Registered number 02313262

Prudential Capital Public Limited Company

Annual Report and Financial Statements

For the year ended 31 December 2021

Incorporated and Registered in England

Registered Office: 10 Fenchurch Avenue, London, EC3M 5AG

Contents **Page**

Company Information

Directors	C J Bousfield D W King E Wenusch R P Newby (resigned on 3 December 2021)
Company Secretary	M&G Management Services Limited
Registered Office	10 Fenchurch Avenue London EC3M 5AG
Registered number	02313262
Independent Auditor	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL

Strategic Report

Business review

The Company continues to provide professional treasury services to the M&G plc group (the 'Group'). The Company generates revenue from a portfolio of loans, debt securities, and money market positions, and also acts as a market facing intermediary for Group corporate hedging programs. The Company's sole shareholder is M&G plc.

During 2022, the primary focus of the Company will continue to be management of Group liquidity, including collateral management, and the generation of revenue from the investment portfolio.

Key performance indicators

For the 2021 financial year, the Company achieved an interest spread of £6,087,000 (2020: £6,112,000), and overall profit after tax of £6,431,000 (2020: £9,585,000). Dividends paid in the year was £nil (2020: £nil). Overall this resulted in the Company's capital and reserves strengthening to £77,785,000 (2020: £70,919,000).

Further details of the profit results for the year are set out in the Profit and Loss Account and Other Comprehensive Income on page 12.

Principal risks and uncertainties

The Company is subject to the Group's internal control and risk management processes as detailed in M&G plc's Group Governance Framework and Risk Management Framework. The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. As such, they provide strong but not absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward with the aim of achieving the business objectives.

The Risk Management Framework requires all business units and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The framework operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

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

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk factors affecting the Company are market, credit and liquidity risks. These financial risks and the management thereof are discussed in note 20.

Non-financial risk

The Company has limited exposure to business environment, strategic, operational and group risk.

a) Business environment risk

Business environment risk is the risk of exposures to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services sector, which in some circumstances may be applied retrospectively, may adversely affect the Company's activities and, consequently, its reported results and financing requirements.

Strategic report (continued)

Non-financial risk (continued)

While the Company is not a regulated entity, it is the responsibility of all staff in the wider regulated Group that regulatory levels of compliance are achieved. The Group has a suitably resourced compliance function, which assists the business to ensure ongoing adherence with new and existing regulations.

The Group also requires that all of its agreements with third parties are properly documented with legal advice taken internally or, where appropriate, from one of the law firms on the Group's approved panel by an authorised individual.

b) Strategic risk

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

The Company has little exposure to strategic risk, however any changes in the regulatory and market environment or strategic decisions of associated companies, could play a role in forcing senior management to take decisions which could affect the Company's performance.

c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

The Company's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities.

d) Group risk

Group risk is the risk of a direct or indirect loss arising from a connection with a related undertaking.

Group risk is present from the consequences of risks arising from other parts of the Group in addition to those risks arising from the Company's own activities. The independent capitalisation of the Company as well as the risk management processes and internal control mechanisms within the Company ensure Group risk is appropriately managed.

Strategic report (continued)

Section 172(1) statement

Section 172 of the Companies Act 2006 requires Directors of the 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 section 172 duties the Company has regard to the factors set out above. The Company also recognises the matters considered by the Directors can have unique characteristics. This can require the board to have regard to 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 considered will vary depending on the decision being taken. Across all the board's decisions, the Company is mindful of its purpose, statutory obligations, strategic priorities and alignment with the Group's overarching culture, vision and values.

As is normal for large companies, the Company delegates authority for day-to-day management to an Executive Committee ('PruCap Executive Committee') who in turn charges management with execution of the business strategy and related policies. The PruCap Executive Committee review on a regular basis, financial and operational performance as well as liquidity, collateral management, key risks, compliance, and statutory reporting. The PruCap Executive Committee and Group management also reviews other areas over the course of the financial year including the Company's business strategy; diversity and inclusivity; environmental matters; corporate responsibility and governance; legal and other stakeholder-related matters. This is done through the consideration and discussion of reports which are sent in advance of each respective meeting and through decision making in various forums, including the Group's 'Finance, Capital & Liquidity Committee' (that oversees the wider capital, liquidity and risk appetite activities of the Group), the PruCap Executive Committee, the Company board and other Group committees.

The Company's key stakeholders are its beneficial owner, M&G plc, related Group entities, employees, third-party suppliers and those groups which represent the interests of wider society. The views and impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Directors engage directly with stakeholders on certain issues, the size and spread of Group stakeholders means other stakeholder engagement takes place at various Group committees. The Company finds that as well as being a more efficient and effective approach, this also helps the Company achieve a greater positive impact on environmental, social and other issues than by working in isolation.

Engagement with Group entity stakeholders occurs primarily in the Group's wider governance forums, particularly those outlined above. Engagement with employees generally occurs through formal and informal meetings, and technology enabled platforms. Examples of initiatives the Company's employees participate in include the annual staff engagement survey, town hall events for the treasury department, onsite access to Directors in the office, and Group investment in people policies and ongoing related consultations.

During the period, the Directors received information to help understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This has allowed the Directors to understand the nature of the Company stakeholders' concerns and to comply with section 172 of the Companies Act 2006 to promote the success of the Company.

Strategic report (continued)

Principal Decisions

The Company defines principal decisions as both those that are material to the Company, but also those that are significant to any key stakeholders. In making the principal decisions, the board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct.

During 2021 the principal decisions, including decisions made through the PruCap Executive Committee, related to the ongoing management of the Company's investment asset mix between cash products (secured and unsecured), debt securities, loan products and hedging derivatives. The asset mix is designed to enable flexibility in the Group's liquidity management, while also achieving a long-term profitable investment return on the surplus cash managed by the Company on behalf of the Group.

This report was approved by the board and signed on its behalf.

E. Wenusch

E Wenusch
Director

28 June 2022

Directors' Report

The Directors present their annual report and the financial statements for the year ended 31 December 2021.

Directors

The directors who served during the year were:

C J Bousfield
D W King
E Wenusch
R P Newby (resigned on 3 December 2021)

Results

The profit for the year, after taxation, amounted to £6,431,000 (2020: £9,585,000).

Dividends paid

Interim dividends paid in the year were £Nil (2020: £Nil). The Directors do not recommend the payment of a final dividend (2020: £Nil).

Post balance sheet events

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

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. The key method for assessing going concern is through the business planning process which considers profitability, liquidity and solvency. The business planning process considers the Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate.

From time to time, market volatility may result in fluctuations to the fair value of the Company's investment portfolio (debt securities and hedging derivatives), and thereby volatility in the Company's net asset value. Recognising the potential for market volatility, the parent company, M&G plc, has provided a letter of support, stating M&G plc is willing to provide financial support to the Company if needed.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2021.

Political contributions

There were no political contributions during the period (2020: £Nil).

Business relationships

The Directors approach to fostering the Company's business relationships with fellow Group undertakings, third-party suppliers and other key stakeholders is detailed in the Section 172(1) Statement of the Strategic Report.

Energy use and carbon emissions

The Company participates in Group initiatives toward sustainability objectives, including carbon emission reduction strategies. The Group's goal is to reduce carbon emissions from corporate operations to net zero by 2030, at the latest. Details of the Group's approach to sustainability are provided in the Group annual report and accounts which can be found on the website: https://www.mandgplc.com/investors/annual-report.

Directors' Report (continued)

Qualifying third party indemnity provisions

The ultimate parent company, M&G plc, has arranged appropriate insurance cover in respect of legal action against Directors and senior managers of companies within the 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. The ultimate parent company also provides protections for Directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third-party indemnity provisions (as defined by the relevant Companies Act) for the benefits of directors of the ultimate parent company, 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.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's independent auditor is unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG LLP were reappointed as auditor of the Company including for the year ended 31 December 2021.

The Group has appointed PricewaterhouseCoopers LLP ('PwC') as its external auditor for the year ending 31 December 2022. Consequently, 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 was approved by the Group's shareholders at the M&G plc Annual General Meeting on 25 May 2022.

This report was approved by the board and signed on its behalf.

E. Wenusch

E Wenusch
Director

28 June 2022

Statement of Directors Responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice'), including Financial Reporting Standard 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 their profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company 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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the Company 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 Company's corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Company financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Prudential Capital Public Limited Company

Opinion

We have audited the financial statements of Prudential Capital Public Limited Company ("the Company") for the year ended 31 December 2021 which comprise the Profit and Loss account and Other Comprehensive Income, Balance Sheet, 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;
- 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;
- using analytical procedures to identify any usual or unexpected relationships;
- inspecting correspondence with regulators to identify instances or suspected instances of fraud.

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

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

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

We also performed procedures including:

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

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.

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.

This Company, as a non-regulated company, is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

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.

Independent Auditor's Report to the Members of Prudential Capital Public Limited Company (continued)

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

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at 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.

Jacky Chan

Jacky Chan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
28 June 2022

Profit and Loss Account and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Interest income	2	**17,899**	21,016
Interest expenses and similar charges	3	**(11,812)**	(14,904)
Net interest		**6,087**	6,112
Other operating income	4	**9,964**	41,058
Operating expenses	5, 6, 7	**(17,231)**	(21,860)
Operating (loss)/ profit on ordinary activities before tax		**(1,180)**	25,310
Unrealised gains/ (losses) on measurement to fair value	8	**8,740**	(14,865)
Profit on ordinary activities for the year before taxation		**7,560**	10,445
Tax charge on ordinary activities	9	**(1,129)**	(860)
Total profit and comprehensive income for the financial year		**6,431**	9,585

The accompanying notes and information on pages 15 to 33 form an integral part of the financial statements.

Balance Sheet
At 31 December 2021

	Note	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Non-current assets					
Debt securities	10		**1,079,145**		926,807
Derivative assets	12		**137,280**		9,781
Deferred tax assets	9(c)		**3,331**		3,342
			1,219,756		939,930
Current assets					
Debt securities	10	**187,163**		36,538	
Debtors	11	**57,852**		79,328	
Derivative assets	12	**6,056**		116,151	
Cash and cash equivalents	13	**962,665**		370,930	
		1,213,736		602,947	
Current liabilities					
Creditors - amounts falling due within one year	14	**(2,038,376)**		(1,141,541)	
Net current liabilities	15		**(824,640)**		(538,594)
Total assets less current liabilities			**395,116**		401,336
Non-current liabilities					
Creditors - amounts falling due after more than one year	16		**(317,331)**		(330,417)
Net assets			**77,785**		70,919
Capital and reserves					
Called up share capital	17		**10,000**		10,000
Profit and loss account			**67,785**		60,919
Shareholders' funds – equity interests			**77,785**		70,919

The accompanying notes and information on pages 15 to 33 form an integral part of the financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

E. Wenusch

E Wenusch
Director

28 June 2022

Company registered number: 02313262

Statement of Changes in Equity

	Called Up Share Capital £'000	Profit And Loss Account £'000	Total Equity £'000
Balance at 1 January 2020	**10,000**	**51,295**	**61,295**
Profit or loss	-	9,585	9,585
Total comprehensive income for the period	**-**	**9,585**	**9,585**
Dividends paid (note 17)	-	-	-
SAYE share-based payments	-	39	39
Total transactions with shareholder	**-**	**39**	**39**
Balance at 31 December 2020	**10,000**	**60,919**	**70,919**
Balance at 1 January 2021	**10,000**	**60,919**	**70,919**
Profit or loss	-	6,431	6,431
Total comprehensive income for the period	**-**	**6,431**	**6,431**
Dividends paid (note 17)	-	-	-
Deferred tax on share-based payments (note 9c)	-	282	282
Current tax movements	-	111	111
SAYE share-based payments	-	42	42
Total transactions with shareholder	**-**	**435**	**435**
Balance at 31 December 2021	**10,000**	**67,785**	**77,785**

The accompanying notes and information on pages 15 to 33 form an integral part of the financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Basis of preparation of financial statements

Prudential Capital Public Limited Company (the 'Company') is a company incorporated in England and domiciled in the United Kingdom.

The financial statements have been prepared on the historical cost basis as modified by a fair value basis for derivative financial instruments, financial instruments classified as fair value through the profit or loss and liabilities for cash-settled share based payments.

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.

The Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- the requirement of IAS 7 to present a statement of cash flows;
- the requirement of IAS 24 to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirement of paragraph 17 of IAS 24 to disclose key management personnel compensation;
- the requirements of IAS 8 to disclose the effect of new but not effective IFRS standards; and
- the requirements of paragraph 10(d), 10(f), 16, 38A, 38B, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements.

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 are available to the public from the Company Secretary, at 10 Fenchurch Avenue, London, EC3M 5AG.

As the consolidated financial statements of the Group include the equivalent disclosures the Company has also taken the exemption under FRS101 available in respect of the following disclosures:

- the requirements of paragraphs 45(b) and 46–52 of IFRS 2: Share Based Payments.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

1.2 New accounting pronouncements adopted by the Company

In preparing these financial statements the Company has adopted the following amendment that became effective during the year:

Amendments to IFRS 7 and IFRS 9: Interest rate benchmark reform – Phase 2 amendments

The Phase 2 amendments allow a practical expedient where any changes in the fair value of financial instruments as a direct consequence from the Interbank Offered Rate (IBOR) reform are managed by updating the effective interest rate, therefore removing the recognition of gains or losses in the income statement as a result of the reform. These amendments also allow relief from financial instrument de-recognition requirements which would result from the IBOR reform.

The Company has participated in the Group's formal programme to facilitate the transition of all impacted instruments to the alternative benchmark rate. The main exposure of the Company was the phase out of sterling London Interbank Offered Rate (LIBOR) which was the benchmark rate for various derivative and non-derivative financial positions.

Notes to the Financial Statements (continued)

1.2 New accounting pronouncements adopted by the Company (continued)

In relation to derivative positions, the Company had signed up to the ISDA LIBOR fallbacks protocol and this resulted in the sterling LIBOR linked positions transitioning at the end of 2021 as per the ISDA fallbacks.

In relation to non-derivative positions, the transitioned instruments have used replacement rates and spreads that result in valuations not changing significantly. The transition to the alternative benchmark rates did not have a significant impact on the financial statements for the year ended 31 December 2021.

1.3 Going concern

The Company provides the Group with treasury services, liquidity and collateral management services, and generates revenue from a portfolio of loans and debt securities. The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. The key method for assessing going concern is through the business planning process which considers profitability, liquidity and solvency. The business planning process considers the Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate.

The Company is exposed to fair value volatility from its debt securities portfolio. Derivative financial instruments are used to mitigate interest rate and foreign exchange rate exposures, but some fair value volatility remains, including exposure to credit risks. Recognising the potential for market volatility, the parent company, M&G plc, has provided a letter of support, stating M&G plc is willing to provide financial support to the Company if needed.

The Company has a net current liabilities position as a result of using short-term borrowings, received from its parent company M&G plc, to purchase debt securities that are intended to be held to expected maturity. The debt securities consist of high credit quality bonds and UK gilts (see note 10) which are liquid and can be readily converted into cash.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2021.

1.4 Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ('FVTPL'), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Financial Statements (continued)

1.4 Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company 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.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- 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.

Loan investments, trade and other debtors are measured at amortised cost.

All financial assets not classified as measured at amortised cost are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Investments in debt securities are irrevocably designated at FVTPL.

Cash and cash equivalents comprise cash at bank balances, short term deposits and reverse repurchase transactions.

(b) Subsequent measurement and gains and losses

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

Financial liabilities and equity

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

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

<u>Notes to the Financial Statements</u> (continued)

1.4 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

***Financial liabilities and equity** (continued)*

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

(iii) Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(iv) Impairment

The Company recognises loss allowances for expected credit losses ('ECLs') on financial assets measured at amortised cost, and contract assets (as defined in IFRS 15 'Revenue from Contracts with Customers').

The Company measures loss allowances at an amount equal to lifetime ECL, except for loan investments and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers loan investments to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be equivalent of BBB- or higher per rating agency Standard & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs
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 Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

<u>Notes to the Financial Statements</u> (continued)

1.4 Financial instruments (continued)

(iv) Impairment (continued)

Write-offs
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

1.5 Foreign currency transactions

Functional and presentation currency
The Company's functional and presentational currency is GBP.

Transaction and balances
Foreign currency transactions are translated into sterling at average rates of exchange during the year. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit or loss account.

1.6 Dividends

Dividends paid to shareholders are recognised when approved.

1.7 Interest

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.8 Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised 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. Temporary differences are not provided for on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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.

Notes to the Financial Statements (continued)

1.8 Tax (continued)

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.

1.9 Share-based payments

All share based payments made to employees for services rendered, are measured based on the fair value of the equity instrument granted. The fair value takes into account the impact of market based vesting conditions and non-vesting conditions, but excludes any impact of non-market based vesting conditions. The related share based payment expense is recognised over the vesting period. The fair value may be determined using an option pricing model such as Black-Scholes where appropriate, taking into account the terms and conditions of the award.

For equity-settled share-based payments, the fair value of service rendered is based on the fair value of the equity instrument at grant date, which is not remeasured subsequently. The share-based payment expense is recognised over the vesting period and is based on the number of equity instruments expected to vest, with the corresponding entry to equity.

A cancellation of an award without the grant of a replacement equity instrument is accounted for as an acceleration of vesting. Accordingly, any share based expense that would have been recognised over the remaining vesting period is recognised immediately.

Where replacement equity instruments are granted to employees in place of the cancelled equity instruments, the replacement award is treated as a modification of the original award. At the point of replacement, the awards are remeasured to the fair value at the date of replacement, which forms the basis of recognising the expense over the remaining vesting period.

1.10 Pension costs

Certain Company employees are members of the M&G Group Pension Scheme or the Prudential Staff Pension Scheme, both of which operate defined benefit schemes. The Company is unable to identify its share of the underlying assets and liabilities of either scheme on a consistent and reasonable basis and therefore as required by IAS 19 'Employee Benefits' accounts for them as if they were defined contribution schemes. Contributions are charged to the profit and loss account as they become payable under the rules of the scheme.

1.11 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the Financial Statements (continued)

1.12 Long-term employee benefits

Long-term deferred cash employee bonus schemes are earned over four years, and linked to business performance for the three years following the incentive plan commencement. These long-term incentive plans are measured on an undiscounted basis and are expensed over the four year period. A liability is recognised for the amount expected to be paid under long term incentive plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. Interest income

	2021 £'000	2020 £'000
Interest income on loan investments	**72**	45
Interest income on debt securities	**9,965**	7,729
Interest and fee income on derivatives	**6,389**	11,257
Interest income from group undertakings	**1,176**	1,094
Interest income on bank and short-term deposits	**297**	891
	17,899	21,016

3. Interest expenses and similar charges

	2021 £'000	2020 £'000
Interest expenses to group undertakings	**269**	2,225
Interest and fee expenses on derivatives	**11,384**	12,127
Other interest expenses	**159**	552
	11,812	14,904

4. Other operating income

	2021 £'000	2020 £'000
Fees receivable on loan investments	**1,218**	1,196
Management fees from fellow group undertakings	**12,112**	16,750
Realised gains on debt securities	**949**	40,202
Realised losses on derivatives	**(4,323)**	(17,331)
Foreign exchange gains	**8**	241
	9,964	41,058

5. Expenses and auditor's remuneration

Amounts receivable by the Company's auditor in respect of the audit of the Company's financial statements is £73,080 (2020: £72,030).

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, M&G plc.

Notes to the Financial Statements (continued)

6. Staff numbers and costs

The aggregate payroll costs, including Directors' remuneration, were as follows:

	2021 £'000	2020 £'000
Wages and salaries	**7,426**	7,876
Share based payments (see note 19)	**1,782**	2,856
Social security costs	**1,288**	1,440
Pension scheme costs (see note 1.10)	**958**	1,003
	11,454	13,175

The average number of staff employed by the Company, including the Directors, was 25 (2020: 26). Staff provide services to manage the Company's asset portfolio, and also services to fellow Group undertakings. Management fee income is recognised for services to fellow Group undertakings (note 4).

7. Directors' emoluments

	2021 £'000	2020 £'000
Directors' emoluments	**13**	11
Deferred compensation incentive plan awards	**15**	27
	28	38

Directors' emoluments are based upon the apportionment of time spent providing qualifying services as Directors for the Company. For the highest paid director, the aggregate of emoluments was £3,870 (2020: £4,465) and the deferred compensation award made under long-term incentive plans was £6,422 (2020: £11,320). The highest paid director for the year is a member of a defined benefit scheme under which the accrued pension at the year end, which would be available from normal retirement date, was £71,509 (2020: £57,857). The highest paid director exercised zero (2020: zero) M&G plc share options during the year.

	Number of Directors	
	2021	2020
The number of Directors with retirement benefits accruing under the defined benefit schemes.	**2**	3
The number of Directors who exercised share options	**1**	0
The number of Directors in respect of whose services shares were received or receivable under long term schemes	**4**	4

8. Unrealised gains/ (losses) on measurement to fair value

	2021 £'000	2020 £'000
Unrealised gains on debt securities	**15,676**	31,044
Unrealised losses on derivatives	**(6,936)**	(45,909)
	8,740	(14,865)

Notes to the Financial Statements (continued)

9. Tax

(a) Analysis of tax charge for the year

	2021 £'000	2020 £'000
Current tax		
Current tax on profit for the year	**(826)**	(1,448)
Adjustments in respect of prior years	**(9)**	654
Total current tax	**(835)**	(794)
Deferred tax		
Current year	**(671)**	(340)
Adjustments in respect of previous years	**(74)**	(114)
Effect of changes in tax rate	**451**	388
Total deferred tax	**(294)**	(66)
Total tax	**(1,129)**	(860)

(b) Factors affecting tax charge for the period

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.

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

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	**7,560**	10,445
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**(1,436)**	(1,985)
Effects of:		
Tax rate changes	**451**	388
Share options	**(61)**	196
Expenses not deductible	**-**	1
Adjustments in respect of previous years	**(83)**	540
Total tax charge	**(1,129)**	(860)

(c) Deferred taxation

	2021	2020
Balance at 1 January	**3,342**	3,408
Charged to profit for the year	**(219)**	48
Charge in equity for the year	**282**	-
Adjustments in respect of prior years	**(74)**	(114)
Balance at 31 December	**3,331**	3,342

The deferred tax balance is attributable to the following:

	2021	2020
Employee benefits	**39**	31
Share based payments	**1,178**	932
Debt securities	**(6,123)**	(6,895)
Derivatives	**8,237**	9,274
	3,331	3,342

Notes to the Financial Statements (continued)

9. Tax (continued)

(d) 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.

10. Debt securities

Debt securities, which are designated as fair value through profit and loss, comprise the following:

	2021 £'000	2020 £'000
Government gilts	**687,929**	624,345
Supranational securities	**36,994**	14,992
Residential mortgage-backed securities	**148,399**	103,614
Other asset-backed securities	**39,529**	36,709
Corporate securities	**353,457**	183,685
	1,266,308	963,345

Debt securities of £187,162,835 (2020: £36,537,804) are expected to mature within one year after the reporting period, and £1,079,145,182 (2020: £926,806,834) after more than one year.

The following table summarises the securities detailed above by rating. Standard & Poor's ('S&P') ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

	2021 £'000	2020 £'000
AAA	**388,611**	216,600
AA+ to AA-	**780,830**	705,790
A+ to A-	**96,867**	40,955
	1,266,308	963,345

Analysis of the debt securities by listing status is as follows:

	2021 £'000	2020 £'000
Listed	**1,228,684**	963,345
Unlisted	**37,624**	-
	1,266,308	963,345

Details of debt securities pledged by the Company as collateral to counterparties in respect of its over-the-counter ('OTC') derivative positions and borrowings under repurchase agreements are detailed in note 20. The debt securities not pledged as collateral, are unencumbered high quality bonds and UK gilts which are liquid and can be readily converted into cash.

Notes to the Financial Statements (continued)

11. Debtors

	2021	2020
	£'000	£'000
Amounts due from group undertakings	**1,077**	8,936
Cash collateral posted in respect of OTC derivative	**52,692**	65,814
Other debtors	**7**	7
Corporation tax	**-**	249
Interest receivable	**3,960**	4,199
Accrued income	**116**	123
	57,852	79,328

12. Derivative assets

	2021	2020
	£'000	£'000
Derivative assets	**143,336**	125,932

Derivative assets includes an amount of £11,296,862 (2020: £16,738,338) which relates to derivative transactions undertaken with a Group counterparty.

13. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank, short term deposits held with banks and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

	2021	2020
	£'000	£'000
Cash at bank and in hand	**152,665**	17,930
Secured deposits made under reverse repurchase agreements	**810,000**	353,000
	962,665	370,930

UK Gilts with a total fair value of £811,130,415 (2020: £353,566,670) were pledged as collateral to the Company by external counterparties in respect of deposits made under reverse repurchase arrangements.

14. Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Amounts owed to group undertakings	**1,873,066**	1,015,588
Obligations under repurchase agreement	**25,000**	25,000
Cash collateral received in respect of OTC derivative positions	**113,531**	88,209
Derivative liabilities	**17,832**	1,544
Interest payable	**3,315**	3,669
Corporation tax	**344**	-
Accrued expenses, deferred income and other payables	**5,288**	7,531
	2,038,376	1,141,541

Obligations under repurchase agreement includes an amount of £25,000,000 (2020: £25,000,000) which relates to a repurchase arrangement with a Group counterparty.

Notes to the Financial Statements (continued)

14. Creditors: amounts falling due within one year (continued)

Derivative liabilities includes an amount of £2,605,623 (2020: £Nil) which relates to derivative transactions undertaken with a Group counterparty.

15. Net current liabilities

Net current liabilities arise as a result of the Company using short-term borrowings, received from its ultimate parent company M&G plc to purchase debt securities that are intended to be held to expected maturity. The debt securities consist of high quality bonds and UK gilts (see note 10), and when not pledged as collateral (see note 20), these securities are liquid and can be readily converted into cash.

16. Creditors - amounts falling due after more than one year

	2021	2020
	£'000	£'000
Derivative liabilities	**316,631**	329,983
Accrued expenses	**700**	434
	317,331	330,417

17. Share capital

	2021	2020
	£'000	£'000
Allotted, issued and fully paid		
10 million ordinary shares of £1 each	**10,000**	10,000

The Company has paid dividend of £Nil (2020: £Nil) on the issued ordinary share capital.

18. Commitments

Financial commitments

At the year end the Company had entered into commitments to provide loan facilities as follows:

	2021	2020
	£'000	£'000
Commitments to group undertakings	**325,000**	25,000
Commitments to external counterparties	**126,239**	135,546
	451,239	160,546

The commitments were entered into in the normal course of business and the Directors do not expect a material adverse impact on the operations to arise from them.

Notes to the Financial Statements (continued)

18. Commitments (continued)

Off balance sheet arrangements

The Company provided UK Government credit protection through credit default swaps with various counterparties. The total notional exposure amounted to £207 million (2020: £260 million).

The Company has provided a guarantee to The Prudential Assurance Company Limited ('PAC'), a related Group counterparty, under which it provides collateral of £218 million (2020: £228 million) in the form of debt securities. The value of collateral pledged under this guarantee (see note 20) is subject to haircut adjustments.

The Company has seconded several employees to M&G Investment Management Limited ('M&GIM'), a fellow Group undertaking, to provide services in relation M&GIM's role as agent for securities lending activities on behalf of PAC and certain funds within the M&G securities lending programme of which PAC and certain affiliates are the only investors.

The Company has provided an indemnity to the participants of the M&G securities lending programme in respect of losses arising from the securities lending activity which is uncapped for credit and market risks and capped at £7.5 million per annum for operational losses. Losses relating to retrospective changes in tax legislation are not covered by the indemnities.

19. Share-based payments

(a) Share-based payment expense charged to the income statement

Share-based compensation expenses recognised during the year are disclosed in note 6.

(b) Description of the plans

The Company operates various share-based payment schemes that award M&G plc shares to participants upon meeting the required vesting conditions. All discretionary and approved schemes are accounted for as equity-settled. Details of those schemes are stated below:

Discretionary Schemes	**Description**
Long-term Incentive Plan ("LTIP")	The LTIP is a conditional share plan: the shares awarded will be ordinarily released to participants after three years to the extent that performance conditions have been met.
Group Deferred Bonus Plan ("GDBP")	Under these plans, part of the participant's annual bonus is paid in the form of a share award that vests after three years. There are no performance conditions associated with this plan.
Restricted Share Plan ("RSP")	Awards under this plan are discretionary and ad-hoc, and the vesting of awards may be subject to performance conditions.

Notes to the Financial Statements (continued)

19. Share-based payments (continued)

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

(c) Outstanding options and awards

The following table provides a summary of the range of exercise prices for the SAYE options. The awards under the other schemes do not have an exercise price:

	Number outstanding	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices (£)**	**Number exercisable**
2021				
£1 - £2	350,066	2.90	1.33	-
2020				
£1 - £2	338,621	3.65	1.29	-

20. Financial instruments

Financial risk management objectives and policies
The Company's business involves the acceptance and management of risks.

The Company's exposure to financial risks associated with financial instruments held in the ordinary course of business includes:

Credit risk
Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract.

The acceptance of credit risk is a significant part of the Company's business. Credit risk is controlled by the credit experience of the Company and M&G plc. The Company's maximum exposure to credit risk of financial instruments before any allowance for collateral is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk, comprising cash at bank and cash equivalents, deposits, debt securities, loans and derivative assets.

Notes to the Financial Statements (continued)

20. Financial instruments (continued)

The following table details the debt securities and cash collateral pledged or received by the Company in respect of its activities.

	Debt securities		Cash	
	Pledged	**Received**	**Pledged**	**Received**
	£'000	**£'000**	**£'000**	**£'000**
31 December 2021				
OTC derivative positions	321,730	-	52,692	113,531
Reverse Repo trades	-	811,130	-	-
Repo trades	27,894	-	-	-
Group guarantees (note 18)	232,001	-	-	-
	581,625	**811,130**	**52,692**	**113,531**
31 December 2020				
OTC derivative positions	287,225	-	65,814	88,209
Reverse Repo trades	-	353,567	-	-
Repo trades	27,982	-	-	-
Group guarantees (note 18)	236,362	-	-	-
	551,569	**353,567**	**65,814**	**88,209**

The Company has also provided credit protection on the UK Government under credit default swaps. The total notional exposure amounted to £207 million (2020: £260 million).

Cash is placed with banks and financial institutions which are regulated and rated by rating agencies.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments.

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps.

Market risk – Interest rate risk

The following table summarises the Company's sensitivity to a 1% and 2% change in interest rates, and the net impact to the profit after tax. The calculations assume that the change occurred at the balance sheet date and had been applied to risk exposures at that date.

	Decrease 2%	**Decrease 1%**	**Increase 1%**	**Increase 2%**
	£'000	**£'000**	**£'000**	**£'000**
2021				
Debt securities	161,600	75,260	(66,394)	(125,196)
OTC derivatives	(159,679)	(74,644)	65,709	123,713
Current tax	(365)	(117)	130	282
Increase (decrease) in profit after tax	**1,556**	**499**	**(555)**	**(1,201)**
2020				
Debt securities	203,805	91,471	(75,023)	(138,162)
OTC derivatives	(214,054)	(95,730)	78,673	144,266
Current tax	1,947	809	(693)	(1,160)
Increase (decrease) in profit after tax	**(8,302)**	**(3,450)**	**2,957**	**4,944**

Notes to the Financial Statements (continued)

20. Financial instruments (continued)

Market risk - Currency risk

The Company's net exposure to currency risk is as follows:

	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
31 December 2021					
Net exposure	73,584	3,261	557	383	77,785
31 December 2020					
Net exposure	68,695	1,688	365	171	70,919

Sensitivity analysis

A 5 percent weakening of the US dollar and euro currencies against pound sterling at 31 December 2021 would have decreased profit before tax by the amounts shown below. A 5 percent strengthening of the US dollar and euro currencies against pound sterling at 31 December 2021 would have increased profit before tax by the equal and opposite of the amounts shown below. These calculations assume that the change occurred at the balance sheet date and had been applied to risk exposures at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Impact on profit before taxation £'000
2021	
USD	(225)
EUR	(5)
2020	
USD	(180)
EUR	(2)

Market risk - Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates.

Liquidity management in the Company and the wider group seeks to ensure that, even under adverse conditions, the Company has access to funds necessary to cover maturing liabilities.

The following table sets out the contractual maturities for financial liabilities, excluding derivative liabilities that are separately presented. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

	Total carrying value £'000	Contractual cash flows £'000	1 year or less £'000	After 1 year to 5 years £'000	No stated maturity £'000
2021					
Amounts owed to group undertakings	1,873,066	1,873,066	1,873,066	-	-
Obligations under repurchase agreements	25,000	25,000	25,000	-	-
Other creditors	123,178	123,178	3,315	700	119,163
	2,021,244	2,021,244	1,901,381	700	119,163
2020					
Amounts owed to group undertakings	1,015,588	1,015,588	1,015,588	-	-
Obligations under repurchase agreements	25,000	25,000	25,000	-	-
Other creditors	99,843	99,843	3,669	434	95,740
	1,140,431	1,140,431	1,044,257	434	95,740

Notes to the Financial Statements (continued)

20. Financial instruments (continued)

The following table shows the gross and net derivatives positions together with a maturity profile of the net derivative position:

	Carrying value of derivatives			Maturity profile of net derivative position				
	Derivative assets £'000	Derivative liabilities £'000	Net derivative position £'000	Total expected cash flows £'000	1 year or less £'000	After 1 year to 3 years £'000	After 3 years to 5 years £'000	After 5 years £'000
2021	143,336	(334,463)	(191,127)	(209,050)	(10,772)	(6,331)	3,192	(195,139)
2020	125,932	(331,527)	(205,595)	(214,771)	5,911	(13,660)	(10,018)	(197,004)

Offsetting assets and liabilities

The Company's derivative instruments and repurchase agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from the same counterparty that is enforceable in the event of default or bankruptcy. The Company recognises amounts subject to master netting arrangements on a gross basis within the balance sheet.

The following table presents the gross and net information about the Company's financial instruments which are subject to master netting and similar collateral arrangements.

	Gross amount included in Balance Sheet £'000	Related amounts not offset in the balance sheet: Financial Instruments £'000	Cash Collateral £'000	Securities Collateral £'000	Net Amount £'000
2021					
Financial assets					
Derivative assets	143,336	(20,465)	(110,834)	-	12,037
Reverse repurchase agreements	810,000	-	-	(809,740)	260
	953,336	(20,465)	(110,834)	(809,740)	12,297
Financial liabilities					
Derivative liabilities	(334,463)	20,465	46,262	265,130	(2,606)
Repurchase agreements	(25,000)	-	-	25,000	-
	(359,463)	20,465	46,262	290,130	(2,606)
2020					
Financial assets					
Derivative assets	125,932	(25,027)	(82,725)	-	18,180
Reverse repurchase agreements	353,000	-	-	(353,000)	-
	478,932	(25,027)	(82,725)	(353,000)	18,180
Financial liabilities					
Derivative liabilities	(331,527)	25,027	59,474	242,390	(4,636)
Repurchase agreements	(25,000)	-	-	25,000	-
	(356,527)	25,027	59,474	267,390	(4,636)

In the table above, the amounts of assets and liabilities presented in the balance sheet are offset first by financial instruments that have the right of offset under master netting arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the table.

Notes to the Financial Statements (continued)

20. Financial instruments (continued)

Assets and liabilities – Classification and measurement
The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market prices for exchange-quoted investments, or by using quotations from independent third parties, such as brokers and pricing services or by using appropriate valuation techniques.

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

The carrying amount of the Company's other financial assets and financial liabilities is a reasonable approximation of their fair values.

The classification of the Company's assets and liabilities, and the corresponding accounting carrying values reflect the requirements of IFRS.

	At fair value through profit & loss £'000	Amortised cost £'000	Total carrying amount £'000
2021			
Debt securities	1,266,308	-	1,266,308
Amounts owed by group undertakings	-	1,077	1,077
Other debtors	-	56,775	56,775
Derivative assets	143,336	-	143,336
Cash and cash equivalents	-	962,665	962,665
	1,409,644	1,020,517	2,430,161
Amounts owed to group undertakings	-	(1,873,066)	(1,873,066)
Obligations under repurchase agreements	-	(25,000)	(25,000)
Derivative liabilities	(334,463)	-	(334,463)
Other liabilities	-	(123,178)	(123,178)
	(334,463)	(2,021,244)	(2,355,707)
2020			
Debt securities	963,345	-	963,345
Amounts owed by group undertakings	-	8,936	8,936
Other debtors	-	73,734	73,734
Derivative assets	125,932	-	125,932
Cash and cash equivalents	-	370,930	370,930
	1.089,277	453,600	1,542,877
Amounts owed to group undertakings	-	(1,015,588)	(1,015,588)
Obligations under repurchase agreements	-	(25,000)	(25,000)
Derivative liabilities	(331,527)	-	(331,527)
Other liabilities	-	(99,843)	(99,843)
	(331,527)	(1,140,431)	(1,471,958)

Notes to the Financial Statements (continued)

20. Financial instruments (continued)

IFRS 13 Fair value hierarchy

The table below shows financial instruments carried at fair value analysed by the level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability valuation that are not based on observable market data.

During the year debt securities with a carrying amount of £Nil (2020: £76,237,415) was transferred from level 2 to level 1 because there were sufficient quoted prices in the respective debt securities markets. Additionally, during the year debt securities with a carrying amount of £93,348,860 (2020: £9,893,597) was transferred from level 1 to level 2 because there were no longer sufficient quoted prices available. There were no other transfers in or out of level 1, level 2 and level 3 (2020: £Nil).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2021				
Debt securities	666,264	600,044	-	1,266,308
Derivative assets	-	143,336	-	143,336
Total assets	666,264	743,380	-	1,409,644
Derivative liabilities	-	(334,463)	-	(334,463)
2020				
Debt securities	747,859	215,486	-	963,345
Derivative assets	-	125,932	-	125,932
Total assets	747,859	341,418	-	1,089,277
Derivative liabilities	-	(331,527)	-	(331,527)

21. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of Financial Reporting Standard 101 (FRS101) from disclosing transactions with other subsidiary undertakings of the group.

22. Immediate and ultimate parent company

The Company's immediate and ultimate parent company is M&G plc registered at 10 Fenchurch Avenue, London, EC3M 5AG, and incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and can be obtained from the registered office.