Registered No: SC212640

PRUDENTIAL DISTRIBUTION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

PRUDENTIAL DISTRIBUTION LIMITED
Incorporated and registered in Scotland. Registered No: SC212640
Registered office: Craigforth, Stirling, Scotland, FK9 4UE

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PRUDENTIAL DISTRIBUTION LIMITED
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Registered office: Craigforth, Stirling, Scotland, FK9 4UE

Directors

C Bousfield
R Thomson (Resigned on 27 April 2021)
P Cooper

Secretary

M&G Management Services Limited

Auditor

KPMG LLP, London

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Principal activity

The principal activity of the Company is to act as the service company for the insurance business of the M&G plc group. It is one of the principal employers for the insurance business. The Company also provides product distribution services to the entities within the insurance business whose products are distributed through non-intermediated channels and is regulated by the Financial Conduct Authority ("FCA") for its distribution activities. These activities are expected to continue in 2021.

Business review

The Company incurs expenses on behalf of the entities within the insurance business unit which primarily includes The Prudential Assurance Company Limited ("PAC") and its sub-funds. It recharges these expenses after charging a margin of 5%, with the exception of the business in PAC's With-Profits funds on which no margin is charged so that this additional cost is not passed on to the policyholders. The Company also earns revenue from a contract with DST Financial Services International Services Limited ("DST"). The Company provided DST operational support services such as IT infrastructure management and document management services until 2019. The support services reduced significantly in 2020 to include only corporate database support services and the contract came to end on 31 December 2020. The discontinuance of this arrangement does not have major impact on the profitability of the Company. The Company also earns fees on a collective investment fund arrangement with Link Fund Solutions Limited.

The Company is a wholly owned subsidiary of Prudential Financial Services Limited, which is a wholly owned subsidiary of M&G plc. The Company's ultimate parent company is M&G plc, a public limited company, limited by shares, incorporated and registered in England and Wales. M&G plc is the parent company of the M&G plc group of companies (the “Group”). The Group is an international financial services group providing investment management and insurance services, with significant operations in the United Kingdom and overseas.

2020 was a challenging year for all due to the spread of the COVID-19 virus, restrictions on public movement and economic disruption. The spread of COVID-19 has disrupted livelihoods, health systems, economies and financial markets globally. A lot depends on the rollout of vaccination programmes worldwide, and a significant amount of uncertainty remains.

In these difficult times, the Company has two clear priorities: the safety and well-being of colleagues and continuing to serve customers to the best of its abilities. Detailed business continuity plans were invoked in February 2020 to ensure that the Company could operate as usual in the face of the challenge posed by the spread of COVID-19. The vast majority of colleagues continue to work from home with access to the full set of support systems and necessary equipment to do their jobs and are able to satisfactorily serve customers.

In 2020, COVID-19 did not have a major impact on the financial performance due to the Company's business model. The returns on the collective arrangement were higher than the expected reduction due to COVID-19. Operating income for 2021 could however reduce due to a reduction in income from the collectives arrangement if the funds under management reduce. The Company is not expected to incur any additional losses as any increase in expenses will be recharged and recovered from other statutory entities.

Despite the highly volatile markets of 2020 resulting from the pandemic, based on the Company’s current financial and liquidity position, the Directors believe the Company remains in a position to withstand the financial impact of the pandemic.

Key Performance Indicators

	2020	2019	Change
	£000	£000	%
Turnover	**624,352**	846,028	(26)
Operating expenses	**(620,291)**	(850,516)	27
Profit/(loss) before tax	**4,978**	(3,838)	230
Shareholders' funds	**89,395**	81,012	10
Regulatory capital requirement (higher of IPRU INV and MIPRU requirements-see below)	**4,609**	4,811	(4)

The Company generated a pre-tax profit of £4,978k during the year (2019: loss of £3,838k). The profit for the year is mainly due to the reduction in the loss on collectives arrangement. The Company reported a loss of £5,295k in 2020 (2019: loss of £11,301k) on the collectives arrangement. The reduction in loss on collectives compared to 2019 is on account of a reduction in fund management expenses as well as a reduction in expenses recharged by cost allocation process. Cost allocation expenses have reduced on account of lower project expenses compared to 2019. From 1 January 2020, the costs recharged by the Company include recharges for spend incurred on internally developed intangible assets; rather than recharging depreciation over the life of the asset as previously. The upfront recognition of that recharge has resulted in an increase in income from recharges during the year.

The Company has a net current liabilities position of £33 million at the balance sheet date and the ultimate parent company has provided a letter of support committing to subscribe to additional share capital of up to £50 million, in the event of future financing being required in the period up to twelve months from the date of signing these financial statements.

The regulatory requirements of the Company are governed by the Interim Prudential Sourcebook for Investment Business (“IPRU (INV)”) and the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (“MIPRU”). The Company is a B3 firm for the purpose of the calculation of capital requirements as defined in IPRU (INV). The Company has remained solvent throughout the period under review and has adequate capital resources to meet its regulatory capital requirements. The Company relies on a Group Policy to meet the requirement for Professional Indemnity Insurance as per IPRU (INV). Due to the excess on the Group cover, the Company is required to hold additional capital of £3,440k to meet the professional indemnity requirement.

Section 172(1) Statement

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

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

In discharging the section 172 duties the directors have regard to the factors set out above. They also recognise the matters that they consider as a Board, can have unique characteristics. This can require them to have regard to additional factors which are relevant to the specific matter under consideration. There is an acknowledgment from the Board that the relative importance of each factor they consider will vary depending on the decision being taken. Across all the Board's decisions, the directors are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with the M&G plc Group's overarching culture, vision and values.

As is normal for large companies, the directors delegate authority for day-to-day management of the Company to executives who in turn charge management with execution of the business strategy and related policies. Board decisions are made as and when appropriate. Over the course of the financial year the directors review a range of corporate activity including financial reporting. This is done through the consideration and discussion of reports or regulatory returns which are sent in advance of each Board decision and/or through presentations to the Board.

The Company's key stakeholders are its ultimate beneficial owner, M&G plc, its customers, colleagues, communities and regulators. The views and impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions. While there are cases where the board itself judges that it should engage directly with certain stakeholder groups or on certain issues, for example, interaction with regulators, the size and spread of both the Company's stakeholders and the M&G plc Group means that other stakeholder engagement takes place at Group level. They find that as well as being a more efficient and effective approach, this also helps them achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. Specifically, employee engagement takes place at a Group level. .

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

Principal Decisions

Below are two examples of how the Board had regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duty and the effect of that on decisions taken by them. The directors define principal decisions as both those that are material to the Company, but also those that are significant to any of the key stakeholders. In making the following principal decisions, the Board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct :

Principal decision 1 - Liquidity Appetite

Each year the Board reviews the Company's ability to generate sufficient cash resources at efficient cost to meet its financial obligations as they fall due in both "business as usual" and stress scenarios. The Board approved a paper on the implementation of the Company's liquidity policy. The paper set out the application and implementation of the liquidity policy for the Company. The implementation was previously approved by the Board on 11 February 2019 and required an annual approval and was approved on 3 June 2020. There was no formal regulatory requirement for the Company to document its approach to liquidity but to do so was considered good practice. As part of its deliberations the Board considers a range of liquidity risk indicators, reverse stress testing, regulatory requirements and the potential risks that insufficient liquidity may have on a range of stakeholders, as well as the implications for the Company in such a scenario.

Principal Decision 2 – PDL/PGDS Loan Extension

The Board approved a paper regarding an extension of a loan facility from the Company to PGDS (UK One) Limited ("PGDS"). The maximum facility value was £14m and the outstanding balance at the time of approval of the extension was £3m. PGDS had requested that the Company rollover the loan to 30 September 2022 on the existing terms but with a reduced maximum value of £6m based on the estimated spend and a reduction in the assets held in PGDS following the transfer of assets to a third party service provider in 2018. PGDS planned to use the facility to fund existing assets and future programmes to support the Digital strategy

Risks & uncertainties

The Company is a wholly owned subsidiary of Prudential Financial Services Limited which is a subsidiary of M&G plc. The Company is subject to the Group's internal control and risk management processes as detailed in the Group Governance Framework ("GGF") and Group Risk Management Framework ("RMF"). The control procedures and systems established within the Group, are designed to manage, rather than eliminate, the risk of failure to meet business objectives. The Company takes on exposure to risks where there is adequate reward, and risks can be appropriately quantified and managed to safeguard the Company's ability to meet commitments to customers, comply with regulations, and protect its reputation.

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

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

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. These financial risks are discussed in Note 22.

Non-financial risk

The Company has a limited exposure to a wide range of non-financial risks.

a) Business environment risk

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

b) Operational risk

Operational risk is the risk of financial and non-financial impacts (for example, regulatory and reputational) resulting from inadequate or failed internal processes, or from personnel and systems, or from external events, excluding external events covered under Business Environment Risk. Operational failures can also give rise to financial risk exposures; for example, through process failures in customer service. The Company does not actively seek to take operational risk to generate returns, instead it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities.

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

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

The Company's operational resilience has been tested by Covid-19 throughout 2020 with impacts continuing to be pro-actively managed. Business continuity and resilience plans were implemented in February 2020 to ensure the safety and well-being of colleagues and continuity of services to customers including the implementation of working from home for the vast majority of colleagues.

Whilst no new operational risks have been identified, risk priorities have changed with increased focus on: outsourcing oversight, engagement and monitoring; data security and privacy; cybercrime attacks and fraud attempts; market volatility and internal controls.

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

i. Technology and data risk

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

ii. Third party suppliers

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

iii. Change Risk

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

c) Regulatory compliance risk

The Company operates in highly regulated markets where the nature and focus of regulation and laws remain fluid. A number of regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, data privacy and systemic risks. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, fines and restrictions on operations or products. Accountability for compliance with regulatory and legal requirements sits with senior management. The Compliance function supports the Company by coordinating regulatory activities, including interactions with regulators, recognising the obligation of the Company to meet its distinct regulatory requirements and to take decisions independently in the interests of their customers. The function provides guidance to, and oversight of, the Company in relation to regulatory compliance and conflicts of interest, and carries out routine monitoring and deep dive activities to assess compliance with regulations and legislation. National and global regulatory developments are monitored and form part of the Company's engagement with government policy teams and regulators, which includes updates on responses to the changes.

d) Sustainability

Stakeholders increasingly expect the Company to meet the needs of the present without compromising the ability of future generations to meet their own needs. In addition sustainability, including issues concerning the climate, diversity and inclusion, corporate governance and biodiversity, is crucial to the success of the Company . A failure to address and embed sustainability within the Company's business and operating model could adversely impact profitability, reputation and plans for growth. The Group has publicly committed to a number of sustainability targets. To support achieving these, a Groupwide sustainability programme has been established with the aim of overseeing all key sustainability related activities to ensure that sustainability is appropriately considered and managed across the entirety of the Group and embedded within the overall RMF. This includes; identifying sustainability risks within the Group's activities through management dashboards; measuring exposure through tools, scorecards and stress and scenario testing; embedding consideration of Environmental Social and Governance ("ESG") issues into key business decisions and management; and regularly monitoring and reporting on sustainability.

e) People risk

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

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

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

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

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

f) Reputational risk

The Company's reputation is the sum of its stakeholders' perceptions, which are shaped by the nature of their expectations and the Company's ability to meet them. Consequently, there is a risk that through activities, behaviours or communications, the Company fails to meet stakeholder expectations in ways which adversely impact trust and reputation. Failure to effectively manage reputational risk could therefore have an adverse impact on revenues and cost base, the ability to attract and retain the best staff and could also result in regulatory intervention or action. Covid-19 and the ongoing socio-political climate, together with an increase in activities being undertaken by the business means that we could face an increasing range and severity of reputational events. A number of factors mean that such pressures will increase, including the greater focus of customers, regulators and investors on ESG issues and social media providing the means for opinions to be stated and shared instantaneously.

The Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks utilising a suite of metrics to monitor stakeholder groups. In addition, embedded reputational risk champions perform an active role in the identification and monitoring of key reputational risks and drivers. Champions also support the Company in creating processes that include full consideration of reputational risks in key decisions.

Signed for and on behalf of Board of Directors of the Company

I Bothamley
On behalf of M&G Management Services Limited
Company Secretary
9 June 2021

PRUDENTIAL DISTRIBUTION LIMITED
Incorporated and registered in Scotland. Registered No: SC212640

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

Future developments

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

Ultimate parent company

The Company is a wholly owned subsidiary of Prudential Financial Services Limited, which is a wholly owned subsidiary of M&G plc which is also the ultimate parent company. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales.

Corporate responsibility

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

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example, the Group Code of Business Conduct.

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

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

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

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

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

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

Accounts

The state of affairs of the Company at 31 December 2020 is shown in the statement of financial position on page 19. The statement of comprehensive income appears on page 18.

Post Balance sheet events

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

There have been no other significant events affecting the Company since the balance sheet date.

Dividends

No dividends were declared or paid during the year (2019: Nil).

Share Capital

There have been no changes to the Company's share capital during the year.

Directors

The directors holding office during the year are shown on page 1. R Thomson resigned on 27 April 2021.

There were no other changes during the year and up to the date of this report being authorised for issue.

Employees

The following information is given in respect of the employees of the Company in the United Kingdom:

- Equal opportunity

The Company's policy is to recruit, develop and employ staff on the basis of suitability of their qualifications and experience of the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees. The requirements of the Disability Discrimination Act 1995 have been put into effect.

- Employee involvement

Employees have the opportunity to participate in the M&G plc share plans, to align with and share in the success of the Group. In the UK all colleagues are eligible to participate in the Company Sharesave (SAYE) and Share Incentive Plan (SIP). Both schemes are HMRC-approved. It is the Company's policy to communicate with employees on issues that concern them and to provide information to them through employee reports and regular manager briefings. Views of employees are sought through a number of channels including consultation through the medium of a staff consultative group.

Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders please see the Section 172 Statement on pages 3 to 5. Being a wholly owned subsidiary of M&G plc, stakeholder engagement also takes place at a Group level.

Financial risk management objectives, policies and exposure

The Company is exposed to risk through its financial assets and financial liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. Further information on the financial risk management objectives and policies of the Company are given in Note 22.

The Company's current liabilities exceed its current assets leading to the liquidity risk of not being able to meet its liabilities as they fall due. These risks have been mitigated by securing a letter of support from the ultimate parent company, M&G plc, committing to subscribe to additional share capital up to £50 million, in the event of future financing being required in the period until twelve months from the date of signing of these financial statements.

Disclosure to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

In accordance with Section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to be re-appointed auditor of the Company for the current financial year.

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

Directors' and Officers' Protection

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

Going concern

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

Greenhouse gas emissions

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

Signed for and on behalf of Board of Directors of the Company

I Bothamley
On behalf of M&G Management Services Limited
Company Secretary
9 June 2021

PRUDENTIAL DISTRIBUTION LIMITED

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL DISTRIBUTION LIMITED

Opinion

We have audited the financial statements of Prudential Distribution Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- enquiring of directors, internal audit, legal, risk and compliance and inspection of policy documentation as to the Company’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board of Directors meeting minutes;
- using analytical procedures to identify any usual or unexpected relationships;
- inspecting correspondence with regulators to identify instances or suspected instances of fraud.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue account is made up of expense recharges and fee income, that are not subject to estimation uncertainty. We did not identify any additional fraud risks

We also performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised personnel, those posted by infrequent users, unusual descriptions and those posted with unusual account combinations.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company’s regulatory and legal correspondence and have discussed the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company’s license to operate. We identified regulatory capital as those most likely to have such an effect recognising the financial and regulated nature of the Company’s activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL DISTRIBUTION LIMITED

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

William Greenfield (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
9 June 2021

PRUDENTIAL DISTRIBUTION LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019	Note
	£000	£000	
Operating income	**624,352**	846,028	2
Staff costs	**(210,654)**	(211,646)	3
Other operating charges	**(409,637)**	(638,870)	4
Operating expenses	**(620,291)**	(850,516)	
Operating profit/(loss)	**4,061**	(4,488)	
Interest income	**1,987**	2,694	5
Interest expense	**(1,070)**	(1,625)	6
Unrealised loss on derivatives	**—**	(419)	7
Profit/(loss) before tax	**4,978**	(3,838)	
Tax credit/(charge) on profit/(loss)	**595**	(2,020)	10
Profit/(loss) for the financial year	**5,573**	(5,858)	

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

The accounting policies on pages 21 to 26 along with accompanying notes on pages 27 to 45 form an integral part of these financial statements.

PRUDENTIAL DISTRIBUTION LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	2020	2019	Note
	£000	£000	
Fixed assets			
Intangible assets	**27,641**	32,438	11
Tangible fixed assets	**12,108**	31,056	12
	39,749	63,494	
Non-current assets			
Deferred tax asset	**9,612**	9,100	10
Current assets			
Trade and other debtors	**213,147**	229,173	13
Corporation tax receivable	**3,412**	—	
Cash at bank and in hand	**55,542**	89,274	14
	272,101	318,447	
Current liabilities			
Trade and other creditors: amounts falling due within one	**(229,835)**	(295,916)	15
Corporation tax payable	**—**	(1,169)	
Net current assets	**42,266**	21,362	
Total assets less current liabilities	**91,627**	93,956	
Trade and other creditors: amounts falling due after one year	**(1,201)**	(11,827)	16
Provision for liabilities and charges	**(1,031)**	(1,117)	17
	(2,232)	(12,944)	
Net assets	**89,395**	81,012	
Capital and reserves			
Ordinary share capital	**35,820**	35,820	19
Preference share capital	**7,210**	7,210	19
Retained earnings	**16,821**	11,248	
Capital reserve	**29,544**	26,734	
Shareholders' funds	**89,395**	81,012	

The accounting policies on pages 21 to 26 along with accompanying notes on pages 27 to 45 form an integral part of these financial statements.

The accounts on pages 18 to 45 were approved by the Board of directors on 9 June 2021 and were signed on its behalf by:

C Bousfield
Director

PRUDENTIAL DISTRIBUTION LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital	Profit and Loss Account	Capital Reserves	Total Equity
	£000	**£000**	**£000**	**£000**
Balance at 1 January 2020	**43,030**	**11,248**	**26,734**	**81,012**
Increase in capital reserve during the year	**—**	**—**	**2,620**	**2,620**
Deferred tax charged to capital reserve	**—**	**—**	**190**	**190**
Profit for the financial year	**—**	**5,573**	**—**	**5,573**
Total comprehensive income for the year	**—**	**5,573**	**—**	**5,573**
Balance at 31 December 2020	**43,030**	**16,821**	**29,544**	**89,395**
Balance at 1 January 2019	43,030	17,106	25,499	85,635
Increase in capital reserve during the year	—	—	1,434	1,434
Deferred tax credited to capital reserve	—	—	(199)	(199)
Loss for the financial year	—	(5,858)	—	(5,858)
Total comprehensive loss for the year	—	(5,858)	—	(5,858)
Balance at 31 December 2019	43,030	11,248	26,734	81,012

Capital reserves represent reserves in respect of share-based payment in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 21 to 26 along with accompanying notes on pages 27 to 46 form an integral part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

a. Company Information

Prudential Distribution Limited is a company incorporated and domiciled in Scotland. The address of its registered office is Craigforth, Stirling, FK9 4UE.

b. Basis of preparation

The financial statements have been prepared in accordance with FRS 101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs).

There were no significant accounting pronouncements taking effect from 1 January 2020.

The Company's ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. The consolidated financial statements of M&G plc are prepared in accordance with EU-adopted IFRSs and may be obtained from the Company Secretary, 10 Fenchurch Avenue, London, England, EC3M 5AG.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- Comparative period reconciliations for share capital and tangible fixed assets;
- The effect of new but not yet effective accounting standards; and
- Disclosures in respect of revenue from contracts with customers.

As the consolidated financial statements of M&G plc include the equivalent disclosures, the Company has also taken advantage of the exemptions available under FRS 101 in respect of certain disclosures required by IFRS 2 *Share Based Payments.*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

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

- The Company is a subsidiary within the M&G plc group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation.

- The Company has a satisfactory capital adequacy, well in excess of the capital requirements stipulated by the FCA. Consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report on pages 2 to 8. The management of financial risk is set out in note 22, including the Company's exposure to credit risk and liquidity risk which it carefully manages through cashflow forecasting and fund management.

- To satisfy themselves of the appropriateness of the use of the going concern assumption in relation to these financial statements, the directors have assessed the future prospects of the Company, by considering the business plan that includes the cash flow forecasts, for at least the next 12 months from the date of signing these financial statements, various market scenarios as well as changes in the Company's principal risks. In addition, the directors have also considered the results of reasonably plausible severe downside scenarios to assess the potential implications on the Company's solvency and liquidity. The results of these assessments demonstrated the ability of the Company to meet all obligations and futures business requirements. In addition, the Company has been provided with a letter of support by the ultimate parent company, M&G plc, committing to subscribe to additional share capital of up to £50 million, in the event of future financing being required in the period up to twelve months from the date of signing of the financial statements. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

c. Classification of instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
(ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

d. Financial instruments - recognition and measurement

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or fair value through profit or loss ('FVTPL').

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

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

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This includes assets that are held for trading or are part of a portfolio that is managed on a fair value basis. Derivatives are included in this category.

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

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

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

Financial liabilities

Financial liabilities are classified as measured at amortised cost (using the effective interest method) or FVTPL. A financial liability is classified as at FVTPL if it is held-for-trading or a derivative. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

e. Financial instruments - Impairment

Financial assets impairment

Impairment is recognised on financial assets measured at amortised cost based on expected credit losses ('ECL'). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive).

The impact of any collateral and financial guarantees is taken into account when determining ECL.

ECLs are discounted at the effective interest rate of the financial asset.

A financial instrument is considered to have low credit risk where it has an external credit rating of 'investment grade'. The entity has determined that the cash balances and deposits with credit institutions are considered to have low credit risk and therefore impairment is based on a twelve month ECL for these assets.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs, where material.

f. Revenue recognition

Operating income, comprising recharge of administration and distribution expenses, including expenses on building internally generated intangible assets, to group companies and administration fees and other income received from third parties is recognised when the Company satisfies the related performance obligation.

Interest receivable is recognised on an accruals basis.

g. Expenses

Operating expenses, comprising of costs in relation to the Company's service and distribution activities are recognised on an accruals basis.

Interest payable by the Company is recognised on an accruals basis.

h. Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products or tools controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product or tool so that it will be available for use;
- management intends to complete the software product or tool and use or sell it;
- there is an ability to use or sell the software product or tool;
- it can be demonstrated how the software product or tool will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product or tool are available; and
- the expenditure attributable to the software product or tool during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product or tool include the software development employee and contractor costs.

Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 5 years.

i. Impairment of non-financial assets

Intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

j. Tangible Fixed assets

Depreciation is provided at a rate calculated to write off the cost or value of the assets less their estimated residual value over their estimated useful lives as follows:

Leasehold improvements	Up to a maximum of 20 years
Fixtures and fittings	Up to a maximum of 10 years
Computer equipment	Up to a maximum of 5 years
Motor vehicles	Up to a maximum of 4 years
Plant and machinery	Up to a maximum of 4 years (up to maximum of 10 years for building plant assets)
Right to use assets, in respect of operating leases	Lease term or estimated useful life if shorter

k. Leases

The Company leases office property and other assets to conduct its business. At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception, the Company allocates the consideration in a contract to each lease component. However, for leases of land and buildings, in which the Company acts as lessee, the Company has elected to account for the lease and non-lease components as a single lease component.

Where the Company acts as a lessee, it recognises a ‘right of use’ asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Company applies the cost model to ‘right of use’ assets.

The asset is initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the earlier of (i) the end of the ‘right of use’ asset’s useful life and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the Group’s incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time the lease liability may be re-measured where there is a change in future lease payments, for example, where the Company reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the ‘right of use’ asset or an amount is recognised in the income statement if the carrying amount of the right of use asset has been reduced to zero.

The Company presents the ‘right of use’ assets in ‘Fixed assets’ on the statement of financial position. The corresponding lease liabilities are presented in ‘Trade and other creditors’ on the statement of financial position.

The Company acts as an intermediate lessor on one of its property leases. Where the sub lease is with regard to the Company's own distribution activities, the Company recognises lease payments received as income on a straight line basis over the lease term, Where the sub lease is with regard to services the Company is providing to the insurance business of the group, the Company recognises lease payments received within operating expenses on a straight line basis over the lease term.

l. Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Company considers that it is probable that the taxation authority will accept those positions. Otherwise, the Company considers an uncertain tax position to exist and a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management's judgement and estimate of the likely amount of the liability or recovery. This is achieved by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management's judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and they have full knowledge of all related information. The judgments and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgments.

m. Share-based payments

The Company offers share award and option plans for certain key employees and a Save As You Earn (SAYE) plan for all UK and certain overseas employees.

Share options and awards of the ultimate parent company's equity instruments, for which the ultimate parent company has the obligation to settle, are valued using the fair value at the date of grant and accounted for as equity-settled i.e. recognised in equity as a capital contribution from the ultimate parent company. Share options and awards for which the Company has the obligation to settle are valued using the fair value at the balance sheet date and accounted for as cash-settled i.e. an obligation of the Company to transfer the equity instruments of the ultimate parent company. The compensation costs for all awards and options are recognised in comprehensive income over the plans' respective vesting periods.

2. Operating income

	2020	2019
	£000	£000
Income earned from recharges to group undertakings	**605,488**	819,435
Income earned from third party contracts	**15,504**	26,593
Other income	**3,360**	—
Total	**624,352**	846,028

3. Staff costs

	2020	2019
	£000	£000
Wages and salaries	**153,959**	153,398
Other pension costs	**27,118**	23,079
Social security costs	**19,411**	19,886
Share based payment expenses	**10,166**	15,283
Total	**210,654**	211,646
	Number	Number
Average number of employees during the period	1,308	1,318

The majority of staff employed by the M&G plc group in the UK are members of M&G plc group's pension schemes, including both defined contribution and defined benefit schemes. The largest defined benefit scheme as at 31 December 2020 is the Prudential Staff Pension Scheme (PSPS), which accounts for 81% (2019: 82%) of the present value of M&G plc group's defined benefit pension obligation. There is also a smaller defined benefit scheme, Scottish Amicable Staff Pension Scheme (SASPS).

Both schemes are group pension schemes, whereby the costs associated with them are shared across different entities under common control. The Company is the principal employer of SASPS. PAC, a fellow group undertaking, is the principal employer of PSPS. The contributions into both schemes are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The surplus in PSPS and the deficit in SASPS are apportioned in accordance with IAS 19 *Employee benefits*, by way of stated policy:

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

40% of the deficit and related costs of SASPS is allocated to the with-profits fund of PAC, a fellow group undertaking Until 30 June 2019, the remaining 60% was allocated to Prudential Financial Services Limited, the immediate parent company. As from 30 June 2019, 60% is allocated to the shareholder fund of PAC.

Further details of the pension schemes operated by the Company are disclosed in the accounts of PAC and M&G plc.

4. Other operating charges

	2020 £000	2019 £000
Management expenses	**389,535**	604,075
Expenses attributable to third party contracts	**20,102**	34,795
Total	**409,637**	638,870

The management expenses include depreciation on 'right of use' buildings of £3,413k (2019: £3,939k) and 'right of use' motor vehicles of £2,372k (2019 : £3,180k).

5. Interest income

	2020 £000	2019 £000
Bank interest recharged/received	**91**	133
Policyholder interest recharged	**599**	765
Other interest income	**979**	1,206
Lease liability interest recharged	**318**	590
Total	**1,987**	2,694

The income is not earned from financial assets, other than the bank interest income.

6. Interest expense

	2020 £000	2019 £000
Bank interest recharges	**81**	104
Policyholder interest	**600**	765
Other interest recharges	**70**	158
Lease liability interest	**319**	598
Total	**1,070**	1,625

7. Unrealised losses on derivatives

	2020 £000	2019 £000
Unrealised (losses)/gains on valuation of forward contracts	**—**	(419)

Unrealised gains/(losses) are derived from financial assets and financial liabilities at FVPTL. Prior to 2020, the Company entered into forward contracts to sell Sterling and buy Indian Rupees, to pay invoices denominated in Indian Rupees. All the forward contracts were settled during 2019 and no new contracts were entered after 31 December 2019. Unrealised losses for 2019 are in respect of settled contracts and arise on the reversal of gains booked in prior years.

8. Auditor's remuneration

Auditor's remuneration amounts to £53k (2019: £40k) in respect of the audit of the Company's financial statements. No non-audit services were provided to the Company by the auditor in 2020 or 2019.

9. Directors' emoluments

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

	2020	2019
	£000	£000
Aggregate emoluments and benefits	15	10

The Company's directors perform services for other Group companies. These costs as shown in the table above are not included in the amounts charged to the Company. Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. An assessment has been made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this.

Three directors received shares under long-term incentive schemes in 2020 (2019: three), and three directors exercised share options in 2020 (2019: none). No director (2019: none) was entitled to retirement funds under a defined contribution pension scheme.

10. Taxation

a) Analysis of tax charged in the period

	2020	2019
	£000	£000
Current tax:		
Total current tax charged in the period	**(774)**	(2,352)
Adjustments in respect of prior years	**1,047**	(509)
Total current tax credit/(charge) on ordinary activities	**273**	(2,861)

NOTES ON THE FINANCIAL STATEMENTS (continued)

	2020	2019
	£000	£000
Deferred tax :		
Current year	**(65)**	737
Effect of changes in tax rate	**944**	(149)
Adjustment in respect of prior periods	**(557)**	253
Total deferred tax credit	**322**	841
Total tax credit/(charge) in the period	**595**	(2,020)

	2020	2019
	£000	£000
Tax recorded in the Capital Reserve :		
Deferred tax in respect of current year	190	(199)
Total tax credit/(charge) recorded in the Capital Reserve	**190**	(199)

b) Factors affecting tax charge for the period

The standard rate of Corporation Tax in the UK was due to change from 19% to 17% with effect from 1 April 2020. Following the budget announcement on 11 March 2020, the repeal of the legislation to reduce the tax rate was substantively enacted on 17 March 2020. Accordingly, the reduction in tax rate did not take place.

Deferred tax is provided at the tax rates enacted at the balance sheet date applicable to when the temporary differences are expected to reverse. The impact of the change to the tax rates is therefore recognised in the deferred tax movement for the year.

	2020	2019
	£000	£000
Profit/(loss) on ordinary activities before tax	**4,978**	(3,838)
Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 19% (2019: 19%)	**(946)**	729
Effects of		
Expenses not deductible	**(570)**	(2,414)
Adjustments to tax charge in respect of previous years	**490**	(257)
Non-taxable income	**677**	—
Tax credit/(charge) in relation to share based payments	**—**	180
Adjustment arising due to change in tax rate	**944**	(149)
Transfer pricing adjustments	**—**	(109)
Total tax credit/(charge) for the year	**595**	(2,020)

c) Factors that may affect future tax charges

Deferred tax assets are recognised to the extent that they are regarded as recoverable. On the assessment of all available evidence, the asset is recognised if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

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

d) Balance Sheet

	2020	2019
	£000	£000
Deferred tax asset explained by:		
Accelerated capital allowances	**5,122**	5,039
Unrealised gains on derivatives	**—**	(104)
Staff remuneration	**1,090**	892
Share based expenses	**3,400**	3,273
Total	**9,612**	9,100

	2020	2019
	£000	£000
Deferred tax asset at start of period	**9,100**	8,458
Deferred tax charged to capital reserve	**190**	(199)
Deferred tax credited in profit and loss account for the period	**322**	841
Deferred tax asset at end of period	**9,612**	9,100

11. Intangible assets

Internally generated software development costs	Assets under construction	Asset in use	Total
	£000	£000	£000
Cost			
As at 1 January 2020	32,438		32,438
Transfer	(32,438)	32,438	—
Additions		3,792	3,792
As at 31 December 2020	**—**	**36,230**	**36,230**
Accumulated amortisation and impairment			
As at 1 January 2020	—	—	—
Amortisation charge	—	8,589	8,589
As at 31 December 2020	—	8,589	8,589
Net book value			
Cost	—	36,230	36,230
Accumulated amortisation and impairment	—	8,589	8,589
As at 31 December 2020	**—**	**27,641**	**27,641**

During 2019 and into 2020, the Company incurred costs developing:
- a digital experience layer which will provide new digital, operational and experiential capabilities for the Wealth Solutions business division. The software developed has been recognised as an intangible asset.
- actuarial models and tools. These tools have been recognised as intangible assets.

The assets have been available for use from January 2020.

12. Tangible Fixed assets

	Fixtures and Fittings	Plant and Machinery	Motor Vehicles	Computer Equipment	Buildings and Improvements	Right of Use Buildings	Right of Use Motor Vehicles	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
At 1 January 2020	**3,445**	**13,237**	**1,668**	**101,451**	**29,347**	**11,318**	**16,690**	**177,156**
Additions	—	—	1,541	—	—	—	2,728	4,269
Disposals	(2,950)	(1,496)	(1,839)	(101,451)	(9,350)	(528)	(18,836)	(136,450)
At 31 December 2020	**495**	**11,741**	**1,370**	**—**	**19,997**	**10,790**	**582**	**44,975**

NOTES ON THE FINANCIAL STATEMENTS (continued)

	Fixtures and Fittings	Plant and Machinery	Motor Vehicles	Computer Equipment	Buildings and Improvements	Right of Use Buildings	Right of Use Motor Vehicles	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Depreciation								
At 1 January 2020	**(3,272)**	**(9,181)**	**(709)**	**(101,451)**	**(23,979)**	**(3,939)**	**(3,569)**	**(146,100)**
Charge for year	(61)	(1,326)	(401)	—	(1,377)	(3,413)	(2,372)	(8,950)
Disposals	2,950	1,496	719	101,451	9,350	528	5,689	122,183
At 31 December 2020	**(383)**	**(9,011)**	**(391)**	**—**	**(16,006)**	**(6,824)**	**(252)**	**(32,867)**
Net book value								
At 31 December 2020	**112**	**2,730**	**979**	**—**	**3,991**	**3,966**	**330**	**12,108**
At 31 December 2019	173	4,056	959	—	5,368	7,379	13,121	31,056

The Company leases office property and motor vehicles, as explained in note 16.

The reduction in the cost and the accumulated depreciation amount for computer equipment is on account of the write off of the equipment not in use. During the year, one of the contract in relation of leasing of motor vehicles was novated to another group Company.

13. Trade and other debtors

	2020	2019
	£000	£000
Amounts falling due within one year:		
Amounts owed by group undertakings	**52,035**	77,003
Prepayments and accrued income	**80,428**	73,016
Other debtors	**4,869**	2,609
Amounts falling due after one year:		
Amounts owed by group undertakings	**75,815**	76,545
	213,147	229,173

Amounts falling due after one year comprises of loans repayable on demand not expected to be called for and repaid within one year.

14. Cash at bank and in hand

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

15. Trade and other creditors : amounts falling due within one year

	2020	2019
	£000	£000
Amounts owed to group undertakings	**99,318**	106,433
Taxation and social security	**12,571**	10,233
Other creditors	**3,836**	7,315
Accruals and deferred income	**111,393**	163,263
Lease liability	**2,717**	8,672
	229,835	295,916

The Company's standard contractual payment terms for all qualifying contracts are payments within 30 days after the invoice date.

During the year, one of the contracts in relation of leasing of motor vehicles was novated to another group Company.

16. Trade and other creditors : amounts falling due after one year

	2020	2019
	£000	£000
Lease liability	**1,201**	11,827
	1,201	11,827

The Company leases office and ancillary space at Craigforth under a non-cancellable operating lease. The lease is for 50 years, from 1997 to 2047, with tenant-only break options at regular intervals, subject to notice being served 18 to 24 months beforehand. There is no renewal option.

The Company leases offices in Edinburgh and Reading under non-cancellable operating leases. The Edinburgh lease runs for three years, from May 2018 to 2021 and the Reading lease runs for three years, from March 2018 to 2021.

The Company takes motor vehicles on lease from two leasing companies. The duration of the lease is up to 48 months, The Company has the option to purchase the cars at the end of the lease term. During the year, one of the leasing contracts was novated to a fellow group undertaking resulting in a reduction in the lease liability outstanding with the Company.

These leases have been reported as 'Right of Use' assets with a corresponding liability, representing the obligation to make lease payments.

NOTES ON THE FINANCIAL STATEMENTS (continued)

The total lease liabilities of £3,918k are payable as follows:

2020	**Future minimum payments**	**Future finance charges**	**Present value of future minimum payments**
	£000	**£000**	**£000**
Less than one year	2,961	244	2,717
Between one to five years	1,210	9	1,201
Total	**4,171**	**253**	**3,918**

The total lease liabilities of £20,499k as at 31 December 2019 were payable as follows:

2019	Future minimum payments	Future finance charges	Present value of future minimum payments
	£000	£000	£000
Less than one year	8,895	223	8,672
Between one to five years	12,419	592	11,827
Total	21,314	815	20,499

Movement of the lease liabilities is as follows:

2020	**Present value of future minimum payments**
	£000
As at 1 January 2020	**20,499**
Interest expense	**319**
Transfer of liability to another group company	**(10,986)**
Lease repayments	**(8,642)**
Addition during the year	**2,728**
As at 31 December 2020	**3,918**

2019	Present value of future minimum payments
	£000
As at 1 January 2019	24,219
Interest expense	598
Lease repay	(4,318)
As at 31 December 2019	20,499

17. Provisions for liabilities and charges

	Balance as at 1 January 2020	Utilised in the year	Released in the year	Provided in the year	Balance as at 31 December 2020
	£000	£000	£000	£000	£000
Other provision	1,117	(86)	—	—	1,031
	1,117	(86)	—	—	1,031

The other provision is to cover the Company's cost obligation in vacating office space, as a result of the Group's location strategy.

18. Share-based payments

The Company participates in plans operated by the Group. The Group operates various share based payment schemes that award M&G plc shares to participants upon meeting the required vesting conditions. Details of those schemes are stated below:

Discretionary schemes initiated prior to demerger:

Scheme	Description
Long-term Incentive Plan ("LTIP")	The LTIP is a conditional share plan: the shares awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to LTIP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including measures linked to profit. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three-year business plan.
Annual Incentive Plan ("AIP")	Certain senior executives participate in the AIP where a portion of the individual's bonus is delivered in the form of shares that are released after three years. There are no performance conditions associated with the plan.
Group Deferred Bonus Plan ("GDBP")	Under these plans, part of the participant’s annual bonus is paid in the form of a share award that vests after three years. Other than the service condition, there are no other performance conditions associated with this plan.
Restricted Share Plan ("RSP")	Awards under this plan are discretionary and ad-hoc, and the vesting of awards may be subject to performance conditions. These awards may be retention awards, new joiner awards and promotion related awards.

Prior to demerger, all discretionary schemes mentioned above were based on Prudential plc awards. At the point of demerger and subsequent listing of M&G plc, all outstanding discretionary awards were replaced with equivalent awards based on M&G plc shares. The scheme rules for the awards remain the same in principle, except for the LTIP awards, for which the relevant metrics would be based on M&G plc as opposed to Prudential plc performance.

In accordance with IFRS 2, the replacement awards have been accounted for as a modification of the previous scheme and the expense in relation to the scheme will continue to be recorded over the remaining vesting period.

Discretionary schemes initiated post demerger:

Scheme	Description
Performance Share Plan ("PSP")	The PSP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to PSP awards include market performance conditions; Relative Total Shareholder Return ("TSR"); and other non-market conditions, including capital generation measures. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the business plan.
Deferred Incentive Plan ("DIP")	Under these plans, part of the participant's Annual Bonus is paid in the form of a share award that vests after three or four years. Other than the service condition, there are no other performance conditions associated with this plan.

All discretionary schemes are accounted for as cash-settled schemes as the Company has the obligation to settle the awards in M&G plc shares.

Approved schemes:

Share scheme	Description
Save As You Earn ("SAYE") plans	The Group operates SAYE plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five-year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remaining in employment for three years after the grant date of the options and satisfying the monthly savings requirement.
Share Incentive Plan ("SIP"): free shares	In addition, to celebrate the demerger, all eligible employees were provided with 920 M&G plc shares with a value of £2,000 at the date of grant. The awards vest subject to the employee remaining in employment for two years.

All approved schemes are accounted for as equity-settled schemes as M&G plc has the obligation to settle the awards (in M&G plc shares).

The previous approved SAYE and SIP schemes that operated prior to demerger were cancelled with all participants treated as good leavers. This resulted in an incremental expense of £666k recorded at the date of demerger. Prior to demerger the schemes were accounted for as equity-settled as Prudential plc had the obligation to settle these awards.

The weighted average share price of M&G plc for 31 December 2020 was £1.66 as compared to £2.24 for the period from the date of demerger to 31 December 2019.

The following table provides a summary of the range of exercise prices for M&G plc options (including conditional options) outstanding at 31 December 2020:

At 31 December 2020	**Outstanding**			**Exercisable**	
	Number outstanding	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices £**	**Number exercisable**	**Weighted average exercise prices £**
Between £1 and £2	**9,818,116**	**3.24**	**1.43**	**—**	**—**
Total	**9,818,116**	**3.24**	**1.43**	**—**	**—**

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2019:

At 31 December 2019	Outstanding			Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £1 and £2	5,462,619	3.64	1.84		
Total	5,462,619	3.64	1.84	—	

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

19. Share capital

	2020 £000	2019 £000
Ordinary shares		
Issued and fully paid:		
35,820,001 ordinary shares of £1 each	**35,820**	35,820
Preference shares		
Issued and fully paid:		
7,210,000 preference shares of £1 each	**7,210**	7,210
Total Issued and Paid Share Capital	**43,030**	43,030

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

The preference shares are only redeemable at the option of the Company. The preference shares do not confer any further right of participation in the profits or assets of the Company. On the redemption of the preference shares the nominal amount of the preference shares will be redeemed to the members of the Company along with the amount of any preference dividend accrued on such shares. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares.

20. Commitments

The Company is committed to the following expenditure as at 31 December 2020:

	2020 £000	2019 £000
General building refurbishment	**—**	244

The Company has granted a loan facility to another group company, PGDS (UK One) Limited ("PGDS"), The maximum facility value was revised to £6m (2019; £14m) during the year. As at 31 December 2020, the amount drawn on the loan is £3,748k (2019: £5,384k). The loan is repayable in September 2022.

21. Financial assets and financial liabilities

A. Financial assets and financial liabilities - Measurement and Classification

For financial investments the basis of valuation reflects the Company's application of IFRS 9 *Financial Instruments.*

Financial assets and financial liabilities are measured at either fair value through profit or loss or amortised cost.

Where financial assets and financial liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Company has followed the principles of IFRS 13 *Fair Value Measurement*.

NOTES ON THE FINANCIAL STATEMENTS (continued)

The basis applied is summarised below.

2020	**Fair value through profit or loss**	**Amortised Cost**	**Total carrying value**	**Fair value**
	£000	**£000**	**£000**	**£000**
Trade and other debtors	**—**	**132,718**	**132,718**	**132,718**
Cash at bank and in hand	**—**	**55,542**	**55,542**	**55,542**
Total financial assets	**—**	**188,260**	**188,260**	**188,260**

2020	**Fair value through profit or loss**	**Amortised Cost**	**Total carrying value**	**Fair value**
	£000	**£000**	**£000**	**£000**
Trade and other creditors	**—**	**214,547**	**214,547**	**214,547**
Total financial liabilities	**—**	**214,547**	**214,547**	**214,547**

2019	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Trade and other debtors	—	156,157	156,157	156,157
Cash at bank and in hand	—	89,274	89,274	89,274
Total financial assets	—	245,431	245,431	245,431

2019	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Trade and other creditors	—	277,011	277,011	277,011
Total financial liabilities	—	277,011	277,011	277,011

Determination of fair value

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

The estimated fair value of the derivative financial instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The fair value is determined based on the estimated value if a contract of a similar nature was purchased on the reporting date.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from:

- Interest rate risk: fluctuations in the level and volatility of interest rates or the shape or curvature of the yield curve or spread relationships,
- Inflation risk: fluctuations in actual or implied inflation rates.
- Equity risk: fluctuations in the level or volatility of equity investments.
- Property risk: fluctuations in the level or volatility of property values.
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures and
- Alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above).

Due to the nature of the Company's assets and liabilities, the Company does not have a significant exposure to market risk.

Interest rate risk

The following table shows an analysis of the classes of financial assets and financial liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's financial assets or financial liabilities are analysed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure.

2020	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
Financial Assets				
Trade and other debtors	—	68,297	64,421	132,718
Cash at bank and in hand	—	55,542	—	55,542
	—	123,839	64,421	188,260
Financial Liabilities				
Trade and other creditors	—	—	214,547	214,547
	—	—	214,547	214,547

2019	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
Financial Assets				
Trade and other debtors	—	69,028	87,129	156,157
Cash at bank and in hand	—	89,274	—	89,274
	—	158,302	87,129	245,431
Financial Liabilities				
Trade and other creditors	—	—	277,011	277,011
	—	—	277,011	277,011

Sensitivity to interest rate movements

The results of the Company are not materially sensitive to interest rate movements.

Currency risk

The Company has immaterial currency risk arising from payments to be made in other currencies. The Company did not enter into forward contracts during the year.

Other price risk

The Company is not exposed to any other price risk as it does not have any exposure to equities or investment property.

Liquidity Analysis

Contractual maturities of financial liabilities

The following tables set out the contractual maturities for applicable classes of financial liabilities.

2020	**1 year or less**	**After 1 year to 5 years**	**After 5 year to 10 years**	**Total undiscounted cashflows**	**Total carrying value**
	£000	**£000**	**£000**	**£000**	**£000**
Financial Liabilities					
Trade and other creditors	**214,547**	**—**	**—**	**214,547**	**214,547**
	214,547	**—**	**—**	**214,547**	**214,547**

2019	1 year or less	After 1 year to 5 years	After 5 year to 10 years	Total undiscounted cashflows	Total carrying value
	£000	£000	£000	£000	£000
Financial Liabilities					
Trade and other creditors	277,011	—	—	277,011	277,011
	277,011	—	—	277,011	277,011

22. Financial risk management

The Company is exposed to financial risk through its financial assets and financial liabilities. The key financial risk factors affecting the Company include credit risk, market risk, liquidity risk, and expense risk.

(a) Credit risk

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

The Company, in the normal course of business enters into a variety of transactions with counterparties. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on the Company's results.

Impairment methodology

The impairment allowance calculation is based on M&G plc group's counterparty default risk calibration used for Solvency II. The counterparty default risk uses a default state model and a recovery rate model which is run through 1 million scenarios to generate a probability distribution of losses. This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2020 to derive the ECL.

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

The entity held cash balances of £55,542k at 31 December 2020 (2019: £89,274k). These balances are held with banking and financial institution counterparties, which are rated AA- (2019:AA-) (or an equivalent grade from another major credit rating agency) or above.

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

The entity has an outstanding inter-company loan due from its parent company PFSL of £59,647k (2019: £58,817k) and from fellow subsidiary, Prudential UK Services Limited of £4,903k (2019: £4,826k). The loans are repayable on demand with no fixed maturity. For the purposes of calculating impairment losses under IFRS 9, it is assumed that the outstanding balances are called at the reporting date and a lifetime ECL has been calculated in respect of these balances. Reliance has been placed on a letter of support provided by M&G plc and the credit risk associated with the guarantor has been considered in the calculation of ECL.

The entity has an outstanding inter-company loan due from fellow group undertaking, PGDS (UK One) Limited of £3,748k at 31 December 2020 (2019: £5,384k). The loan is repayable in September 2022. For the purposes of calculating impairment losses under IFRS 9, it is assumed that the outstanding balance is called on the reporting date and a lifetime ECL has been calculated in respect of this balance. The loan is guaranteed by PAC, a fellow group undertaking, and the credit risk associated with the guarantor has been considered in the calculation of ECL.

Other intercompany balances due in the course of trade have also been assessed based on the liquid assets available within the entities that owe amounts to PDL.

(b) Liquidity risk

Liquidity risk is the risk of loss for the Company's business, or of adverse changes in its financial situation, resulting from its inability to generate sufficient cash resources to meet financial obligations (for example creditors and other corporate costs as they fall due).

This risk is managed through cash flow forecasting and management of bank balances.

(c) Market risk

Market risk is the risk of loss, or of adverse changes in the Company's financial situation resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

The Company's direct exposure to market risk is limited to the interest rate fluctuations on the bank balances held by the Company. The Company's operating income can change as a result of variations in funds under management from the collectives arrangement.

(d) Expense risk

Expense risk is the risk that expenses (including future expense inflation) could be higher than anticipated. If actual expenses retained by the Company are higher than expected, the Company's operating results could be adversely affected. The risk emerges if there are any circumstances where expenses cannot be passed on in the form of charges or the timing of charges is different from the timing of the expense.

23. Capital requirements and management

As stipulated in MIPRU rule 4.2.11R, the Company is required to maintain capital resources equivalent to the higher of £5k and an amount equivalent to 2.5% of the annual income from its insurance mediation activity or home finance mediation activity (or both).

The Company is a B3 firm as defined under IPRU(INV). As stipulated under the rule 13.13.3, the Company is required to maintain capital resources equivalent to the higher of:

i) £20k,
ii) 5% of the annual income from the firm's retail investment business, and
iii) The capital resources calculated under MIPRU rule 4.2.

In addition to the above requirements the Company is also required to maintain additional capital of £3,440k to meet the Professional Indemnity Insurance (PII) requirements based on the IPRU (INV) rules. The Company relies on the Group Policy to meet the PII requirements. The additional capital requirement is based on the excess on the PII policy and the level of annual income.

As at 31 December 2020, the minimum regulatory capital requirement of the Company was £4,609k (unaudited) (2019: £4,811k (unaudited)) including the additional capital of £3,440k to meet the PII requirements. The Company had capital resources amounting to £61,752k (2019: £48,573k) to meet the capital requirement.

24. Ultimate and immediate parent company

The immediate parent company is Prudential Financial Services Limited and copies of its accounts are available from the Company Secretary, 10 Fenchurch Avenue, London EC3M 5AG. The ultimate parent company is M&G plc which is the only parent company which prepares group accounts. Copies of M&G plc accounts can be obtained from the Company Secretary, 10 Fenchurch Avenue, London, England, EC3M 5AG.

25. Parent company support

As discussed in the Basis of Preparation (Note 1B), the Company has been provided with a letter of support by the ultimate parent company, M&G plc, committing to subscribe to additional share capital of up to £50 million, in the event of future financing being required in the period up to twelve months from the date of signing these financial statements.

26. Post Balance sheet events

On 3 March 2021, the UK Government announced a proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future when the change is substantially enacted. We expect that, in line with the rate increase proposed, there will be an increase to our effective tax rate for periods from 2023 onwards. It is considered that there will not be a significant impact on the deferred tax assets and liabilities as a result of this proposal. There have been no other significant events affecting the Company since the balance sheet date.