwriting risk or insurance risk, which includes persistency and expense (refer to Section C.1).
- Market risk (refer to Section C.2)
- Credit risk (refer to Section C.3)
- Operational risk (refer to Section C.4)
- Other risks (refer to Section C.5)

There have been no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

C1 Underwriting risk

C1.1 Risk exposure and mitigation

The Company is exposed to material levels of underwriting risk (or insurance risk) as a result of its insurance business operations. Given the nature of the Company's business, persistency and expense risks remain the top insurance risks.

The Company operates under the same risk management framework as its parent company, PAC (see Section B.3 for more details). Insurance risks, such as persistency risk and expense risk are subject to regular reviews. with frequency and intensity proportionate to the materiality of the risk.

Expense Risk

The Company’s business is materially exposed to expense risk, making up 36% of the undiversified SCR. Specifically, the business makes assumptions about future expected levels of expenses for each line of business and uses these in pricing and the calculation of reserves. If the actual expenses realised exceed these assumptions, this will adversely impact profitability for the company.

Persistency Risk

The Company’s persistency assumptions are based on past experience and also include expected trends in future persistency rates. Experience is actively monitored and assumptions are periodically reviewed. If the actual levels of future persistency are significantly lower than assumed then the firm’s financial results could be negatively impacted due to a reduction in expected income from management charges.

For in-force business, management actions to reduce persistency exposures are limited, although the company has enacted a customer retention strategy.

C2 Market risk

C2.1 Risk exposure and mitigation

The risk to the Company arises whereby a potential fall in investment returns and / or adverse movements in foreign currency exchange rates results in a reduction to the market value of assets under management. This is because a significant part of the firm’s income is earned through fund management charges that are expressed as a percentage of funds under management. As such, a fall in market value of funds under management as a result of market risk would therefore adversely affect the Company’s profitability.

The methods that the Company uses to manage and mitigate market risks include the following:

- Market Risk Policy;
- risk appetite statements, limits and triggers that the Company has in place;
- the monitoring and oversight of market risks through the regular reporting of management information;
- asset and liability management programmes that are in place.

C3 Credit risk

C3.1 Risk exposure and mitigation

Due to the unit-linked nature of its business, the Company has no material net exposure to credit risk.

C4 Liquidity risk

C4.1 Risk exposure and mitigation

Liquidity risk is the risk that the Company although solvent on a balance sheet basis is not able to liquidate assets in a timely manner to meet its cash obligations as they fall due or can access liquidity only at excessive cost.

Liquidity risk is carefully managed in particular in relation to: bank balances, cash-flow forecasting and requirement to maintain minimum “liquidity coverage ratios”. This reduces the risk that, even under adverse conditions, the Company cannot access liquidity necessary to cover its outflows. To manage liquidity risk in property funds which are inherently more illiquid, the Company has deferral clauses in place, which can allow the Company to defer cash payments to withdrawing customers in extreme adverse liquidity scenarios. Liquidity risk however cannot be completely eliminated for unit-linked funds, in particular over the short term, where market volatility can result in mass withdrawals over a short period of time.

C5 Operational risk

C5.1 Risk exposure and mitigation

Operational risk is the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel and systems, or from external events. This includes employee error, model error, system failures, fraud or some other event which disrupts business processes. Such risks are also relevant in the management of outsourced services and during periods of significant transformation with additional exposure anticipated as the Company enacts its strategic transformation ambitions. Another important element of operational risk relates to non-compliance with the high rate of regulatory change. As well as prudential regulation, the Company focuses on assessing changes in conduct regulation, including regulations related to anti-money laundering, bribery and corruption, and sales practices. Technology Risk, including cyber risk, is also an important and dynamic risk and is expanded on below.

The Company manages and mitigates its operational risk using the following:

- operational risk policies, including outsourcing and third-party supply;
- a cyclical risk management framework, based on the policy standards, that delivers processes and tools to identify, assess, control and monitor the operational risk exposures;
- corporate insurance programmes to limit the impact of operational risks;
- scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events;
- internal and external review of cyber security; and
- regular testing of elements of the business continuity and disaster recovery plans.

C6 Other material risks

C6.1 Business Environment Risks

Some of the risks that the Company is exposed to are necessarily broad given the external influences which may impact on the Company. These risks include:

- Global economic conditions: changes in global economic conditions can impact the Company directly; for example by leading to poor returns on it's investments and increasing the cost of promises the Company has made to its customers. They can also have an indirect impact; for example economic pressures could lead to decreased savings, reducing the propensity for people to buy the Company's products. Global economic conditions may also impact on regulatory risk for the company by changing prevailing political attitudes towards regulation.

- Digital disruption: the emergence of advance technologies is providing an impetus for companies to rethink their existing operating models and how they interact with their customers. The company is embracing the opportunities presented by digitalisation and is closely monitoring any risks which arise.

- Regulatory: changes in UK government policy, legislation (including tax), regulation or regulatory interpretation applying to insurance companies may adversely affect the Company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. Regulators in other jurisdictions in which the Company operates may also introduce changes in the regulatory framework for long-term savings and retirement arrangements and investments, including to selling practices and solvency requirements.

- There are a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way the Company is supervised.

- Political: global political risks have been on the rise and look set to remain heightened. Domestically, the withdrawal of the UK from the EU introduces significant uncertainties for both the UK and the EU, affecting consumer and market confidence, and potentially increasing market volatility and the risk of a downturn in economic activity.

The Company's risk management and mitigation of such risks includes the following:

- a Risk and Capital Plan that includes considerations of current strategies;
- close monitoring and assessment of the business environment and strategic risks; and
- Board strategy sessions on relevant and topical matters as required.

C6.2 Strategic Risk

Strategic risk is the risk of ineffective, inefficient, or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Company's capabilities.

The key business strategy affecting the Company is the integration of the M&G and Prudential UK & Europe life insurance businesses with the aim of delivering capital-light, digitally-enabled, customer-focused solutions. This presents a significant opportunity to leverage scale, financial strength and complementary product and distribution capabilities, but also carries strategic risk, as well as delivery and operational risks associated with the size, complexity and interdependencies of the transformation being undertaken.

C6.3 Technology Risk

The Company has a high dependency on technology to operate effectively and deliver the business plan, with the maintenance, integrity and resilience of the IT infrastructure and applications paramount to meeting business and customer needs. The Company's current reliance on a number of legacy systems spread over a complex supply chain and increasing utilisation of outsourcing/Cloud deployments creates an enhanced risk of breaches and IT issues. With the new General Data Protection Regulation requirements on data privacy coming in to force in May 2018, controls around data confidentiality will become even more critical.

C6.4 Reputation Risk

The Company recognises that, though hard to quantify, reputation is a key asset. The Company continues to develop, along with the wider Prudential Group, an approach to the management and oversight of reputational risk. Reputational risk is primarily a 'second order' risk, in that it results from another risk occurring, rather than in isolation. Reputational risk considerations are an important part of the Company's management of Environmental, Social and Governance (ESG) issues.

C7 Any other information

C7.1 Special Purpose Vehicles

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

C7.2 Risk sensitivity

Stress and scenario testing is embedded in the Company's Risk Management Framework. It is performed in order to:

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

Stress tests are performed both with and without any allowance for the transitional measures on technical provisions granted by the PRA being recalculated.

To evaluate the Company's resilience to significant deteriorations in market and credit conditions and other shock events, the risks facing the company as described in the sections above are grouped together into severe but plausible scenarios. In addition, the Company conducts an annual reverse stress test which gives the directors an understanding of the maximum resilience to extremely severe adverse scenarios.

In considering these scenarios the impacts of mitigating management actions designed to maintain or restore key capital, liquidity and solvency metrics to the Company's approved risk appetite are considered. In the scenarios tested, sufficient actions were available to management to maintain the viability of the Company over the three-year period under assessment.

Core economic stress scenarios

The Company has a set of core stress scenarios that are based on external economic stresses outside the control of the Company. These scenarios are simplistic stresses that have been applied consistently over time, allowing year-on-year comparisons of results for individual risk exposures.

In practice we would expect a number of events to occur simultaneously. The analysis has shown that it would take a strong event to reduce the capital coverage ratio below 100%. At 100% capital coverage, the Company would have sufficient capital to withstand a 1 in 200 year event.

C7.3 Risk concentration

The Company has limited exposure to credit risk due to the close matching of policyholder liabilities to attaching asset value movements and therefore does not have significant risk concentrations.

C7.4 Prudent person principle

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

The Company has an investment risk oversight framework which ensures that the Company's investment risks are managed effectively and efficiently. The framework focuses on the integrity and effectiveness of the investment processes, governance and controls, as well as appropriateness of resourcing and compliance of processes with applicable regulatory requirements (e.g. prudent person principles set out in the Solvency II Directive).

The investment risk oversight framework comprises a risk appetite statement, standards, processes and controls, which ensures investment risk is managed appropriately in regards to the Company's risk appetite.

The Company outsources investment management to intra-group businesses. That business is governed by a common Group-wide Governance framework. The following information provides details on the Group-wide approach to the prudent person principles an insurance entity should apply when making investment decisions;

- Prudential Group's policies provide a common framework for the oversight of financing and investment activities across the Group. They are designed to provide general, prudent and principle-based guidance for both shareholder-backed business and policyholder-backed business.

- The GRF covers all aspects of risk management across all BUs and includes minimum standards, controls and requirements for risk management. The GRF is supported by further documents including specific policies that cover credit, market, insurance, liquidity, operational and investment risk as well as lower level Group-wide Operating Standards and Group Approved Limits.

- The Group Investment Policy specifically sets out the framework for management and oversight of investment performance and investment related risk across the Group. It focuses on ensuring that all of the Group's business units have appropriate policies and procedures in place to manage, monitor and report on the investment risk that they have taken on.

- The Group Dealing Controls Policy provides detail of the controls and monitoring in place in relation to all trading operations, including the operational controls around derivative collateral management. The policy also sets out uniform controls across all asset classes (including non-listed and securitised investments) and clarifies the responsibility of Business Units to ensure full compliance with all local regulations and requirements.

- The Company oversees its asset managers by means of ensuring compliance with investment management agreements and investment mandates. These are structured in order to ensure compliance with the Prudent Person Principle, and are overseen by the Investment Office. The Investment Office updates and maintains the investment management agreements and investment mandates in line with changes in investment strategy, and carries out monitoring and due diligence of investment managers' compliance with their respective mandates.

D Valuation for solvency purposes

D1 Valuation of assets

D1.1 Overview

The 2017 balance sheet valued under both the statutory accounts basis (UK GAAP) and the Solvency II basis is summarised in Figure 10 below:

Figure 10: Solvency II and UK GAAP balance sheets for the year-ended 31 December 2017, with 2016 Solvency II balance sheet comparative

	Solvency II (2017) £m	Financial Statements (2017) £m	Difference (2017) £m	Solvency II (2016) £m
Assets				
Investments	87.5	87.5	—	81.7
Assets held in index-linked and unit-linked funds	10,168.1	12,187.9	(2,019.8)	9,670.2
Reinsurance recoverable	2,084.1	62.7	2,021.4	1,812.8
Cash and cash equivalents	9.6	9.6	—	2.3
Other assets	4.6	4.6	—	7.8
Total assets	**12,353.9**	**12,352.3**	**1.6**	**11,574.8**
Liabilities				
Technical provisions *(of which the risk margin and transitional measures on technical provisions is unaudited)*	12,242.6	12,250.8	(8.2)	11,481.8
Deferred taxation *(unaudited)*	3.5	1.9	0.3	2.5
Other liabilities	24.9	24.9	—	20.3
Total liabilities	**12,271.0**	**12,277.6**	**(6.6)**	**11,504.6**
Excesses of assets over liabilities	**82.9**	**74.7**	**8.2**	**70.2**

The movement from assets in unit-linked funds into reinsurance recoverable is due to external reassurance being treated as an investment contract in the financial statements and as reinsurance on a Solvency II basis.

Investments (other than participations)

These assets are mainly a non-linked uk gilt that the Company owns or the cash on deposit the Company has placed over the reporting date.

Assets held in index-linked and unit-linked funds

The difference relates to a Companies Act presentation difference for investment contracts without discretionary participation features. For the Solvency II balance sheet these items are reported as reinsurance but in the UK GAAP financial statements, they are classified as investments.

Reinsurance recoverable

The difference in value of reinsurance recoverable between Solvency II and the financial statements stems from the reclassification of reinsurer's share of investment contracts liabilities. For the purposes of the financial statements, the Company applies deposit accounting for investment contracts and accordingly presents reinsurer's share of its liabilities within investments.

Cash and cash equivalents

No adjustments are made between Solvency II and the financial statements.

Other assets

The reduction in other assets of £0.1 million relates to reclassification of assets under Solvency II.

D1.2 Valuation of assets

D1.2.1 Determination of fair value

Within the Solvency II balance sheet, assets are valued using valuation methods that are consistent with the valuation approach set out in the Solvency II Directive. The overall principle when valuing assets and liabilities under Solvency II is to use a fair value, as set out in Article 75 of the Directive. There have been no changes to the recognition and/or valuation basis of assets and other non-insurance liabilities in the Solvency II balance sheet during the year.

When valuing assets and liabilities in accordance with Solvency II, the fair valuation hierarchy set out below is followed, which is consistent with the fair value measurement hierarchy as applied under UK GAAP:

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

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

The investments of the Company that are valued using this method include exchange listed equities, collective investment undertakings with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is infrequent that the market could not possibly be considered active.

(b) Quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences

Where quoted market prices in active markets for the same assets or liabilities are not available, the Company applies either of the following two valuation methods on a case by case basis:

- using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect factors specific to the asset or liability such as condition or volume or level of activity in the markets; or
- using an alternative valuation method with the significant inputs that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices).

The majority of the assets of the Company that are valued using alternative valuation methods with significant observable inputs are corporate bonds, collateralised securities and other non-national government bonds, together with over-the-counter derivatives such as forward exchange contracts.

These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied.

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

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in section (c) with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as being based on alternative valuation methods. Alternative valuation methods use observable market data where available; where unavailable, unobservable inputs may be used (as further described below).

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

The Company has less than £0.1m of these alternative valuation method assets at the end of 2017 and 2016.

There are no material differences between the bases, methods and assumptions used for the valuation of the Company's assets for solvency purposes compared to UK GAAP.

Quantitative information as to how much of each asset category resides within each level of the fair value hierarchy is disclosed in the Company's financial statements.

The valuation basis for each material class of assets are described below:

D1.2.2 Valuation bases under Solvency II compared with UK GAAP

The only investments that materially change in value between Solvency II and UK GAAP are the reclassification of external reassurance in the unit-linked funds.

Assets held for unit-linked contracts

These assets are held to cover linked liabilities and whereby the policyholders bear the investment risk of the assets. Under both UK GAAP and Solvency II these assets are recorded in aggregate as a single line entry on the balance sheet. The difference between UK GAAP and Solvency II relates to reinsurance in relation to investment contracts without discretionary participation features, which is treated as reinsurance under Solvency II but as investments under UK GAAP.

Deferred tax asset

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

There is no deferred tax asset on the Solvency II balance sheet as at 31 December 2017 or 31 December 2016.

Other assets

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

Investments (other than participations)

As described above, these mainly consist of a UK gilt holding and cash on deposit. The UK gilt is valued using external market prices. The cash on deposit is typically placed for less than one week, and its value is the amount of cash that was placed.

D2 Technical provisions

To the extent these disclosures relate to the risk margin, transitional measures and/or the Solvency Capital Requirement, they are not subject to audit and have not been audited.

D2.1 Overview

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

The best estimate liability corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (i.e. the expected present value of future cash-flows), using the risk-free interest rate term structure published by European Insurance and Occupation Pension Authority. The calculation of the best estimate liability is based upon up-to-date and credible information and realistic assumptions (derived from data analysis and expert judgement) and is performed using appropriate actuarial and statistical methods. The cash-flow projection used in the calculation of the best estimate liability takes account of all the cash in- and out-flows required to settle the insurance obligations over their lifetime. The cash-flows included in the best estimate liability calculation are derived after applying Solvency II "contract boundary" rules, which determine whether future cash-flows can be recognised as part of the in-force business. The best estimate liability is calculated before deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately (see section D.2.8).

The "contract boundary rules" define:

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

The risk margin is calculated in line with Solvency II requirements, and aims to ensure that the total technical provisions are equivalent to the cost of ceding the insurance obligations to a third party. The calculation assumes a 6 per cent per annum cost of capital and applies to non-hedgeable risks only. This calculation includes simplified methods and requires assumptions as to the run-off profile of non-hedgeable capital requirements for each line of business, in line with Article 58 of the Delegated Regulation, rather than a full projection of solvency capital requirements ('SCR'). The SCR for each non-hedgeable risk is assumed to run-off in-line with a suitable profile which differ depending on the types of non-hedgeable risks. The SCR each year is aggregated using a simplified correlation matrix.

The main risks are detailed in Section C.

Technical provisions at 31 December 2017

Figure 11: Value of technical provisions at 31 December 2017

	Best estimate liability £m	Risk margin £m	Total £m	31/12/2016 £m
Non-profit annuity business	64.3	-	64.3	71.6
Unit-linked business	6,962.4	15.8	6,978.2	6,586.8
Reinsurance Accepted	5,192.9	7.2	5,200.1	4,823.4
Total	**12,219.6**	**23.0**	**12,242.6**	**11,481.8**

The technical provisions shown above include the impact of the transitional measures on technical provisions (see section D.2.4.1) which are included within the risk margin column. The transitional measures on technical provisions reduce the Company's technical provisions by £5.1 million as at 31 December 2017.

Reinsurance recoverables at 31 December 2017

Figure 12: Value of reinsurance recoverables at 31 December 2017 and 31 December 2016

	2017 £m	2016 £m
Other life insurance	64	72
Accepted reinsurance - other life insurance	2,020	1,741
Total	**2,084**	**1,813**

D2.2 Methodology and assumptions

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

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

(i) economic assumptions, most of which are published by EIOPA and set by reference to market data at the valuation date;
(ii) non-economic assumptions, used to derive non-market related best estimate liability cash-flows (for example future claims and expenses); and
(iii) assumptions in respect of policyholder behaviour.

D2.2.1 Economic assumptions

The principal economic assumption is the risk-free interest rate term structure. The risk-free curves at which best estimate liability cash-flows are discounted are specified by the European Insurance and Occupational Pensions Authority. These curves are based on market swap rates, with a "credit risk adjustment". The resulting 10-year risk-free spot rate for the Company is given below, after the credit risk adjustment.

Figure 13: 10 year risk-free rates at 31 December 2017 (with comparison to 31 December 2016)

Currency	31 December 2017	31 December 2016	Change
British Pound	1.19%	1.08%	0.11%

D2.2.2 Non-economic assumptions

Persistency, mortality and expense assumptions are derived from analysis of recent historic experience data, and also reflect expected future experience. Where relevant and material, allowance is also made for how policyholder behaviour is expected to vary in line with economic conditions.

Assumptions are set at realistic, best-estimate levels. If experience varies from the assumptions the result would be the Company holding less or more capital than necessary to meet its obligations.

D2.3 Details on methodology and assumptions by lines of business

D2.3.1 Unit-linked business

The best estimate liability for these contracts reflects both the value of the policyholder unit funds and the non-unit liability which is the discounted value of fee income from the unit funds less allowances for expenses. The non-unit liability can be negative.

Some unit-linked business contains a financial guarantee that the price of the cash funds will not fall. This is only 0.01 per cent of the total unit-linked best estimate liability, therefore has low materiality.

D2.3.2 Non-profit annuity business

The best estimate liability for non-profit annuity business is a discounted value of expected future annuity payments and associated expenses. The key assumptions relate to mortality rates, including expectations of future mortality improvements.

Mortality assumptions for non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on standard population mortality tables, with an allowance for expected future mortality improvements. The standard population tables are adjusted to account for the specific socio-economic mix of the portfolio and the effects of selection in the annuity market. Where annuities have been sold on an enhanced basis to impaired lives, assumptions are set to reflect experience, including the appropriate level of impairment.

D2.4 Long-term guarantee measures on technical provisions

D2.4.1 Transitional measures

The Company's technical provisions at 31 December 2017 include transitional measures on technical provisions, in accordance with Article 308d of Directive 2009/138/EC. The impact of these transitional measures is to increase the Company's Solvency II surplus by £4.2 million, (2016: increase surplus by £2.6 million).

The transitional measures are considered high-quality capital, and are a core part of the Solvency II reporting regime. The Company has received the necessary approvals from the Prudential Regulation Authority ('PRA') in respect of the transitional measures.

In line with the PRA's Supervisory Statement SS6/16 to allow a recalculation every 24 months, the TMTP was recalculated at 31 December 2017. This is reflected in both the QRTs and the Annual Reports and Accounts.

The impact of the TMTP on the Company's Solvency II results at 31 December 2017 and 31 December 2016 is shown in the table below:

Figure 14: Impact on Solvency II metrics of TMTP at 31 December 2017 and 31 December 2016

	With TMTP 2017 £m	Without TMTP 2017 £m	Impact 2017 £m	With TMTP 2016 £m	Without TMTP 2016 £m	Impact 2016 £m
Technical Provisions	12,242.6	12,247.6	(5.1)	11,481.8	11,485.0	(3.1)
Basic Own Funds	82.9	78.7	4.2	70.2	67.6	2.6
Own Funds eligible to cover SCR	82.9	78.7	4.2	70.2	67.6	2.6
Solvency Capital Required	54.0	54.9	(0.9)	57.7	57.1	0.7
Minimum Capital Required	24.3	24.7	(0.4)	26.0	25.7	0.3

D2.5 Assumption changes

2017 changes to the assumptions underlying the Company's calculation of technical provisions include:

- changes to the expense assumptions and investment management expense assumptions to reflect updated methodology and recent experience;
- market-driven changes to economic parameters, including changes to risk-free rates as shown in section D.2.2.1;
- changes to best estimate annuitant longevity assumptions to reflect individual life level views of current mortality over the lifetime of the policyholder;
- the mortality improvement basis has been updated from a bespoke calibration of Continuous Mortality Investigation 2014 to the core calibration of Continuous Mortality Investigation 2015; and
- changes to persistency assumptions to reflect the results of the most recent experience investigation.

D2.6 Level of uncertainty

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

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

The best estimate assumptions include assumptions about future economic conditions, for example interest rates and expense levels; and assumptions about future non-economic experience, for example, persistency, policyholder behaviour and expenses.

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

D2.7 Reconciling Solvency II technical provisions to the financial statements

Figure 15: Comparison of technical provisions between UK GAAP and Solvency II for the year-ended 31 December 2017 and 31 December 2016

	Index-linked and unit-linked insurance 2017 £m	Other life insurance 2017 £m	Total 2017 £m	Index-linked and unit-linked insurance 2016 £m	Other life insurance 2016 £m	Total 2016 £m
UK GAAP liabilities (as reported in financial statements)	12,187.9	62.9	12,250.8	11,411.5	68.0	11,479.5
Solvency II technical provisions as reported in the template S. 02.01.02	12,178.3	64.3	12,242.6	11,410.2	71.6	11,481.8

The movement in technical provisions between the UK GAAP financial statements and Solvency II is discussed below:

(a) The UK GAAP liabilities do not include an explicit risk margin as the allowance for risk is included within the non-economic assumptions. The risk margin is explicit under Solvency II so is added in here along with a similar deduction for the present value of future profits. The impact of the transitional measures on technical provisions to restore the surplus of the Company to broadly equivalent levels as those established under the previous Solvency I regime has been offset against this explicit risk margin.

(b) The UK GAAP 'other life insurance' liabilities relate to the reassured annuities in the Company. These are valued using a basis that includes margins for risk and uncertainty within the non-economic assumptions (mortality, morbidity, persistency and expenses) as well as different economic assumptions to the Solvency II technical provisions. The method of calculation can also differ between the bases.

The most significant differences between UK GAAP and Solvency II assumptions and methodology for these annuities are described below:

- UK GAAP liability cash-flows for annuity business are valued using a discount rate derived from the yield on the corresponding assets minus a prudent allowance for defaults of 37.4 bps at 31 December 2017 (31 December 2016: 36.5 bps).
- Longevity assumptions for annuity business contain margins under UK GAAP compared to the best estimate assumptions applied under Solvency II.

D2.8 Reinsurance recoverables

The Company primarily uses reinsurance to manage insurance risk exposure.

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

The valuation methods and assumptions for reinsurance recoverables are consistent with the methods and assumptions for the corresponding technical provisions (see sections D2.2 and D2.3). The value of the reinsurance recoverable asset is the Company's best estimate of future reinsurance cash-flows, where this figure allows for the probability of partial or total default by the reinsurer. In accordance with Article 61 of the Delegation Regulations, a simplified approach to calculating the counterparty default adjustment has been adopted.

The difference in the value of reinsurance recoverables between Solvency II and the UK GAAP financial statements stems from the reinsurers' share of value of technical provisions. This is calculated on a basis consistent with the underlying technical provisions and, for Solvency II, includes an allowance for the probability of reinsurer default.

D3 Valuation of other liabilities

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

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

Deferred tax liabilities

Deferred tax liabilities are calculated based upon the differences between the values given to liabilities in the Solvency II balance sheet and their values for tax purposes. The principles of FRS 101 are applied to calculate the extent of deferred taxes applicable to those value differences. Changes in the valuation of underlying liabilities between UK GAAP and Solvency II give rise to deferred tax value differences.

Other liabilities

Other liabilities includes, reinsurance payables, payables (trade, not insurance), and other liabilities not shown elsewhere.

There are no material valuation differences between the 2017 Solvency II and the 2017 financial statements beyond a minor restatement between other assets and other liabilities of £1.0 million. A similar minor restatement of £1.0 million was made in 2016.

D4 Alternative methods for valuation

The company currently does not use alternative methods of valuation.

D5 Any other information

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

E Capital management

E1 Own funds

E1.1 Objectives, Policies and Processes

The Company manages its Solvency II own funds as its measure of capital. The Company's own funds at 31 December 2017 in the regulatory template is £82.9 million (2016: £70.2 million). A reconciliation from the Solvency II capital position published in the financial statements to the Solvency II capital position disclosed in the regulatory template is provided in E.1.2 below. The Company's basic, available and eligible own funds to cover the Company's solvency capital requirement and minimum capital requirement at 31 December 2017 are shown in Section E1.3 below.

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

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

E1.2 Solvency II Capital position

(All references to the SCR and the risk margin are unaudited)

The table below shows the PPL Solvency II surplus at 31 December 2016 and 31 December 2017 as disclosed in the Company's 2017 Annual Report and Financial Statements;

Figure 16: PPL surplus at 31 December 2017 and 31 December 2016

	2017 £m	2016 £m
Own Funds	82.9	70.2
SCR	54.0	57.7
Surplus	28.9	12.5
SCR Coverage %	154%	122%

The Company's Solvency II surplus position has increased by £16.4m between 31 December 2016 and 31 December 2017. The 31 December 2017 figures above are consistent with the information submitted within the Solvency II Pillar III templates Own Funds (S.23.01.01) and SCR (S.25.02.21).

E1.3 Analysis of the components of own funds

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

Figure 17: Analysis of components of own funds for the year-ended 31 December 2017

	Total 2017 £m	Tier 1 unrestricted £m	Total 2016 £m
Ordinary share capital (b)	6.0	6.0	6.0
Reconciliation reserve (c)	76.9	76.9	64.2
Total eligible own funds to meet the SCR (a)	82.9	82.9	70.2

(a) The Company's basic own funds are equal to the total available own funds. The eligible own funds are derived by applying Solvency II tiering limits to the tiered available own funds. At 31 December 2017, the Company's tier 1 restricted available own funds have not exceeded the tiering limits and hence the Company's total available own funds are equal to the total eligible own funds. The Company's own funds before adjustments principally comprises equity share capital and retained earnings attributable to equity shareholders calculated in the reconciliation reserves.

(b) The Company's ordinary share capital comprises of 6,000,000 ordinary shares of £1 each fully paid.

(c) The reconciliation reserve represents the residual of excess of assets over liabilities after deducting ordinary share capital.

The following table shows the reasons for the changes in the Own Funds between 31 December 2016 and 31 December 2017.

Figure 18: Analysis of components of own funds for the year-ended 31 December 2017

	£m
Own Funds at 31 December 2016	70.2
Underlying operating experience	2.8
Operating experience	2.8
Non-operating experience (including market movements)	8.8
Deferred tax assets/liabilities	1.1
Own Funds at 31 December 2017	82.9
Change in Own Funds	**12.6**

The change in non-operating experience is primarily due to the reduction in risk margin (net of TMTP).

E1.4 Reconciliation of UK GAAP shareholder's equity to Solvency II for the year-ended 31 December 2017

The following table shows the differences between UK GAAP shareholder's equity and Solvency II own funds.

Figure 19: Analysis of components of own funds for the year-ended 31 December 2017

	2017 £m	2016 £m
Shareholder's equity in financial statements at 31 December	74.7	69.2
Valuation differences	24.4	24.1
Impact of risk margin (net of TMTP) *(unaudited)*	(17.9)	(22.9)
Change in value of deferred tax asset (resulting from valuation differences above	1.6	(0.2)
Excess of assets over liabilities as recorded in the Solvency II Balance Sheet	**82.9**	**70.2**

E2 Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR')

(All references to the SCR are unaudited)

E2.1 Overview

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

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

E2.2 Components of SCR

At 31 December 2017, the SCR was £54.0 million.

Figure 20 below shows the undiversified SCR by risk components and the benefit of diversification in relation to the Company at 31 December 2017. A comparison column at 31 December 2016 is included.

Figure 20: SCR for the Company at 31 December 2017

Risk component	2017 £m	2016 £m	Differences £m
Equity risk	22.3	20.1	2.2
Property risk	3.4	3.1	0.3
Interest rate risk	3.0	5.5	(2.5)
Credit risk	5.4	6.4	(1.0)
Counterparty risk	4.4	2.7	1.7
Currency risk	7.8	7.1	0.6
Diversification between market risks	(15.0)	(17.0)	2.0
Expense risk	49.7	54.1	(4.4)
Lapse risk	18.1	15.3	2.7
Diversification between insurance risks	(37.8)	(47.5)	9.8
Operational risk	19.4	32.4	(13.0)
Other adjustments	—	(11.1)	11.1
Loss-absorbing capacity of deferred tax	(7.8)	(5.2)	(2.6)
Total undiversified components	**72.8**	**65.9**	**7.0**
Diversification between market and underwriting risks	(18.8)	(8.1)	(10.7)
Total diversified SCR	**54.0**	**57.7**	**(3.7)**

The main drivers of the reduction in diversified SCR are as follows:

- There has been a reduction in operational risk capital of £13 million following a review of the methodology used to allocate operational risk capital across PAC and its subsidiaries in 2017.
- Interaction effects are included in 'diversification between market and underwriting risks' at 31 December 2017. These were included in 'other adjustments' at 31 December 2016 and therefore the movements in these components broadly offset.

The minimum capital requirement ('MCR') is a formulaic calculation, which is subject to a cap and a floor that are both expressed relative to the SCR. At 31 December 2017, the Company's MCR was £24.3 million. The inputs used to calculate the MCR are detailed in Quantitative Reporting Template S.28.01.01. The MCR is currently 45% of the SCR.

E3 Use of the duration-based equity risk sub-module in the calculation of the SCR

(Unaudited)

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

E4 Differences between the standard formula and internal model

(Unaudited)

E4.1 Overview

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

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

The Company's internal model is used in areas where risk-based decision making or risk-related considerations are required, such as capital management, investment strategy, product development and management.

E4.2 Internal model application

The Company applied to use an internal model in late June 2015. In early December 2015 the application was approved by the PRA. This was followed by an application to the PRA for a "major model change" to the internal model in 2016, which was approved by the PRA to be effective for full year 2016 reporting.

The Company's internal model is described as "partial" because the Group's US insurance companies are aggregated into the Group SCR using method 2: deduction and aggregation. Integration techniques are not required.

As required in Article 101 of Directive 2009/138/EC, the solvency capital requirement from the approved internal model is calculated as the value-at-risk of the basic own funds of an (re)insurance undertaking at a confidence level of 99.5 per cent over a one-year period. The main risk categories allowed for in the internal model are shown in Section E.2.2. Within these categories, underlying "risk drivers" are specified as the result of an annual risk identification process. A model is defined and calibrated for each underlying risk driver and these are combined with an appropriate dependency structure and simulated to generate multiple thousands of combined risk scenarios. These risk scenarios are applied to all the assets and liabilities of the Company (for each entity within the scope of the internal model) to generate a wide range of possible outcomes. For simplicity, and to avoid circularity, the risk margin is held constant in all these risk scenarios. The resulting probability distribution is used to calculate the internal model solvency capital requirement, by subtracting the 99.5th worst percentile outcome from the unstressed balance sheet.

The data used in the internal model covers the following:

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

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

E4.3 Internal model vs standard formula

(Unaudited)

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

- Whereas the standard formula stresses and correlations are prescribed, the internal model risk scenarios reflect the Company's specific risk profile and are derived from a combination of data analysis and expert judgement, subject to the internal model tests and standards required by the Solvency II Directive (see further detail in Figure 21 below).

- Although the same broad risk categories are used to Group risk drivers in the internal model, the internal model risk drivers within each category are typically much more granular than the broad risk categories considered under the standard formula, For example, the internal model risk divers typically vary by country, as well as by other attributes of the risk, whereas many of the standard formula stresses do not vary by country.

- The internal model also covers some risks that are not included in the standard formula (for example, government bond spread risk).

- The internal model SCR is derived by combining underlying risk drivers together into combined stress scenarios, and then ranking the outcomes of applying these stress scenarios to the Company's balance sheet to derive the 99.5th worst percentile outcome. Conversely, the standard formula SCR is derived by calculating the impact on the balance sheet of each prescribed stress separately and then aggregating these outcomes using prescribed correlation matrices. Therefore, the internal model allows for the impact on the balance sheet of combinations of risks occurring together, whereas the standard formula only considers each risk in isolation.

Figure 21: Overview of standard formula and internal model differences

Risk category	Standard Formula	Internal Model
Equity	Stresses vary between "Type 1" (listed EEA and OECD stocks) and "Type 2" (other countries, unlisted equities and alternative equity investments). A symmetric adjustment is applied to the level of stress to smooth out significant movements in markets close to the calculation date.	The model includes more granular stresses with calibrations set for each main equity benchmark index. At least one equity index is calibrated for each relevant global economy. Private equity, infrastructure equity and hedge funds are modelled using specific calibrations. Equity implied volatility is also modelled. No symmetric adjustment is applied.

Credit	For corporate bonds, loans and non-exempt sovereign bonds, credit risk is modelled by stressing credit spreads, with stresses varying by rating and duration bucket. European sovereign bonds are exempt from stress. Stresses on assets with an element of securitisation with no credit rating. The matching adjustment is allowed for by a factor-based reduction of the spread stresses by rating.	Credit spreads, ratings migrations, defaults and fundamental spreads (for the UK matching portfolio) are all explicitly modelled. The spread stresses vary by credit rating, with calibrations differentiated by economy, product and duration bucket where appropriate. Internal credit assessments are used for bonds and loans without an agency rating and to uplift stresses for assets where structuring introduces additional risk. Spread stresses are applied to sovereign bonds, taking into account the credit risk of the issuing government. The matching adjustment is calculated dynamically based on the bond yields and fundamental spread being modelled in each risk scenario.
Yields	Interest rate stresses are defined as bi-directional stresses to the base risk-free curve which vary by term but not by country.	Stresses are calibrated for each relevant global economy, and stresses to the shapes of risk-free yield curves are modelled using an industry standard 'principle component' methodology. Stressed curves are reextrapolated beyond the last liquid point for each economy using the methodology specified by EIOPA. Interest rate implied volatility and inflation risk are also modelled.
Property	There is a single property stress applied globally to the value of all assets classified as property.	Property stresses are differentiated by type of property, with separate calibrations for commercial and residential property. The model also separates the risks relating to contractually fixed rental income from that relating to capital growth where this is relevant for the matching adjustment.
Currency	A pair of up and down stresses is applied to the non-GBP net asset value in each business, and then aggregated. This approach also implicitly captures any asset-liability currency mismatch in each country.	A calibration is derived for each currency relative to GBP. Currency outcomes are simulated and used to translate all assets and liabilities into sterling in each risk scenario, thereby including the effect of currency "translation" as well as asset- liability currency mismatches within countries.
Counterparty default risk	Counterparty default risk is calculated taking into account the loss-given-default and probability of default, using fixed factors. Separate parameters and different aggregation approaches are applied for Type 1 exposures (e.g. derivatives, reinsurance, deposits) compared to Type 2 exposures (e.g. receivables from intermediaries).	A stochastic portfolio model (calibrated by credit rating) is used to capture counterparty risk, allowing for stochastic default and recovery rates. The model allows for counterparty exposures to increase under stressed conditions arising from other market and insurance risks.

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

E5 Non-compliance with the MCR and with the SCR

The Company's SCR and MCR have been met at all times throughout 2017 and 2016.

E6 Any other Information

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

Statement of directors' responsibilities

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

The directors are satisfied that:

a. throughout the financial year to December 2017, the Company has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable at the level of the Company; and
b. it is reasonable to believe that in respect of the period from 31 December 2017 to the date of the publication of the SFCR, the Company has continued so to comply and will continue so to comply for the remainder of the financial year to 31 December 2018.

Signed on behalf of the Board of Directors

C Bousfield
Director
2 May 2018

Independent Auditor's Report

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

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

Except as stated below, we have audited the following documents prepared by Prudential Pensions Limited as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Prudential Pensions Limited as at 31 December 2017, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S12.01.02, S22.01.21, S23.01.01, S28.01.01 ('**the Templates subject to audit'**).

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

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

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S.25.02.21;

- the technical provisions used to calculate the transitional measures, and therefore information relating to the transitional measures set out in the Appendix to this report where disclosed;

- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Prudential Pensions Limited as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Emphasis of Matter - special purpose basis of accounting

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or

- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the approvals and modifications granted by the PRA under The Solvency 2 Regulations 2015 and section 138A of FSMA respectively.

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

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Prudential Pensions Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Daniel Cazeaux

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL
2 May 2018

- The maintenance and integrity of Prudential plc's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix - relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
    - Row R0550: Technical provisions - non-life (excluding health) - risk margin
    - Row R0590: Technical provisions - health (similar to non-life) - risk margin
    - Row R0640: Technical provisions - health (similar to life) - risk margin
    - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
    - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
    - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
    - Rows R0110 to R0130 - Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
    - Column C0030 - Impact of transitional measures on technical provisions
    - Row R0010 - Technical provisions
    - Row R0090 - Solvency Capital Requirement

- The following elements of template S.23.01.01
    - Row R0580: SCR
    - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template S.28.01.01
    - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

Templates provided in the SFCR implementing Technical Standard

S.02.01.02 Balance Sheet

All amounts are in £'000

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	—
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	24,119
R0080	Property (other than for own use)	—
R0090	Holdings in related undertakings, including participations	—
R0100	Equities	—
R0110	Equities - listed	—
R0120	Equities - unlisted	—
R0130	Bonds	24,119
R0140	Government Bonds	24,119
R0150	Corporate Bonds	—
R0160	Structured notes	—
R0170	Collateralised securities	—
R0180	Collective Investments Undertakings	—
R0190	Derivatives	—
R0200	Deposits other than cash equivalents	—
R0210	Other investments	—
R0220	Assets held for index-linked and unit-linked contracts	10,168,112
R0230	Loans and mortgages	63,400
R0240	Loans on policies	—
R0250	Loans and mortgages to individuals	—
R0260	Other loans and mortgages	63,400
R0270	Reinsurance recoverables from:	2,084,137
R0280	Non-life and health similar to non-life	—
R0290	Non-life excluding health	—
R0300	Health similar to non-life	—
R0310	Life and health similar to life, excluding index-linked and unit-linked	64,320
R0320	Health similar to life	—
R0330	Life excluding health and index-linked and unit-linked	64,320
R0340	Life index-linked and unit-linked	2,019,817
R0350	Deposits to cedants	—
R0360	Insurance and intermediaries receivables	—
R0370	Reinsurance receivables	847
R0380	Receivables (trade, not insurance)	3,645
R0390	Own shares (held directly)	—
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	—
R0410	Cash and cash equivalents	9,600
R0420	Any other assets, not elsewhere shown	—
R0500	**Total assets**	12,353,860

S.02.01.02 Balance Sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	—
R0520	Technical provisions - non-life (excluding health)	—
R0530	TP calculated as a whole	—
R0540	Best Estimate	—
R0550	Risk margin	—
R0560	Technical provisions - health (similar to non-life)	—
R0570	TP calculated as a whole	—
R0580	Best Estimate	—
R0590	Risk margin	—
R0600	Technical provisions - life (excluding index-linked and unit-linked)	64,320
R0610	Technical provisions - health (similar to life)	—
R0620	TP calculated as a whole	—
R0630	Best Estimate	—
R0640	Risk margin	—
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	64,320
R0660	TP calculated as a whole	—
R0670	Best Estimate	64,320
R0680	Risk margin	—
R0690	Technical provisions - index-linked and unit-linked	12,178,275
R0700	TP calculated as a whole	—
R0710	Best Estimate	12,160,355
R0720	Risk margin	17,920
R0740	Contingent liabilities	—
R0750	Provisions other than technical provisions	—
R0760	Pension benefit obligations	—
R0770	Deposits from reinsurers	—
R0780	Deferred tax liabilities	3,520
R0790	Derivatives	—
R0800	Debts owed to credit institutions	—
R0810	Financial liabilities other than debts owed to credit institutions	—
R0820	Insurance & intermediaries payables	—
R0830	Reinsurance payables	1,924
R0840	Payables (trade, not insurance)	22,926
R0850	Subordinated liabilities	—
R0860	Subordinated liabilities not in BOF	—
R0870	Subordinated liabilities in BOF	—
R0880	Any other liabilities, not elsewhere shown	—
R0900	**Total liabilities**	12,270,965
R1000	**Excess of assets over liabilities**	82,895

S.05.01.02 Premiums claims and expenses by line of business

Unaudited

All amounts are in £'000

	Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business																	—
R0120	Gross - Proportional reinsurance accepted																	—
R0130	Gross - Non-proportional reinsurance accepted																	—
R0140	Reinsurers' share																	—
R0200	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Premiums earned																	
R0210	Gross - Direct Business																	—
R0220	Gross - Proportional reinsurance accepted																	—
R0230	Gross - Non-proportional reinsurance accepted																	—
R0240	Reinsurers' share																	—
R0300	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Claims incurred																	
R0310	Gross - Direct Business				—				—									—
R0320	Gross - Proportional reinsurance accepted																	—
R0330	Gross - Non-proportional reinsurance accepted																	—
R0340	Reinsurers' share				—				—									—
R0400	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	—
R0420	Gross - Proportional reinsurance accepted																	—
R0430	Gross - Non-proportional reinsurance accepted																	—
R0440	Reinsurers' share																	—
R0500	Net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
R0550	**Expenses incurred**																	—
R1200	**Other expenses**																	
R1300	**Total expenses**																	—

S.05.01.02

Premiums, claims and expenses by line of business

	Life	Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	—	—	1,174,635	—			—	354,055	1,528,690
R1420	Reinsurers' share	—	—	211,646	—			—	—	211,646
R1500	Net	—	—	962,989	—			—	354,055	1,317,044
	Premiums earned									
R1510	Gross	—	—	1,174,635	—			—	354,055	1,528,690
R1520	Reinsurers' share	—	—	211,646	—			—	—	211,646
R1600	Net	—	—	962,989	—			—	354,055	1,317,044
	Claims incurred									
R1610	Gross	—	—	1,271,952	5,329			—	506,317	1,783,598
R1620	Reinsurers' share	—	—	192,905	5,329			—	—	198,234
R1700	Net	—	—	1,079,047	—			—	506,317	1,585,364
	Changes in other technical provisions									
R1710	Gross	—	—	(398,043)	5,144			—	(378,418)	(711,317)
R1720	Reinsurers' share	—	—	—	5,267			—	—	5,267
R1800	Net	—	—	(398,043)	(123)			—	(378,418)	(776,584)
R1900	Expenses incurred	—	—	11,350	—			—	—	11,350
R2500	Other expenses									—
R2600	Total expenses									11,350

S.12.01.02 Life and Health SLT Technical Provisions

All amounts are in £'000

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	Technical provisions calculated as a whole	—	—			—			—	—	—	—			—	—	—
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated	—	—			—			—	—	—	—			—	—	—
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	Gross Best Estimate	—		6,965,278	585		30,180	34,140	—	5,194,492	12,224,675		—	—	—	—	—
R0080	Total Recoverables from reinsurance/SPV and Finite	—		—	—		30,180	34,140	—	2,019,817	2,084,137		—	—	—	—	—
R0090	Best estimate minus recoverables from	—		6,965,278	585		—	—	—	3,174,675	10,140,538		—	—	—	—	—
R0100	Risk margin	—	15,781			—			—	7,192	22,974	—			—	—	—
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	—	—			—			—	—	—	—			—	—	—
R0120	Best estimate	—		—	—		—	—	—	—	—		—	—	—	—	—
R0130	Risk margin	—	(3,471)			—			—	(1,582)	(5,053)	—			—	—	—
R0200	Technical provisions - total	—	6,978,173			64,320			—	5,200,102	12,242,595	—			—	—	—

S.22.01.21 Impact of long term guarantees measures and transitionals

All amounts are in £'000

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	12,242,595	5,053	—	—	—
R0020	**Basic own funds**	82,895	(4,178)	—	—	—
R0050	**Eligible own funds to meet Solvency Capital Requirement**	82,895	(4,178)	—	—	—
R0090	**Solvency Capital Requirement**	53,994	874	—	—	—
R0100	**Eligible own funds to meet Minimum Capital Requirement**	82,895	(4,178)	—	—	—
R0110	**Minimum Capital Requirement**	24,297	393	—	—	—

S.23.01.01 Own Funds - All amounts are in £'000

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	6,000	6,000		—	
R0030	Share premium account related to ordinary share capital	—	—		—	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	—	—		—	
R0050	Subordinated mutual member accounts	—		—	—	—
R0070	Surplus funds	—	—			
R0090	Preference shares	—		—	—	—
R0110	Share premium account related to preference shares	—		—	—	—
R0130	Reconciliation reserve	76,895	76,895			
R0140	Subordinated liabilities	—		—	—	—
R0160	An amount equal to the value of net deferred tax assets	—				—
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	—	—	—	—	—
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	—				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	—	—	—	—	
R0290	Total basic own funds after deductions	82,895	82,895	—	—	—
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	—			—	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	—			—	
R0320	Unpaid and uncalled preference shares callable on demand	—			—	—
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	—			—	—
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	—			—	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	—			—	—
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—			—	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—			—	—
R0390	Other ancillary own funds	—			—	—
R0400	Total ancillary own funds	—			—	—
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	82,895	82,895	—	—	—
R0510	Total available own funds to meet the MCR	82,895	82,895	—	—	
R0540	Total eligible own funds to meet the SCR	82,895	82,895	—	—	—
R0550	Total eligible own funds to meet the MCR	82,895	82,895	—	—	
R0580	SCR	53,994				
R0600	MCR	24,297				
R0620	Ratio of Eligible own funds to SCR	2				
R0640	Ratio of Eligible own funds to MCR	3				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	82,895
R0710	Own shares (held directly and indirectly)	—
R0720	Foreseeable dividends, distributions and charges	—
R0730	Other basic own fund items	6,000
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	—
R0760	Reconciliation reserve	76,895
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	—
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	—
R0790	Total Expected profits included in future premiums (EPIFP)	—

S.25.02.21 Solvency Capital Requirement
– for undertakings using the standard formula and partial internal model

Unaudited

All amounts are in £'000

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
Row	C0010	C0020	C0030	C0070	C0080	C0090
1	103	Interest rate risk	2,983	2,983		
2	104	Equity risk	22,297	22,297		
3	106	Property risk	3,394	3,394		
4	107	Spread risk	5,448	5,448		
5	108	Concentration risk	—	—		
6	109	Currency risk	7,755	7,755		
7	110	Other market risk	—	—		
8	199	Diversification within market risk	(15,023)	(15,023)		
9	203	Other counterparty risk	4,353	4,353		
10	301	Mortality risk	—	—		
11	302	Longevity risk	—	—		
12	303	Disability-morbidity risk	—	—		
13	304	Mass lapse	6,540	6,540		
14	305	Other lapse risk	11,517	11,517		
15	306	Expense risk	49,743	49,743		
16	308	Life catastrophe risk	—	—		
17	309	Other life underwriting risk	—	—		
18	399	Diversification within life underwriting risk	(37,763)	(37,763)		
19	505	Other non-life underwriting risk	—	—		
20	701	Operational risk	19,371	19,371		
21	801	Other risks	—	—		
22	802	Loss-absorbing capacity of technical provisions	—	—		
23	803	Loss-absorbing capacity of deferred taxes	(7,783)	(7,783)		
24	804	Other adjustments	—	—		

S.25.02.21 Solvency Capital Requirement
– for undertakings using the standard formula and partial internal model
Unaudited
All amounts are in £'000

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	72,830
R0060	Diversification	(18,836)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	—
R0200	**Solvency capital requirement excluding capital add-on**	53,994
R0210	Capital add-ons already set	—
R0220	**Solvency capital requirement**	53,994
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	—
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	(7,783)
R0400	Capital requirement for duration-based equity risk sub-module	—
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	—
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	—
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	—
R0440	Diversification effects due to RFF nSCR aggregation for article 304	—

S.28.01.01 Minimum Capital Requirement
– Only life or non-life insurance or reinsurance activity

All amounts are in £'000

		$MCR_{(NL)}$ Result
		C0010
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	—

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	—	—
R0030	Income protection insurance and proportional reinsurance	—	—
R0040	Workers' compensation insurance and proportional reinsurance	—	—
R0050	Motor vehicle liability insurance and proportional reinsurance	—	—
R0060	Other motor insurance and proportional reinsurance	—	—
R0070	Marine, aviation and transport insurance and proportional reinsurance	—	—
R0080	Fire and other damage to property insurance and proportional reinsurance	—	—
R0090	General liability insurance and proportional reinsurance	—	—
R0100	Credit and suretyship insurance and proportional reinsurance	—	—
R0110	Legal expenses insurance and proportional reinsurance	—	—
R0120	Assistance and proportional reinsurance	—	—
R0130	Miscellaneous financial loss insurance and proportional reinsurance	—	—
R0140	Non-proportional health reinsurance	—	—
R0150	Non-proportional casualty reinsurance	—	—
R0160	Non-proportional marine, aviation and transport reinsurance	—	—
R0170	Non-proportional property reinsurance	—	—

		$MCR_{(L)}$ Result
		C0040
R0200	**Linear formula component for life insurance and reinsurance obligations**	70,984

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	—	
R0220	Obligations with profit participation - future discretionary benefits	—	
R0230	Index-linked and unit-linked insurance obligations	10,140,538	
R0240	Other life (re)insurance and health (re)insurance obligations	—	
R0250	Total capital at risk for all life (re)insurance obligations		—

	Overall MCR calculation	C0070
R0300	Linear MCR	70,984
R0310	SCR	53,994
R0320	MCR cap	24,297
R0330	MCR floor	13,498
R0340	Combined MCR	24,297
R0350	Absolute floor of the MCR	3,251
R0400	**Minimum Capital Requirement**	24,297