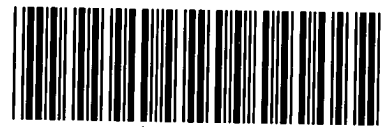


Registered No: 05739054

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL  
FINANCIAL PLANNING LIMITED)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

Incorporated and registered in England and Wales. Registered No: 05739054

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

<b>CONTENTS</b>	<b>Page</b>
Directors and officers	1
Strategic report	2
Directors' report	8
Statement of directors' responsibilities	12
Independent auditor's report to the members of M&G Wealth Advice Limited	13
Statement of comprehensive income	17
Statement of financial position	18
Statement of changes in equity	19
Notes on the financial statements	20

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

Incorporated and registered in England and Wales. Registered No: 05739054

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

**Directors**

D W King (Chairman)

C G Haines

M Leahy

M Payne

R J Caldicott (from 17 March 2022 to 16 May 2022)

**Secretary**

M&G Management Services Limited

**Independent Auditor**

KPMG LLP, London

## **M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

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

#### **Principal activity**

The principal activity of M&G Wealth Advice Limited (formerly known as PRUDENTIAL FINANCIAL PLANNING LIMITED) ("the Company") is to provide professional restricted advice services, largely distributing products of companies within the insurance business unit of the M&G plc group through non-intermediated channels. These activities will continue in 2022.

The Company changed its name from PRUDENTIAL FINANCIAL PLANNING LIMITED to M&G Wealth Advice Limited on 15 November 2021.

The Company receives charges for providing advice to clients. The initial advice charges are contingent to a product sale. The Company also provides advice services in respect of certain pension withdrawals where the income is not contingent to a sale. The ongoing adviser charges are paid by deduction from the fund value and continue while the client wishes to benefit from ongoing advice services. The Company also earns initial commission and trail commission from product providers on the sale of protection products.

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

#### **Business review**

The M&G plc group implemented a new management structure from October 2021; as a result the operating segments of the group became 'Asset Management' and 'Retail and Savings'. 'Retail and Savings' is made up of the sub-segments 'Wealth', 'Heritage' and 'Other Retail and Savings'. The Company forms part of the 'Retail and Savings- Wealth' operating segment.

In January 2020, the Company launched 'The Advice Partnership' ("TAP"), a distribution channel of independent self-employed partners. The TAP business model replaces fixed employment costs with variable sales commission, improving the efficiency and scalability of the business due to the changes in the cost profile. In September 2020, the Company launched a two year programme to transform adviser productivity and position the business for future profitable growth. The first part of this programme was to close the employed sales channel. This was completed in 2021. The second part of this programme is investment in technology to make the advice process significantly more efficient and scalable. At the end of 2021, the Company launched 'MAP Your Future' ("MAP"), a part technology-part human 'hybrid' advice journey. During 2022, the Company will continue to invest in order to further develop and broaden the MAP and TAP advice journeys and propositions.

As the COVID-19 pandemic continued, vast majority of colleagues continued 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.

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 an 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.

## **M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

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

#### Key performance indicators

	<b>2021</b>	<b>2020</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Operating Income	<b>51,842</b>	60,086	(14)
Operating expenses	<b>48,749</b>	68,478	29
Profit/ (loss) before taxation	<b>3,093</b>	(8,357)	(137)
Shareholders' funds	<b>27,291</b>	24,426	12
Regulatory capital surplus (based on IPRU (INV) and MIPRU requirements, see below)	<b>16,576</b>	19,306	(14)

In 2021, the Company generated a pre-tax profit of £3.1m (2020: loss of £8.4m). Operating income is lower than 2020 due to the reduced scale of the restructured business and an expected reduction in Defined Benefit ("DB") Transfer business. Operating expenses are lower in 2021 due to lower commission and sales remuneration due to lower sales and lower salaries following the restructuring of the business and redundancies at the end of 2020.

The regulatory capital 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 relies on a group policy to meet the requirement for Professional Indemnity Insurance as per IPRU (INV). The regulatory capital surplus for each of the years has been calculated based on the rules in force at that time.

#### Section 172(1) Statement

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

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

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

As is normal for large companies, authority for day-to-day management is delegated to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Directors review at each regular Board meeting: financial and operational performance; risk, compliance and regulatory reporting. The Board also reviews other areas over the course of the financial year including the Company's business strategy; financial reporting; key risks; stakeholder-related matters; and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

The Company's key stakeholders are its ultimate beneficial owner M&G plc, its customers, colleagues, communities and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, for example,

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

interaction with regulators, the size and spread of both the Company's stakeholders and the M&G plc group means that other stakeholder engagement takes place at Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company.

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

***Principal Decisions***

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

***Principal decision 1 - Annual Strategy Review and Business Plan Approval***

The Board carries out a review of the Company's strategy on an annual basis. This includes approving the three-year rolling business plan where the summary financials, headlines of the delivery plan, key themes, key dependencies and key delivery risks are considered. At its quarterly meeting, the Board also receives an update on progress through the CEO Report and discusses business performance, development and the implementation of strategy and objectives. In addition, appropriate management actions are taken to ensure that the Company continues to operate within risk appetite. The Business Plan for 2022-2024 focused on the transformation and benefits that were expected to emerge in 2022; the planned growth in advisers and its impact on BAU plan; the key delivery risks; and the capability development timeline to ensure that it was well-positioned for long-term success.

The Board also considered and approved the Wealth Advice Growth business case for 2022-2026, which sought to fund the next stage of scaling M&G's 'Controlled Advice' distribution through the recruitment and acquisition of external advisers and small firms.

***Principal decision 2 - Advice Transformation Programme***

In 2021, the Company continued its Advice Transformation Programme ("ATP") with the closure of the core business and transition of over 200 advisers into the self-employed business The Advice Partnership ("TAP"). Other significant developments included the acquisition of Sandringham Financial Partners ("SFP"); the launch of the TAP Adviser Academy in September 2021 to train students who were expected to join the Appointed Representative ("AR") firms following their graduation; rebrand by renaming the Company M&G Wealth Advice Limited; and the soft launch of the hybrid advice service MAP, which delivers decumulation and cash out journeys for customers.

***Principal decision 3 - Engagement with key stakeholder groups***

The Company continued to engage with its key stakeholders, some examples of which are noted below.

***Customers***

Helping clients achieve their financial planning goals is at the heart of what the Company does by providing advice to existing customers as well as those who are new to M&G plc. The Company continues to operate in a way that

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

allows it to build meaningful relationships through ongoing advice to its clients and to understand how their requirements evolve. The Board evaluates the effectiveness of the service provided to customers and assesses customer outcomes by regularly monitoring customer satisfaction through the collection of net promoter scores ("NPS") to inform ongoing improvements.

***Workforce***

During the year, the business continued to support advisers on remote working and the phased return to face-to-face ("F2F") advice for advisers. A conference for all employed staff was held F2F in Edinburgh in November 2021. The business also regularly issues communications to the Company's Partners on current points of interest and business performance through different formats, including the CEO's message.

Support staff are invited to participate in the M&G plc Savings Related Share Option Scheme and can also participate in the M&G plc Share Incentive Plan.

***Regulators***

There was extensive engagement with the Financial Conduct Authority ("FCA") with quarterly meetings being attended by the CEO and Deputy CEO to update the Regulator on various company matters such as the business performance and growth plans and the progress on the transition of advisers into TAP. In addition during the year, the business continued to collaborate with the Regulator by providing inputs and feedback into market reviews and consultation papers such as the FCA Covid-19 Financial Resilience survey and a survey on Appointed Representatives as well as responding to information requests.

**Principal Risks & Uncertainties**

The Company is a wholly owned subsidiary of PFSL 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 associated Risk Management Framework ("RMF"). The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. The Company takes on exposure to risks where such risks are adequately rewarded, and can be appropriately quantified and managed to safeguard of Company's ability to meet commitment to customers, comply with regulations, and protect its reputation.

The RMF requires all entities within the Group, including the Company, to establish processes for identifying, measuring, managing, monitoring and reporting key risks. The RMF is designed to manage risk within agreed appetite levels which are aligned to delivering the Group and Company strategy. The RMF is approved by the Group 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 principal 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 are credit, liquidity and market risks. These financial risks and the management thereof are discussed in Note 16.

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

Non-financial risk

The Company is exposed to business environment and market forces, operational, regulatory, sustainability, people and reputational risks.

a) Business environment and market forces risk

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

b) Operational risk

Operational Risk is the risk of financial and non-financial impact (for example, regulatory and reputational) resulting from inadequate or failed internal processes, or from personnel and systems, or from external events, excluding external events covered under Business Environment Risk. Operational failures can also give rise to financial risk exposures; for example, through process failures in the management of market and credit risk.

In particular, a material failure in the processes and controls supporting the Company's activities; that of third-party suppliers or of technology, or inability to deliver the Group-wide change programmes could result in poor customer outcomes, reputational damage, increased costs and regulatory censure.

The Company does not actively seek to take operational risk to generate returns, instead it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities. The Operational Risk Framework defines the Group's approach to the identification, assessment, management and reporting of operational risks and associated controls.

c) Regulatory compliance risk

The Company operates in a highly regulated market, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of regulatory initiatives in progress. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, fines and restrictions on operations or products. The Group's Compliance function and a dedicated Group Financial Crime Compliance function provides guidance to, and oversight of, the Company in relation to regulatory compliance, conflicts of interest and financial crime.

d) Sustainability and ESG risk

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 could adversely impact profitability, reputation and plans for growth. Sustainability risks, along with other risk types, are identified, assessed and managed under the ESG Risk Management Framework and Policy.



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

e) People risk

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

The Company manages its people risk in line with the Group-wide HR Framework which includes policies for Diversity and Inclusion, Employee Relations, Talent and Resourcing, Remuneration, and Performance and Learning.

f) Reputational risk

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. Reputational Risk is managed through the Group's Reputational Risk Management Framework and dedicated Reputational Risk team.

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 the Board of Directors of the Company



I Bothamley  
On behalf of M&G Management Services Limited  
Company Secretary  
20 May 2022

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

Incorporated and registered in England and Wales. Registered No: 05739054

Introduction

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

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 PFSL. PFSL 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 M&G plc group of companies ("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 plc, 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.

## **M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

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

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 2021 is shown in the statement of financial position on page 18. The statement of comprehensive income appears on page 17.

#### Share Capital

There have been no changes to the Company's share capital during the year (2020: issue of £20 million shares).

#### Post Balance sheet events

There have been no post balance sheet events up to the date of approving this report (2020: None).

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. The above was reported as a post balance sheet event in the previous year.

#### Dividends

No dividends were declared or paid during the year (2020: Nil).

#### Directors

The present directors are shown on page 1. Mr Richard Caldicott was appointed as a director of the Company on 17 March 2022 and he resigned on 16 May 2022.

There were no changes in the year and up to the date of approving this report.

#### 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.

## **M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

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

- Employee involvement

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. Employees are invited to participate in the M&G plc Savings Related Share Option Scheme and can also participate in the M&G plc Share Incentive Plan.

#### Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders, please see the Section 172 Statement on pages 3-5 Being a wholly owned subsidiary of PFSL, which is wholly owned by 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 16.

#### Disclosure to the auditor

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

#### Auditor

KPMG LLP were reappointed as auditor of the Company by the members at the Annual General Meeting on 24 April 2017. On 28 October 2020, the Company approved the appointment of PricewaterhouseCoopers LLP as its auditor for the year ending 31 December 2022, KPMG LLP will resign as the Company's statutory auditor at the conclusion of the 2021 audit and the Company will resolve to appoint PwC to fill the vacancy. A resolution to appoint PwC as auditor will be recommended to the Group's shareholders for approval at the Annual General Meeting scheduled on 25 May 2022.

#### Directors' and Officers' Protection

M&G plc has arranged appropriate insurance cover in respect of legal action against Directors and senior managers of companies within the M&G plc Group. In addition, the Articles of Association of the Company provide for the directors, 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 2021 and remain in force.

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

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

Going concern

As described in the Basis of Preparation section of the Accounting Policies at note 1, an assessment of the Company's prospects has been carried out. The Board has also performed an 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 the Board of Directors of the Company



I Bothamley  
On behalf of M&G Management Services Limited  
Company Secretary  
20 May 2022

**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 M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

## **Opinion**

We have audited the financial statements of M&G Wealth Advice Limited ("the Company") for the year ended 31 December 2021 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 2021 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; and
- 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, legal, risk and compliance and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud 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;

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED) (continued)**

- using analytical procedures to identify any usual or unexpected relationships; and
- inspecting correspondence with regulators to identify instances or suspected instances of fraud.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk that revenue is overstated due to accrued income being calculated using inappropriate subjective assumptions

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 M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED) (continued)**

### *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 12, 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**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED) (continued)**

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

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

**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*

**William Greenfield (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
Canary Wharf  
London  
E14 5GL  
20 May 2022

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

**STATEMENT OF COMPREHENSIVE INCOME**

	<b>2021</b>	2020	Note
	<b>£'000</b>	£'000	
Operating income	<b>51,842</b>	60,086	2
Staff costs	<b>(8,051)</b>	(42,879)	3,5
Other operating charges	<b>(40,698)</b>	(25,599)	
<b>Operating profit/(loss)</b>	<b><u>3,093</u></b>	<u>(8,392)</u>	
Interest receivable	—	35	6
<b>Profit/(loss) before tax</b>	<b><u>3,093</u></b>	<u>(8,357)</u>	
Tax (charge)/credit	<b>(564)</b>	1,587	8
<b>Profit/(loss) for the financial year</b>	<b><u>2,529</u></b>	<u>(6,770)</u>	

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

The accounting policies on pages 20 to 24 with accompanying notes on pages 25 to 37 form an integral part of these financial statements.

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)****STATEMENT OF FINANCIAL POSITION**

	2021	2020	Note
	£'000	£'000	
<b>Fixed assets</b>			
Intangible asset	6,251	—	7
<b>Non-current assets</b>			
Deferred tax asset	526	320	8
<b>Current assets</b>			
Trade and other debtors	5,713	6,133	9
Cash and bank balances	<u>22,922</u>	<u>34,258</u>	10
	<b>28,635</b>	<b>40,391</b>	
<b>Current liabilities</b>			
Trade and other creditors: amounts falling due within one year	6,291	9,461	11
Corporation tax payable	1,317	156	
Provision for liabilities and charges	<u>513</u>	<u>6,668</u>	12
	<b>8,121</b>	<b>16,285</b>	
<b>Net current assets</b>	<u><b>20,514</b></u>	<u><b>24,106</b></u>	
<b>Total assets less current liabilities</b>	<u><b>27,291</b></u>	<u><b>24,426</b></u>	
<b>Net assets</b>	<u><b>27,291</b></u>	<u><b>24,426</b></u>	
<b>Capital and reserves</b>			
Called up share capital	33,800	33,800	14
Profit and loss account	(7,997)	(10,526)	
Capital reserves	1,488	1,152	
<b>Shareholders' funds - equity interests</b>	<u><b>27,291</b></u>	<u><b>24,426</b></u>	

The accounting policies on pages 20 to 24 with accompanying notes on pages 25 to 37 form an integral part of these financial statements.

The accounts on pages 17 to 37 were approved by the Board of directors on 20 May 2022 and were signed on its behalf by:

*D.W King*

D W King  
Director  
20 May 2022

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)****STATEMENT OF CHANGES IN EQUITY**

	Share capital	Profit and loss Account	Capital reserves	Total equity
	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2021</b>	<b>33,800</b>	<b>(10,526)</b>	<b>1,152</b>	<b>24,426</b>
Increase in capital reserve during the year	—	—	265	265
Current tax credited to capital reserve	—	—	11	11
Deferred tax credited to capital reserve	—	—	60	60
Profit for the financial year	—	2,529	—	2,529
Total comprehensive income for the period	—	2,529	—	2,529
<b>Balance at 31 December 2021</b>	<b>33,800</b>	<b>(7,997)</b>	<b>1,488</b>	<b>27,291</b>
<b>Balance at 1 January 2020</b>	<b>13,800</b>	<b>(3,756)</b>	<b>628</b>	<b>10,672</b>
Share capital issued during the year	20,000	—	—	20,000
Increase in capital reserve during the year	—	—	582	582
Deferred tax debited to capital reserve	—	—	(58)	(58)
Loss for the financial year	—	(6,770)	—	(6,770)
Total comprehensive loss for the period	—	(6,770)	—	(6,770)
<b>Balance at 31 December 2020</b>	<b>33,800</b>	<b>(10,526)</b>	<b>1,152</b>	<b>24,426</b>

The increase in the capital reserve represents the movement in respect of share-based payments during the year in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 20 to 24 with accompanying notes on pages 25 to 37 form an integral part of these financial statements.

**NOTES ON THE FINANCIAL STATEMENTS**

**1. Accounting Policies**

**A. Company information**

The Company is a private limited company incorporated and domiciled in England and Wales. The address of its registered office is 10 Fenchurch Avenue, London EC3M 5AG.

**B. Basis of preparation**

The financial statements have been prepared in accordance with FRS101, 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 of international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs) but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken

There were no significant accounting pronouncements taking effect from 1 January 2021 that impact the Company.

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 International Financial Reporting Standards 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 FRS101 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;
- The effect of new but not yet effective accounting standards;
- 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 Payment*.

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).

**Sources of estimation uncertainty**

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

## **M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

Financial statement assets or liability	Key estimate and assumption	Accounting policy	Note
Trade and other debtors - customer contract balances	Accrued income on adviser charges from regular premium policies is estimated based on adviser charge per month and discounted using an appropriate discount rate. An allowance is also made for estimated lapses.	F	9

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 Financial Conduct Authority (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 7. The management of financial risk is set out in note 16, including the Company's exposure to credit risk and liquidity risk which it carefully manages through cashflow forecasting and fund management.
- To satisfy themselves of the appropriateness of the use of the going concern assumption in relation to these financial statements, the directors have assessed the future prospects of the Company, by considering the business plan that includes the cash flow forecasts, for at least the next 12 months from the date of signing these financial statements, various market scenarios as well as changes in the Company's principal risks. In addition, the directors have also considered the results of reasonably plausible severe downside scenarios to assess the potential implications on the Company's solvency and liquidity. The results of these assessments demonstrated the ability of the Company to meet all obligations and futures business requirements. In addition, these assessments demonstrated that the Company was able to remain above its regulatory solvency requirements in reasonably plausible severe downside scenarios.

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

### **C. 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").

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

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

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

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.

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 de-recognition 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 de-recognition is also recognised in profit or loss.

**D. 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 when 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 12 month ECL for these assets.

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



**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**E. Revenue recognition**

Operating income, comprising income earned on advice services and recharges to group undertakings is recognised when the Company satisfies the related performance obligation.

Interest receivable is recognised on an accruals basis.

**F. Customer contract balances**

Customer contract balances included at Trade and other debtors present accrued income on adviser charges from regular premium policies; the balances are estimated based on adviser charge per month and discounted using an appropriate discount rate. An allowance is also made for estimated lapses.

**G. Expenses**

Operating expenses comprise of management expenses incurred by the Company in relation to the distribution activities. Expenses are recognised on an accruals basis.

Interest payable by the Company is accounted for on an accruals basis.

**H. Intangible assets**

Costs associated with development of digital technology 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;
- the Directors intend 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.

Software development costs recognised as asset is amortised on a straight line basis over its estimated useful life of 6 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.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**J. 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 directly in equity or other comprehensive income.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences due to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination are not provided for. 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.

**K. 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 are 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 are accounted for as cash-settled i.e. as an obligation 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.

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**2. Operating income**

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Income earned from recharges to group undertakings	<b>2,289</b>	5,466
Income earned from advice services	<b>48,089</b>	54,310
Other fee income	<b>1,464</b>	310
	<b><u>51,842</u></b>	<u>60,086</u>

Income earned from advice services includes income receivable from regular premium policies and is estimated based on the adviser charge per month and discounted using an appropriate discount rate. An allowance is also made for estimated lapses.

**3. Staff costs**

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Wages and salaries	<b>5,077</b>	33,495
Other pension costs	<b>1,408</b>	4,306
Social security costs	<b>748</b>	3,519
Share based payment expenses	<b>818</b>	1,559
Total	<b><u>8,051</u></b>	<u>42,879</u>

	<b>Number</b>	Number
Average number of employees during the period	<b>63</b>	318

Following the movement of advisers to the self-employed model there is a reduction in the employees of the company.

The majority of staff employed by the M&G plc group in the UK are members of the M&G plc group's pension schemes, including both defined contribution and defined benefit schemes. The largest scheme is the Prudential Staff Pension Scheme ("PSPS"), which accounts for 80% (2020: 81%) of the present value of M&G plc group's defined benefit pension obligation. Further details of the PSPS pension scheme are disclosed in the accounts of M&G plc.

**4. Auditors' remuneration**

Auditor's remuneration of £21k (2020: £21k) is payable in respect of the audit of the Company's financial statements. Fees of £20k (2020: £20k) are payable towards other assurance services. These fees are borne by a fellow group undertaking, Prudential Distribution Limited.

**5. Directors' emoluments**

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

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Aggregate emoluments and benefits	<b><u>524</u></b>	<u>387</u>
Highest paid Director :		
Aggregate emoluments and benefits	<b><u>455</u></b>	<u>370</u>

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

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. Only one such qualifying director is remunerated by the Company.

All directors received shares under long-term incentive schemes in 2021 (2020: Four), and one director exercised share options in 2021 (2020: Four). Two directors (2020: Two) were entitled to retirement funds under a defined contribution pension scheme.

**6. Interest receivable**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest received	<u>—</u>	<u>35</u>

**7. Intangible asset**

<b>Internally generated software development costs</b>	<b>2021</b>
	<b>£'000</b>
<b>Cost</b>	
As at 1 January 2021	—
Additions	<u>6,251</u>
As at 31 December 2021	<b>6,251</b>
<b>Accumulated amortisation and impairment</b>	
As at 1 January 2021	—
Amortisation charge	<u>—</u>
As at 31 December 2021	—
<b>Net book value</b>	
Cost	<b>6,251</b>
Accumulated amortisation and impairment	<u>—</u>
As at 31 December 2021	<b>6,251</b>

The Advice Transformation Programme (“ATP”) was started with the aim to transition the business to a lower cost and a technology driven advice business. The programme includes spend on building a new hybrid (part human and part automated) financial advice business. The Hybrid Advice Platform was launched in December 2021. Software development expenses related to Hybrid Advice Platform of £6,251k were capitalised at the end of 2021.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**8. Taxation**

**a) Analysis of charge in the period**

	2021 £'000	2020 £'000
Tax reported in the statement of comprehensive income		
Current tax:		
Total current tax charge/(credit) in the period	660	(1,394)
Adjustments in respect of prior years	50	(3)
Total tax charge/(credit) on ordinary activities	<u>710</u>	<u>(1,397)</u>
Deferred tax :		
Adjustments in respect of previous years	(9)	—
Current year	(54)	(190)
Effect of changes in tax rates	(83)	—
Total deferred tax (credit) in the period	<u>(146)</u>	<u>(190)</u>
Total tax charge/(credit) in the period	<u>564</u>	<u>(1,587)</u>

	2021 £'000	2020 £'000
Tax reported in the capital reserve		
Current tax :	(11)	—
Deferred tax :		
Current year	(60)	58
Total tax (credit)/charge in the period	<u>(71)</u>	<u>58</u>

**b) Factors affecting tax charge for the period**

	2021 £'000	2020 £'000
Profit/(loss) on ordinary activities before tax	3,093	(8,357)
Tax on profit/(loss) on ordinary activities at effective rate of corporation tax in the UK of 19% (2020: 19%)	588	(1,587)
Effects of:		
Share options	23	(190)
Expenses not deductible	—	193
Income not taxable	(4)	—
Tax rate changes	(84)	—
Adjustments in respect of prior years	41	(3)
Total tax charge/(credit) for the year	<u>564</u>	<u>(1,587)</u>

An increase in the standard rate of Corporation Tax in the UK from 19% to 25% with effect from 1 April 2023 was substantively enacted on 24th May 2021. This will increase any future tax charge for the Company accordingly.

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)****NOTES ON THE FINANCIAL STATEMENTS (continued)**

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 expected increase in the tax rate is therefore recognised in the deferred tax movement for the year.

**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.

**d) Balance sheet**

	2021 £'000	2020 £'000
Deferred tax asset explained by:		
Unapproved share schemes	514	313
SAYE share scheme	4	4
Temporary differences Trading	5	—
Fixed assets	<u>3</u>	<u>3</u>
	<u>526</u>	<u>320</u>
Deferred tax asset at start of period	320	188
Adjustments in respect of prior years	9	—
Deferred tax credited in Statement of comprehensive income for the year	137	190
Deferred tax credited/(charged) to Capital reserves	<u>60</u>	<u>(58)</u>
<b>Deferred tax asset at end of period</b>	<u>526</u>	<u>320</u>

**9. Trade and other debtors**

	2021 £'000	2020 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	1,608	1,093
Accrued income	1,585	1,797
Sundry debtors	815	735
<b>Amounts falling due after more than one year:</b>		
Accrued income	<u>1,705</u>	<u>2,508</u>
	<u>5,713</u>	<u>6,133</u>

	2021 £'000	2020 £'000
Accrued income previously expected to be received within the year	1,797	1,503
Actual income received during the year	1,607	1,653

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

2021	As at 1 Jan 2021	New business	Settlements	As at 31 Dec 2021
	£'000	£'000	£'000	£'000
Accrued income	4,305	662	(1,677)	3,290

2020	As at 1 Jan 2020	New business	Settlements	As at 31 Dec 2020
	£'000	£'000	£'000	£'000
Accrued income	5,349	1,132	(2,176)	4,305

Accrued income on adviser charges from regular premium policies is estimated based on adviser charge per month and discounted using an appropriate discount rate. An allowance is also made for estimated lapses.

- (i) An increase of 100bps in the discount rate would decrease the fair value of accrued income by £40k (2020: decrease of £54k) and a decrease of 100bps would increase the fair value by £42k (2020: increase of £54k).
- (ii) An increase of 10% in the lapse rates would decrease the fair value of accrued income by £69k (2020: decrease of £107k). A decrease of 10% in the lapse rates would increase the fair value by £71k (2020: increase of £112k).

**10. Cash and bank balances**

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

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

	2021	2020
	£'000	£'000
Amounts owed to group undertakings	—	474
Accruals and deferred income	6,291	8,987
	<u>6,291</u>	<u>9,461</u>

The Company's standard contractual payment terms for all qualifying contracts are payments within 30 days after the invoice date. All inter-company balances are repayable on demand.

**12. Provision for liabilities and charges**

	Balance as at 1 January 2021	Utilised in the year	Released in the year	Provided in the year	Balance as at 31 December 2021
	£'000	£'000	£'000	£'000	£'000
Transformation provision	6,668	(5,320)	(840)	5	513

## **M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

	Balance as at 1 January 2020 £'000	Utilised in the year £'000	Released in the year £'000	Provided in the year £'000	Balance as at 31 December 2020 £'000
Transformation provision	—	(1,976)	(2,456)	11,100	6,668

### **13. Share-based payments**

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:

#### **Description of the plans**

##### **Discretionary schemes initiated prior to demerger:**

#### **i. 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.

#### **ii. 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.

Until the point of demerger, the schemes were treated as cash-settled schemes as the Company had the obligation to settle the awards based on the way the schemes were set-up. The Company could independently instruct the Employee Benefit Trust (EBT) to procure shares to settle the award, or the Company could itself procure shares paying full price through the ultimate parent company. At the point of demerger, the schemes were converted to equity-settled schemes as the awards will be settled in M&G plc shares, by M&G plc directly.

##### **Discretionary schemes initiated post demerger**

#### **i. 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.



**NOTES ON THE FINANCIAL STATEMENTS (continued)**

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.

**ii. 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.

Approved schemes:**i. Save As You Earn (SAYE) plans**

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible UK-based 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 the employee satisfying the monthly savings requirement.

**ii. Share Incentive Plan (SIP)**

In addition, to celebrate the demerger, all eligible employees were awarded M&G plc shares with a value of £2,000. The awards vest subject to the employee remaining in employment for 2 years.

All approved schemes are accounted for as equity-settled as the awards would be settled 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 £75k 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 2021 was £2.08 as against £1.66 for the period ended 31 December 2020.

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

At 31 December 2021 Range of exercise prices	Outstanding		Weighted average exercise prices £	Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)		Number exercisable	Weighted average exercise prices £
Between £1 and £2	151,897	2.40	1.57	15,420	1.34
<b>Total</b>	<b>151,897</b>	<b>2.40</b>	<b>1.57</b>	<b>15,420</b>	<b>1.34</b>

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

At 31 December 2020	Outstanding			Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise prices	Number exercisable	Weighted average exercise prices
		(years)	£		£
Between £1 and £2	777,607	2.80	1.54	—	—
<b>Total</b>	<b>777,607</b>	<b>2.80</b>	<b>1.54</b>	<b>—</b>	<b>—</b>

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

**14. Called up share capital**

	2021 £'000	2020 £'000
<b>Ordinary shares</b>		
Balance as at 1 January		
Issued, called up and fully paid:	<u>33,800</u>	<u>13,800</u>
Issued during the year		
Issued and fully paid:	—	20,000
Balance as at 31 December		
Issued, called up and fully paid :- 33,800,000 ordinary shares of £1 each	<u>33,800</u>	<u>33,800</u>

**15. Financial assets and financial liabilities**

**A. Financial assets and financial liabilities - classification and measurement**

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*'. The basis applied is summarised below.

2021	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Trade and other debtors	—	2,423	2,423	2,423
Cash at bank and in hand	—	22,922	22,922	22,922
<b>Total financial assets</b>	<b>—</b>	<b>25,345</b>	<b>25,345</b>	<b>25,345</b>

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

2021	Fair value through profit or loss	Amortised cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Trade and other creditors	—	6,291	6,291	6,291
<b>Total financial liabilities</b>	<b>—</b>	<b>6,291</b>	<b>6,291</b>	<b>6,291</b>

2020	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Trade and other debtors	—	1,828	1,828	1,828
Cash at bank and in hand	—	34,258	34,258	34,258
<b>Total financial assets</b>	<b>—</b>	<b>36,086</b>	<b>36,086</b>	<b>36,086</b>

	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Trade and other creditors	—	9,461	9,461	9,461
<b>Total financial liabilities</b>	<b>—</b>	<b>9,461</b>	<b>9,461</b>	<b>9,461</b>

**Market Risk**

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

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

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

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

2021	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Trade and other debtors	3,290	—	2,423	5,713
Cash at bank and in hand	—	22,922	—	22,922
	<b>3,290</b>	<b>22,922</b>	<b>2,423</b>	<b>28,635</b>

	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>				
Trade and other creditors	—	—	6,291	6,291
	<b>—</b>	<b>—</b>	<b>6,291</b>	<b>6,291</b>

2020	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Trade and other debtors	4,305	—	1,828	6,133
Cash at bank and in hand	—	34,258	—	34,258
	<b>4,305</b>	<b>34,258</b>	<b>1,828</b>	<b>40,391</b>

	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>				
Trade and other creditors	—	—	9,461	9,461
	<b>—</b>	<b>—</b>	<b>9,461</b>	<b>9,461</b>

**Currency risk**

The Company is not exposed to currency risk as it does not have significant foreign currency exposures.

**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.

**M&G WEALTH ADVICE LIMITED (FORMERLY KNOWN AS PRUDENTIAL FINANCIAL PLANNING LIMITED)****NOTES ON THE FINANCIAL STATEMENTS (continued)**

2021	1 year or less	After 1 year to 5 years	Total un- discounted cashflows	Total carrying value
	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>				
Trade and other creditors	6,291	—	6,291	6,291
	<b>6,291</b>	<b>—</b>	<b>6,291</b>	<b>6,291</b>
2020	1 year or less	After 1 year to 5 years	Total un- discounted cashflows	Total carrying value
	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>				
Trade and other creditors	9,461	—	9,461	9,461
	<b>9,461</b>	<b>—</b>	<b>9,461</b>	<b>9,461</b>

**16. Financial risk management**

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

**a) Credit risk**

Credit risk is the risk of loss or adverse change in the Company's financial situation, 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 2021 to derive the ECL. The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL.

The entity held cash balances of £22,922k at 31 December 2021 (2020: £34,258k). These balances are held with banking and financial institution counterparties, which are rated AA- (2020: 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.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

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 is indirectly exposed to market risk through ongoing advice charges that are based on the fund values of customers which move in value due to market risks.

d) Expense risk

Expense risk is the risk that expenses (including future expense inflation) could be higher than anticipated. If actual expenses are higher than expected, the Company's operating results could be adversely affected.

e) Persistency risk

Persistency risk is the risk of unexpected changes in policyholder rates of exit.

The Company is exposed to persistency risk due to the receipt of ongoing advice charges. If customers leave earlier than anticipated then the Company's operating results could be adversely affected.

**17. Contingent liability**

Since 2016, the Company has retained all advice related income and expenses; prior to that, all advice related income and expenses were passed back to the product-providing entities. Early year losses on the advice business administered by the Company were principally borne by PAC, the main product provider. As such, during 2018, an agreement was entered into to pay PAC an amount equivalent to its share of losses borne prior to 2016 (plus interest) in the years in which the Company makes a profit (subject to a floor of 90% of profit). PAC approved the discontinuance of the compensation arrangement the Company had with the PAC With Profits Sub Fund ('WPSF') from 31 December 2020.

**18. Capital requirements and management**

The Company is regulated by the Financial Conduct Authority ("FCA") as the Company is engaged in insurance mediation. The Company is also regulated by the FCA as a personal investment firm. The Company is subject to the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) and the Interim Prudential Sourcebook for Investment Businesses (IPRU(INV)).

As stipulated in MIPRU rule 4.2.11R, the Company is required to maintain capital resources equivalent to the higher of £5k and 2.5% of the annual income from its protection and mortgage mediation activity.

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

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

- 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 3.44% of its relevant income to meet the Professional Indemnity Insurance (PII) requirements based on the IPRU (INV) rules. The Company relies on a Group insurance 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 2021, the minimum unaudited regulatory capital requirement of the Company was £4,464k (2020: £5,120k). The Company had capital resources amounting to £21,040k (2020: £24,426k) to meet the capital requirement.

**19. Immediate and ultimate 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.