Registered number 02448335

Prudential Portfolio Management Group Limited

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

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Company Information

Directors	D W King R A Monnington R P Newby (resigned 30 September 2021)
Company Secretary	M&G Management Services Limited
Registered Office	10 Fenchurch Avenue London EC3M 5AG
Registered number	02448335
Independent Auditor	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL

Strategic report

Business review

The principal activity of the Company is the provision of investment management and advisory services to other entities within the M&G plc group, while maintaining strong procedural controls and a risk and compliance framework and culture that meets internal, group regulatory and expected market standards.

The Company's objective is not profit generation, and remuneration for the services provided is determined on a cost transfer basis of operating expenses without mark-up. The operational loss before tax for the year was £101,000 (2020: £83,000). Details of the results for the year are set out in the Profit and Loss Account and Other Comprehensive Income on page 11.

During 2022, the Company expects to continue to be an employing entity and provide investment management and advisory services to other group undertakings.

Key performance indicators

The Company's net asset position remained relatively stable at £1,240,000 (2020: £1,102,000). A stable capital and reserves position is representative of the Company's objective to provide services to the group without profit margin.

Principal risks and uncertainties

The Company provides investment management and advisory services to various group undertakings under an Investment Services Management Agreement ("ISMA"). The remuneration for the services provided by the Company under the ISMA shall be determined on a cost transfer basis of operating expenses.

The Company is only liable to the group undertakings for any losses incurred by them to the extent that the losses are the direct result of any act or omission by the Company which constitutes negligence, wilful default or fraud by the Company, its directors, officers or employees in providing any of the services under the ISMA.

Financial risk

The Company has limited exposure to financial risk through its financial assets and liabilities. From a credit risk perspective, the primary exposures are ISMA service fees receivable from related group undertakings, and cash at bank. From a liquidity risk perspective, cash inflow is managed through collection of fees from material service recipients as they accrue, thereby allowing the Company to settle external third party invoices, payroll and group overhead costs as and when required. The financial risks affecting the Company and the management thereof are further discussed in Note 11.

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.

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.

Strategic report (continued)

Non-financial risk (continued)

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.

Changes in the regulatory and market environment or strategic decisions of associated companies, could play a role in forcing the senior management to take decisions which could affect the company's performance. The Company is reliant on related group undertakings requiring and seeking investment management and advisory services from the Company. The Company's strategic risk is limited as the objective is not profit generation, and remuneration for the services provided is determined on a cost transfer basis of operating expenses.

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. The group has a suitably resourced risk and first line controls functions, which assist the business to ensure ongoing identification of current and emerging operational risks, and appropriate mitigation of these risks, with particular focus where there may be an impact on the investment portfolios for which the Company provides management and advisory services. Apart from being a sound management practice, the continuous assessment and mitigation of these operational risks also ensures minimal likelihood of the Company being exposed to an act of negligence under the ISMA agreement.

Where the Company has involvement in operational events that result in a service recipient making an Investment Management Loss ("IML"), the Company may be required to provide service recipients with compensation equal to the loss incurred. Any compensation paid is a cost absorbed by the Company (i.e. not recoverable through management fees), thereby directly reducing the Company's net asset position. IML's that may possibly require compensation payments are discussed in Note 12.

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 Company is reliant on the group's support services for finance, risk, compliance, information technology, and human resource functions which must operate soundly to support the smooth continuity of the Company's business activity. Risk management processes, service level agreements and related internal control mechanisms ensure group risk is appropriately managed.

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 directors 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.

Strategic report (continued)

Section 172(1) Statement (continued)

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, strategic priorities and alignment with the M&G plc group's regulatory obligations, overarching culture, vision and values.

As is normal for a medium-sized company, the board delegates authority for day-to-day management to an Executive Committee ('Investment Office Executive Committee') who in turn charges management with execution of the business strategy and related policies. The Investment Office Executive Committee review at each regular meeting, financial and operational performance of the group's investments within scope of the ISMA as well as related risk, and compliance 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 group forums. There are other matters, including diversity and inclusivity, environmental matters, corporate responsibility and governance, legal and some stakeholder engagement, where the board and the Investment Office Executive Committee has judged that policy and decision-making is best undertaken at a group level.

The Company's key stakeholders are its ultimate beneficial owner, M&G plc and related group entities, in particular the ISMA service recipients and thereby ultimate investors in various investment products offered by the group, 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.

Principal Decisions

The board 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 primary principal decisions included the strategic asset allocation and investment mix recommendations agreed by the Investment Office Executive Committee, and subsequently tabled for final decision at relevant boards and committees of the ISMA service recipients. The annual strategic asset allocation review is a significant component of the Company's service offering and of strategic importance to the performance of the investment portfolio's within scope of the ISMA.

Furthermore, the Company continued to provide ISMA service recipients with advice on their underlying fund manager selection, with a view to maximise investment portfolio returns in the most efficient manner, while remaining within risk appetite and achieving desired strategic objectives (including environmental, social and governance targets). This advisory service included the ongoing monitoring and review of fund manager's performance, and the Company continued to actively provide recommendations on fund manager changes where the ISMA service recipients are expected to benefit.

This report was approved for and on behalf of the board.

D.W King

D W King
Director

22 September 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:

D W King
R A Monnington
R P Newby (resigned 30 September 2021)

Results

The loss for the year, after taxation, amounted to £98,000 (2020: £73,000). The loss was primarily due to approved share based compensation schemes (see Note 10b), for which the cost is recovered via equity contribution (and therefore not recovered via management fees to group undertakings).

Dividends paid

Interim dividends paid in the year amounted to £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.

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).

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.

The Company's recent history demonstrates resilience to continue operations through the COVID-19 pandemic and is not expected to incur any additional losses as a result. Expenses incurred by the Company will (except in rare circumstances) continue to be recharged and recovered from other statutory entities within the group.

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 donations

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.

<u>Directors' report</u> (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.

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.

Disclosure of information to auditor

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 each 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.

D.W King

D W King
Director

22 September 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.

Independent Auditor's Report to the Members of Prudential Portfolio Management Group Limited

Opinion

We have audited the financial statements of Prudential Portfolio Management Group Limited ("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 loss 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 unusual or unexpected relationships.

Independent Auditor's Report to the Members of Prudential Portfolio Management Group Limited (continued)

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 expense recharges, 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 (as required by auditing standards),and from inspection of the Company's regulatory and legal correspondence and have discussed the Directors 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 Portfolio Management Group Limited
(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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, 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
22 September 2022

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

	Note	**2021** £'000	2020 £'000
Revenue	2	**24,542**	25,983
Operating expenses	3	**(24,643)**	(26,066)
Operating loss on ordinary activities before tax		**(101)**	(83)
Tax credit on loss on ordinary activities	5	**3**	10
Total comprehensive loss for the financial year		**(98)**	(73)

There were no recognised gains and losses for 2021 and 2020 other than those included in the profit and loss account.

Operating income and profit on ordinary activities before taxation for the year relates exclusively to continuing operations.

The notes on pages 14 to 22 form an integral part of the financial statements.

Balance Sheet
As at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Deferred tax assets	5(c)	**539**	435
Current assets			
Debtors	6	**6,145**	17,860
Cash at bank		**3,946**	3,364
		10,091	21,224
Current liabilities			
Creditors - amounts falling due within one year	7	**(9,133)**	(20,224)
Net current assets		**958**	1,000
Total assets less current liabilities		**1,497**	1,435
Non-current liabilities			
Creditors – amounts falling due after more than one year	8	**(257)**	(333)
Net assets		**1,240**	1,102
Capital and reserves			
Called up share capital	9	**1,000**	1,000
Profit and loss account		**240**	102
Shareholders' funds – equity interests		**1,240**	1,102

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

D.W King

D W King
Director

22 September 2022

Company registered number: 02448335

The notes on pages 14 to 22 form an integral part of the financial statements.

Statement of Changes in Equity

	Note	Called Up Share Capital £'000	Profit And Loss Account £'000	Total Equity £'000
Balance at 1 January 2020		**1,000**	**91**	**1,091**
Loss for the year		-	(73)	(73)
Total comprehensive loss for the period		**-**	**(73)**	**(73)**
Share based payments	10	-	83	83
Deferred tax on share-based payments	5(a)	-	(2)	(2)
Current tax movements	5(a)	-	3	3
Total transactions with shareholder		**-**	**84**	**84**
Balance at 31 December 2020		**1,000**	**102**	**1,102**
Balance at 1 January 2021		**1,000**	**102**	**1,102**
Loss for the year		-	(98)	(98)
Total comprehensive loss for the period		**-**	**(98)**	**(98)**
Share based payments	10	-	73	73
Deferred tax on share-based payments	5(a)	-	156	156
Current tax movements	5(a)	-	7	7
Total transactions with shareholder		**-**	**236**	**236**
Balance at 31 December 2021		**1,000**	**240**	**1,240**

The notes on pages 14 to 22 form an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Basis of preparation of financial statements

Prudential Portfolio Management Group Limited (the "Company") is a company incorporated in England and domiciled in the UK. The address of its registered office is 10 Fenchurch Avenue, London, EC3M 5AG.

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 Financial Reporting Standards as adopted by the EU ("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.

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 disclosure 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 Adopted IFRSs and are available to the public and may be obtained from the Company Secretary, 10 Fenchurch Avenue, London, EC3M 5AG.

As the consolidated financial statements of M&G plc group include the equivalent disclosures the company has also taken the exemption under FRS101 available in the following disclosures:-

- the requirements of paragraphs 45 (b) and 46-52 of IFRS 2 Share-based payments

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. Various new accounting standards and pronouncements became effective on 1 January 2021, but none of these had a material impact on the financial statements.

1.2 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.

The Company's recent history demonstrates resilience to continue operations through the COVID-19 pandemic and is not expected to incur any additional losses as a result. Expenses incurred by the Company will (except in rare circumstances) continue to be recharged and recovered from other statutory entities within the group.

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.

Notes to the Financial Statements *(continued)*

1.3 Financial instruments

(i) Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
(i) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
(ii) 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 derecognition is recognised in profit or loss.

(ii) 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.

(iii) 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.

Notes to the Financial Statements *(continued)*

1.3 Financial instruments (continued)

(iii) Impairment (continued)

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.

1.4 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

1.5 Management fee revenue

Revenue includes fees for providing investment management and advisory services to group undertakings. Management fees are determined on a cost transfer basis of operating expenses with no profit margin. Fee revenue is recognised in the profit and loss account on an accruals basis.

1.6 Expenses

Operating expenses are recognised in the profit and loss account on an accrual basis.

1.7 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

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.

Notes to the Financial Statements *(continued)*

1.8 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.

1.9 Pension costs

Certain Company employees are members of the M&G Group Pension Scheme which operates a defined benefit scheme. 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.

1.10 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.

Notes to the Financial Statements *(continued)*

2. Revenue

	2021	2020
	£'000	£'000
Management fees from group undertakings	**24,542**	25,983

3. Operating expenses

Included within the Company's expenses are the following staff costs:

	2021	2020
	£'000	£'000
Wages and salaries	**10,964**	**10,735**
Share based payments	**469**	**771**
Social security costs	**1,334**	**1,423**
Other pension costs	**891**	**930**
	13,658	**13,859**

The average number of staff employed by the Company was 63 (2020: 66).

Amounts receivable by the Company's auditor in respect of the audit of the Company's financial statements is £20,254 (2020: £19,955). 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.

4. Directors' emoluments

Total directors' emoluments for the year are as follows:

	2021	2020
	£'000	£'000
Directors' emoluments	**63**	27
Amounts receivable under long term incentive plans	**89**	6
	152	33

Directors' emoluments, in accordance with Schedule 5 of the Regulations, are based upon the apportionment of time spent providing qualifying services as directors for the Company. This remuneration was borne by another group undertaking. An assessment has been made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this. The Company's directors also perform services for other group companies, and these costs are not included in the amounts disclosed above.

For the highest paid director, the aggregate qualifying emoluments was £55,879 (2020: £18,395) and amounts receivable under long term incentive schemes was £77,653 (2020: £5,417).

	Number of directors	
	2021	2020
The number of directors with retirement benefits accruing under defined benefit schemes	**-**	-
The number of directors who exercised share options	**-**	-
The number of directors in respect of whose services shares were received or receivable under long term schemes	**3**	3

Notes to the Financial Statements *(continued)*

5. Tax

	2021 £'000	2020 £'000
(a) Analysis of tax credit for the year		
Current Tax		
Current tax on profit for the year	**50**	(10)
Adjustment in respect of prior years	**6**	4
Total current tax credit / (charge)	**56**	(6)
Deferred Tax		
Origination and reversal of timing differences	**(89)**	(36)
Effect of changes in tax rates	**36**	52
Total deferred tax (charge) / credit	**(53)**	16
Total tax credit on ordinary activities	**3**	10
Equity Items		
Current tax	**7**	-
Current tax – prior year	**-**	3
Deferred tax – current year	**156**	(2)
Total tax credit to equity	**163**	1

(b) Factors affecting tax credit for the year

The tax credit assessed in the year is calculated by applying the standard rate of corporation tax in the UK as shown below. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits of the Company will be taxed.

	2021 £'000	2020 £'000
Loss on ordinary activities before tax	**(101)**	(83)
Tax calculated at standard rate of corporation tax of 19% (2020: 19%)	**19**	16
Effects of:		
Share schemes	**(52)**	(54)
Tax rate changes	**36**	52
Transfer pricing adjustments	**(6)**	(8)
Adjustments in respect of previous years	**6**	4
Total tax credit for the year	**3**	10

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.

Notes to the Financial Statements *(continued)*

5. Tax (continued)

(c) Deferred taxation

	2021 £'000	2020 £'000
Balance at 1 January	**435**	**422**
(Charge) / credit to profit for the year	**(53)**	**16**
Credit / (charge) to equity for the year	**156**	**(2)**
Adjustments in respect of prior years	**1**	**(1)**
Balance at 31 December	**539**	**435**

The deferred tax balance is attributable to the following:

	2021 £'000	2020 £'000
Employee benefits	**91**	**83**
Share based payments	**447**	**351**
Capital allowances	**1**	**1**
	539	**435**

(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.

6. Debtors: amounts receivable in less than one year

	2021 £'000	2020 £'000
Amounts due from group undertakings	**5,646**	17,665
Prepayments and other debtors	**447**	70
Corporation tax receivable	**52**	125
	6,145	17,860

7. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Amounts due to group undertakings	**4,053**	15,325
Accrued expenses and other payables	**5,080**	4,899
	9,133	20,224

8. Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Accrued expenses and other payables	**257**	333

9. Called up share capital

	2021 £'000	2020 £'000
Issued and fully paid		
One million ordinary shares of £1 each	**1,000**	1,000

Notes to the Financial Statements *(continued)*

10. 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 3.

(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
Performance Share Plan & Long-term Incentive Plan	These plans are conditional share plans: the shares awarded will be ordinarily released to participants after three years to the extent that performance conditions have been met.
Deferred Incentive Plan & Group Deferred Bonus Plan	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	Awards under this plan are discretionary and ad-hoc, and the vesting of awards may be subject to performance conditions.

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
2020				
£1 - £2	477,260	3.43	1.33	9,782
2021				
£1 - £2	466,712	2.55	1.34	-

Notes to the Financial Statements *(continued)*

11. Financial risk management

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

Liquidity risk

Liquidity risk is the risk that the Company, although solvent on a balance sheet basis, does not have sufficient resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

This risk is managed through careful management of bank balances and cash-flow forecasting. This includes collection of fees from material service recipients as they accrue, thereby allowing the Company to settle external third party invoices, payroll and group overhead costs as and when required. Furthermore, when agreeable with group counterparts, the Company settles amounts due to and from group undertakings on a net basis.

Credit risk

Credit risk is the risk of loss to the Company or of adverse change in the financial position, resulting from fluctuations in the credit standing of counterparties and any debtors in the form of default or other significant credit event.

The carrying value of amounts due from group undertakings and cash at bank represent the Company's maximum exposure to credit risk. As discussed above, when possible, the Company net settles amounts due to and from group undertakings, thereby minimising group credit risk exposures. No other financial assets carry a significant exposure to credit risk.

12. Contingent liability

Where the Company has involvement in operational events that result in a service recipient making an Investment Management Loss ("IML"), the Company may be required to provide service recipients with compensation equal to the loss incurred.

There is a potential claim of £312,316 (2020: £312,316) for compensation of an IML arising from a prior period. The IML relates to an error in process and consequential underlying data quality, upon which decisions were made regarding a service recipient's investment portfolio composition. The Company views the investment decisions as within agreed guidelines. Therefore the Company has not agreed to provide compensation for these losses, however this remains a possible, but not probable outcome. Should the Company pay compensation for this historical IML, the compensation paid would be a cost absorbed by the Company (i.e. not recoverable through management fees), thereby directly reducing the Company's net asset position.

13. Immediate and ultimate parent company

The immediate parent company is M&G Corporate Holdings Limited and the ultimate parent company is M&G plc, both are registered at 10 Fenchurch Avenue, London, EC3M 5AG, and incorporated in England and Wales. M&G plc prepares consolidated financial statements, copies of which can be obtained from the Company Secretary of the registered office at 10 Fenchurch Avenue, London, EC3M 5AG.

14. 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.