Registered No: SC212640

# PRUDENTIAL DISTRIBUTION LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

| CONTENTS | Page |
| --- | --- |

## Directors

C Bousfield
R Thomson
P Cooper (appointed 10 December 2019)

## Secretary

M&G Management Services Limited

## Auditor

KPMG LLP, London

PRUDENTIAL DISTRIBUTION LIMITED

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

### Principal activity

The principal activity of the Company is to act as the service company for the insurance business of M&G plc (the Group). It is one of the principal employers for the insurance business . The Company also provides product distribution services to the entities within the insurance business whose products are distributed through non-intermediated channels and is regulated by the Financial Conduct Authority (FCA) for its distribution activities. These activities are expected to continue in 2020.

### Business review

The Company incurs expenses on behalf of the entities within the insurance business unit which primarily includes The Prudential Assurance Company Limited (PAC) and its sub-funds. It recharges these expenses after charging a margin of 5%, with the exception of the business in PAC's With-Profits funds on which no margin is charged. The Company also earns revenue from a contract with DST Financial Services International Services Limited (previously known as International Financial Data Services Limited). The Company provided DST operational support services such as IT infrastructure management and document management services. The Company will continue to provide corporate database services until December 2020. The Company also earns fees on a collective investment fund arrangement with Link Fund Solutions Limited.

The Company is a wholly owned subsidiary of Prudential Financial Services Limited, which is a wholly owned subsidiary of M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales. The Group is an international financial services group, with significant operations in the United Kingdom and overseas. M&G plc was previously named M&G Prudential Limited. It registered as a public limited company M&G Prudential plc on 24 July 2019 and changed its name to M&G plc on 16 September 2019.

The Company continues to monitor the effects of the coronavirus (COVID-19) outbreak which has been declared as a pandemic by the World Health Organization. COVID-19 has caused significant sickness and death globally, along with substantial isolation where people may only leave their homes for critical journeys (i.e. to shop for food or if identified as a key worker). The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

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

COVID-19 is expected to result in a deterioration in financial performance over 2020. Operating income is expected to decline due to a reduction in income from the collectives arrangement if the funds under management reduce. The Company is not expected to incur any additional losses as any increase in expenses will be recharged and recovered from other statutory entities. The impact is discussed further in the post balance sheet event note in the Director's report and note 27 to the financial statements.

### Key Performance Indicators

| | **2019** | 2018 | Change |
|---|---|---|---|
| | **£000** | £000 | % |
| Turnover | **846,028** | 811,477 | 4 |
| Operating expenses | **(850,516)** | (805,584) | (6) |
| (Loss)/profit before tax | **(3,838)** | 7,147 | (154) |
| Shareholders' funds | **81,012** | 85,635 | (5) |
| Regulatory capital requirement (higher of IPRU INV and MIPRU requirements- see below) | **4,811** | 5,385 | (11) |

The Company generated a pre-tax loss of £3,838k during the year (2018: profit of £7,147k). The Company reported a loss of £11,301k in 2019 (2018: loss of £2,261k) on the collectives arrangement. The loss was higher on account of higher expenses related to transitional changes in the business as well as an increase in fund management expenses.

The Company has a net current liabilities position of £55 million at the balance sheet date and the ultimate parent company has provided a letter of support committing to subscribe to additional share capital of up to £83 million, in the event of future financing being required in the period up to twelve months from the date of signing these financial statements.

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

Section 172(1) Statement

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

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

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

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

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

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

**Principal Decisions**

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

**Principal decision 1 - Liquidity Appetite**

Each year the Board reviews the Company's ability to generate sufficient cash resources at efficient cost to meet its financial obligations as they fall due in both "business as usual" and stress scenarios. As part of its deliberations the Board considers a range of liquidity risk indicators, reverse stress testing, regulatory requirements and the potential risks that insufficient liquidity may have on a range of stakeholders, as well as the implications for the Company in such a scenario.

Risks & uncertainties

The Company is a wholly owned subsidiary of Prudential Financial Services Limited which is a subsidiary of M&G plc. The Company is subject to the Group's internal control and risk management processes as detailed in the Group Governance Framework (GGF) and Group Risk Management Framework (RMF). The control procedures and systems established within the Group, are designed to manage, rather than eliminate, the risk of failure to meet business objectives. As such, they can only provide reasonable rather than absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward within a clearly defined risk appetite, with the aim of achieving the business objectives.

The RMF requires all entities within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The RMF for the Company is approved by the Group Board Risk Committee and 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 financial risk factors affecting the Company include credit risk, liquidity risk and market risk. These financial risks are discussed in Note 23.

Non-financial risk

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

a) Business environment risk

Changing economic, political, environmental and market conditions, as well as changing customer needs and expectations, could adversely impact the Company and have implications for the profitability of its business model. The key dimensions to business environment risk pertaining to the Company are economic, political, competition and environmental. The COVID-19 outbreak could have an impact on the environment the Company operates in. Consumers, businesses and governments are already counting the economic cost of the outbreak, necessitating governments across the world to intervene with rescue and stimulus packages at unprecedented levels. The virus could not only impact global growth in the short term, but could lead to a sustained period of economic stagnation. The

Company's operating income could reduce due to reduction in the funds under management for the collectives arrangement.

b) Strategic risk

Strategic risk is the risk of loss to the business or failure to maximise opportunity resulting from ineffective, inefficient development or implementation of business strategy. Whilst the creation of M&G plc presents a significant opportunity to leverage scale, financial strength and complimentary product and distribution capabilities, it also carries strategic risk in terms of overall availability of funding, resources and the wider impacts of an extensive change agenda. The Company's activities are limited in nature, however the impacts of the change agenda across the Group present risks to the Company and may divert resources from it if not managed appropriately.

c) Operational risk

Operational risk is the risk of financial and non-financial impacts resulting from inadequate or failed internal processes, or from personnel and systems.

The Company's primary exposure to operational risk arises from business processes (e.g. customer administration, sales), people capabilities, operation of systems and financial reporting activity. Specific examples of potential operational risk exposures include outsourcer and supplier risk, technology and security risk and people risk, including impacts from the corona virus. Business continuity and resilience plans have been implemented to mitigate the operational and other risk impacts from the pandemic.

d) Reputational risk

The Company's reputation is the sum of its stakeholders' perceptions, which are shaped by the nature of stakeholder expectations and the Company's ability to meet them. Consequently, there is a risk that through its activities, behaviours or communications, it fails to meet stakeholder expectations in ways which adversely impact trust and reputation.

e) Regulatory compliance risk

The Company operates in highly regulated markets in a fluid environment. A number of regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, data privacy and systemic risks. Changes in UK government policy, legislation, regulation or regulatory interpretation may adversely affect the Company.

f) Group risk

Group risk is defined as the risk that the financial position of a firm may be adversely affected by its relationships, financial or non-financial, with other firms in the same group or by risks which may affect the financial position of the whole group.

Being a member of a Group can provide significant advantages for the Company in terms of financial strength, technical expertise and management experience. It can also give rise to risks; for example, if a guarantee of financial support given by the parent were removed, or from particular transactions arising from an impaired parent or affiliate within the Group. The independent capitalisation of the Company as well as the risk management processes and internal control mechanisms within the Company ensure group risk and potential conflicts of interest are appropriately managed.

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

H Archbold
On behalf of M&G Management Services Limited
Company Secretary
4 June 2020

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

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

Introduction

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Future developments

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

Ultimate parent company

The Company is a wholly owned subsidiary of Prudential Financial Services Limited, which is a wholly owned subsidiary of M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales and the parent company of the M&G plc group (the Group).

Corporate responsibility

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

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

As a savings and investment business with roots stretching back more than 170 years, the Group has a proud heritage of making a difference and creating positive long lasting impact. The Group believes it is important to be active and engaged to make its business and society stronger and more resilient. The Group aspires to ensure its investment has a sustainable benefit for its communities, its customers and its business.

The Group establishes long-term relationships with its charity partners on local, national and international programmes to improve lives and build communities and provide support not only through funding, but also with the experience and expertise of its colleagues.

The Group ensures that the projects it supports are sustainable, and it works closely with its partners to ensure that the programmes continuously improve.

The Group has three principal themes:
1. Urban regeneration - investing in essential needs for communities to thrive;
2. Economic empowerment - equipping people with the tools they need to be financially secure;
3. Skills and education - providing opportunities to prepare communities for future prosperity.

Governance

The Group has established an operating model for CR across M&G plc which provides guidance to support each office and market to manage charitable activities within the framework of a consistent, business-wide approach.

A CR Governance Committee is in place, with senior management representation, which oversees community investment activity and agrees strategy and spend. The Group Executive Committee and the Board review the CR strategy and performance on an annual basis.

The M&G plc CR team manages activities across the business: devising community investment initiatives, measuring impact and spend, tracking performance against annual competitor benchmarking, as well as refining issues of key social importance to the business and determining where the business can have the greatest social impact.

## Accounts

The state of affairs of the Company at 31 December 2019 is shown in the statement of financial position on page 13. The statement of comprehensive income appears on page 12.

## Post Balance sheet events

The Company continues to monitor the effects of the coronavirus (COVID-19) outbreak which has been declared as a pandemic by the World Health Organization. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

COVID-19 is expected to result in a deterioration in financial performance over 2020. Operating income is expected to decline due to a reduction in income from the collectives arrangement if the funds under management reduce. The Company is not expected to incur any additional losses as any increase in expenses will be recharged and recovered from other statutory entities.

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

## Dividends

No dividends were declared or paid during the year (2018: Nil).

## Share Capital

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

## Directors

The directors holding office during the year are shown on page 1.

Mr P Cooper was appointed as a director on 10 December 2019. There were no further changes during the year and up to the date of this report being authorised for issue.

## Employees

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

- Equal opportunity

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

- Employee involvement

Employees are invited to participate in the M&G plc Savings Related Share Option Scheme and can also participate in the M&G plc Share Incentive Plan. It is the Company's policy to communicate with employees on issues that concern them and to provide information to them through employee reports and regular manager briefings. Views of employees are sought through a number of channels including consultation through the medium of a staff consultative group.

### Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders please see the Section 172 Statement on pages 2-3. Being a wholly owned subsidiary of M&G plc stakeholder, engagement also takes place at a Group level.

### Financial risk management objectives, policies and exposure

The Company is exposed to risk through its financial assets and liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. Further information on the financial risk management objectives and policies of the Company are given in Note 23.

The Company's current liabilities exceed its current assets leading to the liquidity risk of not being able to meet its liabilities as they fall due. These risks have been mitigated by securing the letter of support from the ultimate parent company, M&G plc, committing to subscribe to additional share capital up to £83 million, in the event of future financing being required in the period until twelve months from the date of signing of these financial statements.

### Disclosure to auditor

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

### Auditor

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

### Directors' and Officers' Protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

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

H Archbold
On behalf of M&G Management Services Limited
Company Secretary
4 June 2020

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

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

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

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

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

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

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

## Opinion

We have audited the financial statements of Prudential Distribution Limited ("the company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. 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. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## Strategic Report and directors' report

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

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

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

## Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 9, 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.

William Greenfield

**William Greenfield (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
4 June 2020

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

| | 2019 | 2018 | Note |
|---|---|---|---|
| | **£000** | £000 | |
| Operating income | **846,028** | 811,477 | 3 |
| Staff costs | **(211,646)** | (228,059) | 4 |
| Other operating charges | **(638,870)** | (577,525) | 5 |
| Operating expenses | **(850,516)** | (805,584) | |
| **Operating (loss)/profit** | **(4,488)** | 5,893 | |
| Interest income | **2,694** | 1,827 | 6 |
| Interest expense | **(1,625)** | (926) | 7 |
| Unrealised (loss)/gains on derivatives | **(419)** | 353 | 8 |
| **(Loss)/profit before tax** | **(3,838)** | 7,147 | |
| Tax charge on (loss)/profit | **(2,020)** | (1,748) | 11 |
| **(Loss)/profit for the financial year** | **(5,858)** | 5,399 | |

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

The accounting policies on pages 15 to 19 along with accompanying notes on pages 20 to 39 form an integral part of these financial statements.

**PRUDENTIAL DISTRIBUTION LIMITED**

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019**

| | **2019** | 2018 | Note |
|---|---|---|---|
| | **£000** | £000 | |
| **Fixed assets** | | | |
| Intangible assets | **32,438** | — | 12 |
| Tangible fixed assets | **31,056** | 26,620 | 13 |
| | **63,494** | 26,620 | |
| **Non-current assets** | | | |
| Deferred tax asset | **9,100** | 8,458 | 11 |
| **Current assets** | | | |
| Derivative assets | — | 419 | |
| Trade and other debtors | **229,173** | 209,879 | 14 |
| Corporation tax receivable | **—** | 2,978 | |
| Cash at bank and in hand | **89,274** | 107,739 | 15 |
| | **318,447** | 321,015 | |
| **Current liabilities** | | | |
| Trade and other creditors: amounts falling due within one year | **(295,916)** | (261,831) | 16 |
| Corporation tax payable | **(1,169)** | — | |
| **Net current assets** | **21,362** | 59,184 | |
| **Total assets less current liabilities** | **93,956** | 94,262 | |
| Trade and other creditors: amounts falling due after one year | **(11,827)** | (7,909) | 17 |
| Provision for liabilities and charges | **(1,117)** | (718) | 18 |
| | **(12,944)** | (8,627) | |
| **Net assets** | **81,012** | 85,635 | |
| **Capital and reserves** | | | |
| Ordinary share capital | **35,820** | 35,820 | 20 |
| Preference share capital | **7,210** | 7,210 | 20 |
| Retained earnings | **11,248** | 17,106 | |
| Capital reserve | **26,734** | 25,499 | |
| **Shareholders' funds** | **81,012** | 85,635 | |

The accounting policies on pages 15 to 19 along with accompanying notes on pages 20 to 39 form an integral part of these financial statements.

The accounts were approved by the board of directors on 3 June 2020.

P Cooper
Director

**PRUDENTIAL DISTRIBUTION LIMITED**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Share Capital | Profit and Loss Account | Capital Reserves | Total Equity |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance at 1 January 2018 | 43,030 | 11,707 | 23,155 | 77,892 |
| Increase in capital reserve during the year | — | — | 1,143 | 1,143 |
| Deferred tax credited to capital reserve | — | — | 704 | 704 |
| Current tax credited to capital reserve | — | — | 497 | 497 |
| Profit for the financial year | — | 5,399 | — | 5,399 |
| Total comprehensive income for the year | — | 5,399 | — | 5,399 |
| Balance at 31 December 2018 | 43,030 | 17,106 | 25,499 | 85,635 |
| **Balance at 1 January 2019** | **43,030** | **17,106** | **25,499** | **85,635** |
| Increase in capital reserve during the year | **—** | **—** | **1,434** | **1,434** |
| Deferred tax charged to capital reserve | **—** | **—** | **(199)** | **(199)** |
| Loss for the financial year | **—** | **(5,858)** | **—** | **(5,858)** |
| Total comprehensive loss for the year | **—** | **(5,858)** | **—** | **(5,858)** |
| **Balance at 31 December 2019** | **43,030** | **11,248** | **26,734** | **81,012** |

Capital reserve represents the reserve in respect of share-based payment in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 15 to 19 along with accompanying notes on pages 20 to 39 form an integral part of these financial statements.

## NOTES ON THE FINANCIAL STATEMENTS

### 1. Accounting Policies

### A. Company Information

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

### B. Basis of preparation

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-adopted IFRSs), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

IFRS 16 *Leases* (IFRS 16) introduces a single model for all leases, eliminating the distinction in accounting treatment between operating and finance leases for lessees. This standard is effective from 1 January 2019 and replaces IAS 17 *Leases* (IAS 17). The Company has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The impact of adopting the standard is presented at note 2 'Transition to IFRS 16'.

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

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- Comparative period reconciliations for share capital and tangible fixed assets;
- The effect of new but not yet effective accounting standards; and
- Disclosures in respect of revenue from contracts with customers.

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

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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the M&G plc Group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation. The Company has a satisfactory capital adequacy, in excess of the capital requirements stipulated by the FCA. The Company has net current liabilities of £55 million as at 31 December 2019, as a significant proportion of its assets are fixed or are balances not expected to be received within one year. Accordingly, a letter of support has been obtained from the ultimate parent company, M&G plc, committing to subscribe additional share capital of up to £83 million, in the event of future financing being required within one year of the date of approval of these financial statements.

In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report on page 2. 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. These plans have been updated to take into consideration the current information available in respect of the coronavirus (COVID-19) outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Due to the uncertainty regarding COVID-19, additional actions available to the Company to mitigate or reduce the impact have also been considered. 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 2019.

### C. Classification of instruments issued by the Company

Having adopted FRS 101, International Accounting Standard (IAS 32) is being applied to the financial instruments issued by the Company and are treated as equity only to the extent that they meet the following two conditions:

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

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

### D. Financial instruments - recognition and measurement

#### Financial assets

*Recognition and initial measurement*

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

*Classification and subsequent measurement*

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not recognised as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

**Financial liabilities**

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

## E. Financial instruments - Impairment

**Financial assets impairment**

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

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

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

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

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

## F. Revenue recognition

Operating income, comprising recharge of administration and distribution expenses to group companies and administration fees and other income received from third parties is recognised when the Company satisfies the related performance obligation, in accordance with IFRS 15 *Revenue from contracts with customers*.

Interest receivable is recognised on an accruals basis.

## G. Expenses

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

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

## H. Intangible assets

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

- it is technically feasible to complete the software product or tool so that it will be available for use;
- management intends to complete the software product or tool and use or sell it;
- there is an ability to use or sell the software product or tool;

- it can be demonstrated how the software product or tool will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product or tool are available; and
- the expenditure attributable to the software product or tool during its development can be reliably measured.

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

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

**I. Impairment of non-financial assets**

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

**J. Tangible Fixed assets**

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

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

**K. Leases**

**Policy applicable from 1 January 2019**

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

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

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

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

The Company does not act as a lessor.

**Policy applicable before 1 January 2019**

Rents payable under operating leases are charged to the profit or loss account as incurred over the lease term.

Leases of tangible fixed assets that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### L. Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### M. Share-based payments

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

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

The compensation costs for all awards and options are recognised in comprehensive income over the plans' respective vesting periods.

## 2. Transition to IFRS 16

Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 1 K.

The Company has applied the practical expedient to grandfather the definition of a lease on transition. This means that it has applied IFRS 16 to all contracts, which were identified as leases in accordance with IAS 17 and IFRIC 4, 'Determining whether an Arrangement contains a Lease', entered into before 1 January 2019.

IFRS 16 significantly impacts the accounting for leases of properties occupied by the Company, where the Company acts as a lessee.

Under IFRS 16, these leases have been brought onto the Company's statement of financial position with a 'Right of Use' asset being established and a corresponding liability, representing the obligation to make lease payments. The previously recognised rental accrual charge in the income statement has been replaced with a depreciation charge for the 'right to use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile, compared to the former requirements under IAS 17.

At transition, lease liabilities were measured at the present value of remaining lease payments, discounted at the Prudential Group's incremental borrowing rate, as applied at the date of transition.

'Right of Use' assets are measured at an amount equal to the lease liability on the date of transition, adjusted for accrued or prepaid lease balances as relevant. No adjustment to retained earnings was made on transition.

The Company has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.
- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Used the onerous lease assessment as an alternative to impairment testing of ROU asset;
- Excluded initial direct costs from measurement of ROU asset on initial application;
- Used hindsight when determining the lease term if the contract has an option to break the lease.

The tables below summarise the impact of adopting IFRS 16 on the Company's financial statements:

**Statement of financial position**

| 1 January 2019 | As reported | Adjustments | As restated |
|---|---|---|---|
| | £000 | £000 | £000 |
| Fixed assets - 'right of use' assets | — | 26,756 | 26,756 |
| Fixed assets- motor vehicle leases | 14,839 | (14,839) | — |
| **Total assets** | 14,839 | 11,917 | 26,756 |
| Trade and other creditors: | | | |
| Current liabilities | (5,407) | (3,898) | (9,305) |
| Trade and other creditors: | | | |
| Non-current liabilities | (7,909) | (7,005) | (14,914) |
| **Total liabilities** | (13,316) | (10,903) | (24,219) |

For leases previously classified as finance leases, the Company has recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the 'right of use' asset and the lease liability at the date of initial application, resulting in no measurement adjustments.

Measurement of lease liabilities

| | 2019 £000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | (11,292) |
| Discounted using the lessee's incremental borrowing rate as at 1 January 2019 | 388 |
| Add : finance lease liabilities recognised as at 31 December 2018 | (13,315) |
| Lease liability recognised as at 1 January 2019 | (24,219) |
| | |
| Of which are: | |
| Current lease liabilities | (9,305) |
| Non-current lease liabilities | (14,914) |

## 3. Operating income

| | **2019 £000** | 2018 £000 |
|---|---|---|
| Income earned from recharges to group undertakings | **819,435** | 776,863 |
| Income earned from third party contracts | **26,593** | 34,614 |
| | **846,028** | 811,477 |

## 4. Staff costs

| | **2019 £000** | 2018 £000 |
|---|---|---|
| Wages and salaries | **153,398** | 174,049 |
| Other pension costs | **23,079** | 28,460 |
| Social security costs | **19,886** | 20,737 |
| Share based payment expenses | **15,283** | 4,813 |
| Total | **211,646** | 228,059 |

| | **Number** | Number |
|---|---|---|
| Average number of employees during the period | **1,318** | 1,859 |

The majority of staff employed by the M&G plc group in the UK are members of M&G plc group's pension schemes, including both defined contribution and defined benefit schemes. The largest defined benefit scheme as at 31 December 2019 is the Prudential Staff Pension Scheme (PSPS), which accounts for 82% (2018: 82%) of the present value of M&G plc Group's defined benefit pension obligation. There is also a smaller defined benefit scheme, Scottish Amicable Staff Pension Scheme (SASPS).

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

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

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

40% of the deficit and related costs of SASPS is allocated to the with-profits fund of PAC, a fellow group undertaking Until 30 June 2019, the remaining 60% was allocated to Prudential Financial Services Limited, the immediate parent company. PAC has provided a guarantee to SASPS, subject to a limit of £270m, on behalf of the principal employer and other participating employing entities, should the employing entities fail to meet their payment obligations in respect of the scheme.

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

## 5. Other operating charges

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Management expenses | **604,075** | 543,763 |
| Expenses attributable to third party contracts | **34,795** | 33,762 |
| | **638,870** | 577,525 |

The management expenses include depreciation on 'right of use' buildings of £3,939k and 'right of use' motor vehicles of £3,180k (2018: nil).

## 6. Interest income

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Bank interest recharged/received | **133** | 85 |
| Policyholder interest recharged | **765** | 325 |
| Company car interest recharged | **—** | 238 |
| Other interest income | **1,206** | 1,179 |
| Lease liability interest recharges | **590** | — |
| | **2,694** | 1,827 |

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

## 7. Interest expense

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Bank interest expenses/recharges | **104** | 61 |
| Policyholder interest | **765** | 325 |
| Company car interest | **—** | 244 |
| Other interest recharges | **158** | 296 |
| Lease liability interest | **598** | — |
| | **1,625** | 926 |

During 2018 the Company entered into an agreement to lease motor vehicles. The lease arrangement was accounted for as a finance lease, prior to 1 January 2019, based on its terms and conditions. The leased cars secure the lease obligations. Interest related to lease motor vehicle creditors has been reclassified from company car interest to lease liability interest on adoption of IFRS 16.

## 8. Unrealised (losses)/gains on derivatives

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Unrealised (losses)/gains on valuation of forward contracts | **(419)** | 353 |

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

## 9. Auditor's remuneration

Auditor’s remuneration amounts to £40k (2018: £40k) in respect of the audit of the Company’s financial statements. No non-audit services were provided to the Company by the auditor in 2019 or 2018.

## 10. Directors’ emoluments

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

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Aggregate emoluments and benefits | 10 | 3 |

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

Three directors received shares under long-term incentive schemes in 2019 (2018: two), and no director exercised share options in either 2019 or 2018. No director (2018: none) was entitled to retirement funds under a defined contribution pension scheme.

## 11. Taxation

### a) Analysis of tax charged in the period

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Current tax: | | |
| Total current tax charged in the period | **(2,352)** | (1,825) |
| Adjustments in respect of prior years | **(509)** | 555 |
| Total current tax charge on ordinary activities | **(2,861)** | (1,270) |
| Deferred tax : | | |
| Current year | **737** | — |
| Effect of changes in tax rate | **(149)** | (1,368) |
| Adjustment in respect of prior periods | **253** | 890 |
| Total deferred tax credit/(charge) | **841** | (478) |
| Total tax charge in the period | **(2,020)** | (1,748) |

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Tax recorded in the Capital Reserve : | | |
| Corporation tax in respect of current year | **—** | 203 |
| Deferred tax in respect of current year | **(199)** | (26) |
| Adjustment to corporation tax in respect of previous years | **—** | 294 |
| Adjustment to deferred tax in respect of previous years | **—** | 730 |
| Total tax (charge)/credit recorded in the Capital Reserve | **(199)** | 1,201 |

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

The standard rate of corporation tax in the UK was due to change from 19% to 17% with effect from 1 April 2020. Deferred tax is provided at the tax rates enacted at the balance sheet date applicable to when the temporary differences are expected to reverse. Following the budget announcement on 11 March 2020, the repeal of the legislation to reduce the tax rate was substantively enacted on 17 March 2020. Accordingly, the reduction in tax rate will no longer take place. The impact of this post balance sheet event will be to increase the closing deferred tax asset from £9,100k to £10,169k.

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| (Loss)/profit on ordinary activities before tax | **(3,838)** | 7,147 |
| Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 19% (2018: 19%) | **729** | (1,358) |

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

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Effects of: | | |
| Permanent differences | **(2,414)** | (1,024) |
| Adjustments to current tax in respect of previous years | **(257)** | 555 |
| Adjustments to deferred tax in respect of previous years | **—** | 890 |
| Tax credit/(charge) in relation to share based payments | **180** | (823) |
| Change of tax rate of deferred tax | **(149)** | 116 |
| Transfer pricing | **(109)** | (104) |
| Total tax charge for the year | **(2,020)** | (1,748) |

**c) Balance Sheet**

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Deferred tax asset explained by: | | |
| Accelerated capital allowances | **5,039** | 5,708 |
| Unrealised gains on derivatives | **(104)** | (175) |
| Staff remuneration | **892** | 1,389 |
| Share based expenses | **3,273** | 1,536 |
| **Total** | **9,100** | 8,458 |

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Deferred tax asset at start of period | **8,458** | 8,232 |
| Deferred tax charged to capital reserve | **(199)** | 704 |
| Deferred tax credited in profit and loss account for the period | **841** | (478) |
| **Deferred tax asset at end of period** | **9,100** | 8,458 |

## 12. Intangible assets

| Internally generated software development costs | Assets under construction | Asset ready to use | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Cost** | | | |
| As at 1 January 2019 | — | — | — |
| Additions | 32,438 | — | 32,438 |
| As at 31 December 2019 | **32,438** | **—** | **32,438** |
| **Accumulated amortisation and impairment** | | | |
| As at 1 January 2019 | — | — | — |
| Amortisation charge | — | — | — |
| As at 31 December 2019 | — | — | — |
| **Net book value** | | | |
| Cost | 32,438 | — | 32,438 |
| Accumulated amortisation and impairment | — | — | — |
| As at 31 December 2019 | **32,438** | **—** | **32,438** |

During 2019, the Company incurred costs developing a digital experience layer which will provide new digital, operational and experiential capabilities for the Wealth Solutions business division. The software developed has been recognised as an intangible asset. The asset will be available for use in January 2020.

The Company incurred costs for developing the actuarial models and tools. These costs have been recognised as intangible assets. The asset will be available for use in January 2020.

## 13. Tangible Fixed assets

| | Fixtures and Fittings | Plant and Machinery | Motor Vehicles | Computer Equipment | Buildings and Improvements | Right of Use Buildings | Right of Use Motor Vehicles Note 1 | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost** | | | | | | | | |
| **At 1 January 2019** | **3,445** | **12,776** | **1,753** | **101,451** | **29,347** | **11,917** | **14,839** | **175,528** |
| **Additions** | — | 721 | 1,937 | — | — | — | 7,152 | 9,810 |
| **Disposals** | — | — | (2,022) | — | — | — | (5,301) | (7,323) |
| **Impairment** | — | (260) | — | — | — | (599) | — | (859) |
| **At 31 December 2019** | **3,445** | **13,237** | **1,668** | **101,451** | **29,347** | **11,318** | **16,690** | **177,156** |

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

| | Fixtures and Fittings | Plant and Machinery | Motor Vehicles | Computer Equipment | Buildings and Improvements | Right of Use Buildings | Right of Use Motor Vehicles Note 1 | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Depreciation** | | | | | | | | |
| **At 1 January 2019** | **(3,211)** | **(7,899)** | **(642)** | **(101,451)** | **(21,969)** | **—** | **(1,819)** | **(136,991)** |
| **Charge for year** | (61) | (1,282) | (223) | — | (2,010) | (3,939) | (3,180) | (10,695) |
| **Disposals** | — | — | 156 | — | — | — | 1,430 | 1,586 |
| **At 31 December 2019** | **(3,272)** | **(9,181)** | **(709)** | **(101,451)** | **(23,979)** | **(3,939)** | **(3,569)** | **(146,100)** |
| **Net book value** | | | | | | | | |
| **At 31 December 2019** | **173** | **4,056** | **959** | **—** | **5,368** | **7,379** | **13,121** | **31,056** |
| At 31 December 2018 | 234 | 4,877 | 14,131 | — | 7,378 | — | — | 26,620 |

The Company leases office property, as explained in note 21 Operating lease commitments.

During 2018 the Company entered into an agreement to lease motor vehicles. The lease arrangement was accounted for as a finance lease, prior to 1 January 2019, based on its terms and conditions. The leased cars secure the lease obligations.

Note 1 - Leased motor vehicles were re-presented as right-of-use motor vehicles on 1 January 2019 following the adoption of IFRS 16.

### 14. Trade and other debtors

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Amounts falling due within one year:** | | |
| Amounts owed by group undertakings | **77,003** | 126,085 |
| Prepayments and accrued income | **73,016** | 79,334 |
| Other debtors | **2,609** | 4,460 |
| **Amounts falling due after one year:** | | |
| Amounts owed by group undertakings | **76,545** | — |
| | **229,173** | 209,879 |

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

## 15. Cash at bank and in hand

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

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

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Amounts owed to group undertakings | **106,433** | 72,171 |
| Taxation and social security | **10,233** | 14,163 |
| Other creditors | **7,315** | 4,005 |
| Accruals and deferred income | **163,263** | 166,085 |
| Finance lease liability | — | 5,407 |
| Lease liability | **8,672** | — |
| | **295,916** | 261,831 |

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

Finance lease liabilities were re-presented as lease liabilities on 1 January 2019 following the adoption of IFRS 16.

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

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Finance lease liability | — | 7,909 |
| Lease liability | **11,827** | — |
| | **11,827** | 7,909 |

Finance lease liabilities were re-presented as lease liabilities on 1 January 2019 following the adoption of IFRS 16.

The total lease liabilities of £20,499k are payable as follows:

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

The total finance lease liabilities as of 2018 of £13,316k were payable as follows:

| 2018 | Future minimum payments | Future finance charges | Present value of future minimum payments |
|---|---|---|---|
| | £000 | £000 | £000 |
| Less than one year | 6,392 | 986 | 5,407 |
| Between one to five years | 8,806 | 897 | 7,909 |
| Total | 15,198 | 1,883 | 13,316 |

Movement of the lease liabilities is as follows:

| **2018** | **Present value of future minimum payments** |
|---|---|
| | £000 |
| Operating lease commitment disclosed as at 31 December 2018 | 11,292 |
| Discounted using the lessee's incremental borrowing rate as at 1 January 2019 | (389) |
| Add: finance lease liabilities recognised as at 31 December 2018 | 13,316 |
| As at 31 December 2018 | 24,219 |

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

During 2018 the Company entered into an agreement to lease motor vehicles. The lease arrangement was accounted for as a finance lease, prior to 1 January 2019, based on its terms and conditions. The leased cars secure the lease obligations.

### 18. Provisions for liabilities and charges

| | Balance as at 1 January 2019 | Utilised in the year | Released in the year | Provided in the year | Balance as at 31 December 2019 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Restructuring Costs | 718 | — | (718) | — | — |
| Other provision | — | — | — | 1,117 | 1,117 |
| | 718 | — | (718) | 1,117 | 1,117 |

Restructuring costs were provided for in previous years in response to changes in the structure and strategic direction of the insurance business unit within the previous group, Prudential plc. These costs included property liabilities resulting from the closure of regional sales centres and branches and other property rationalisation. The provision has been reassessed and no longer required hence released. The 'Other provision' is to cover the Company's cost obligation in vacating office space, as a result of the Group's location strategy.

## 19. Share-based payments

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

Discretionary schemes:

### i. Long term Incentive Plan (LTIP)

The LTIP is a conditional share plan: the shares awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to LTIP awards include market performance conditions, Relative Total Shareholder Return (TSR); and other non-market conditions including, Group IFRS profit, or Business unit IFRS profit. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three year business plan.

### ii. Restricted Share Plan (RSP)

Awards under this plan are discretionary and ad-hoc, and the vesting of awards may be subject to performance conditions. These awards may be retention awards, new joiner awards and promotion related awards.

### iii. Annual Incentive Plan (AIP)

Certain senior executives have an AIP where awards for above-target performance is made in the form of shares which are released after three years.

### iv. Group Deferred Bonus Plan (GDBP)

Under these plans, a participant’s annual bonus is paid in the form of a share award that vests after 3 years. There are no performance conditions associated with this plan.

Prior to demerger, all discretionary schemes were based on Prudential plc awards. At the point of demerger and subsequent listing of M&G plc, all outstanding discretionary awards were replaced with equivalent awards based on M&G plc shares. All scheme rules for the awards remain unchanged, except for the LTIP TSR award, for which the market based performance condition will now be based on the performance of M&G plc.

In accordance with IFRS 2, the replacement awards have been accounted for as a modification of the previous scheme and the expense in relation to the scheme will continue to be recorded over the remaining vesting period. The modification did not result in any incremental expenses at the date of demerger.

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

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

Approved schemes:

**v. Saving related options**

The Group operates Save-as-you-earn (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.

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

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

All approved schemes are accounted for as equity-settled schemes as the awards will be settled in M&G plc shares.

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

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

The weighted average share price of Prudential plc for the year ended 31 December 2019 was £15.52 compared to £16.78 for the year ended 31 December 2018.

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

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

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2018:

| At 31 December 2018 | | | Outstanding | | Exercisable |
|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding | Weighted average remaining contractual life (years) | Weighted average exercise prices £ | Number exercisable | Weighted average exercise prices £ |
| Between £9 and £10 | 9,265 | 0.41 | 9.01 | 9,265 | 9.01 |
| Between £11 and £12 | 572,855 | 1.59 | 11.16 | 93,837 | 11.11 |
| Between £14 and £15 | 334,247 | 2.71 | 14.55 | — | — |
| Total | 916,367 | 1.98 | — | 103,102 | 10.92 |

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

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

The comparative disclosures for weighted average price of shares for 2018 and summary of range of exercise prices for options is based on shares of Prudential plc which was the ultimate parent company at that time.

## 20. Share capital

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Ordinary shares** | | |
| Issued and fully paid: | | |
| 35,820,001 ordinary shares of £1 each | **35,820** | 35,820 |
| There has been no change in the ordinary share capital during the year. | | |
| **Preference shares** | | |
| Issued and fully paid: | | |
| 7,210,000 preference shares of £1 each | **7,210** | 7,210 |
| There has been no change in the preference share capital during the year. | | |
| **Total Issued and Paid Share Capital** | **43,030** | 43,030 |

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

## 21. Operating lease commitments

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

The Company leases offices in Edinburgh and Reading under non-cancellable operating leases. The Edinburgh lease runs for three years, from May 2018 to 2021 and the Reading lease runs for five years, from March 2018 to 2023.

As explained as note 2 Transition to IFRS 16, leases presented as operating leases prior to 1 January 2019, have been brought onto the Company's statement of financial position as at 1 January 2019, with a 'Right of Use' asset being established and a corresponding liability, representing the obligation to make lease payments. The payment profile of the lease liabilities as at 31 December 2019 is presented at note 17.

Included within the other operating charges for the 2018 comparative period were rental payments on operating leases for property as below:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Buildings | **—** | 4,325 |

Operating lease commitments payable (solely representing leases on land and buildings) for the comparative year were as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Less than one year | — | 2,405 |
| One to five years | — | 8,470 |
| | — | 10,875 |

The Company is committed to the following expenditure as at 31 December 2019:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| General building refurbishment | **244** | 442 |

## 22. Financial assets and financial liabilities

### A. Financial assets and financial liabilities - Measurement and Classification

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

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

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

The basis applied is summarised below.

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

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

| 2018 | Fair value through profit or loss | Amortised Cost | Total carrying value | Fair value |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Derivative assets | 419 | — | 419 | 419 |
| Trade and other debtors | — | 130,545 | 130,545 | 130,545 |
| Cash at bank and in hand | — | 107,739 | 107,739 | 107,739 |
| **Total financial assets** | 419 | 238,284 | 238,703 | 238,703 |

| 2018 | Fair value through profit or loss | Amortised Cost | Total carrying value | Fair value |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Trade and other creditors | — | 242,261 | 242,261 | 242,261 |
| **Total financial liabilities** | — | 242,261 | 242,261 | 242,261 |

**Determination of fair value**

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

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

**Fair value measurement hierarchy of financial assets and financial liabilities**

**Financial assets and financial liabilities carried at fair value on the balance sheet:**

The table below includes financial instruments carried at fair value analysed by level of the fair value hierarchy as defined in IFRS 13 *Fair Value Measurement*. The hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.
The classification criteria and its application to the Company can be summarised as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 principally includes investments which are internally valued or subject to a significant number of unobservable assumptions.

The Company did not hold any derivatives as at 31 December 2019.

| 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Derivative assets | — | 419 | — | 419 |
| Total financial investments | — | 419 | — | 419 |
| Percentage of total (%) | — | 100 | — | 100 |

A fair value hierarchy has not been produced for items held at amortised cost where a fair value is disclosed because the carrying value approximates to the fair value.

**Market Risk**

The financial assets and financial liabilities attaching to the Company's business are, to varying degrees, subject to market risk that may have a material effect on the profit or loss and shareholders' funds.

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

Market risk arises from:

- Interest rate risk: due to changes in market interest rates,
- Currency risk: due to changes in foreign exchange rates, and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

**Interest rate risk**

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

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

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

| 2018 | Fair value interest rate risk | Cash flow interest rate risk | Not directly exposed to interest rate risk | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Financial Assets** | | | | |
| Derivative assets | — | — | 419 | 419 |
| Trade and other debtors | — | 74,729 | 55,816 | 130,545 |
| Cash at bank and in hand | — | 107,739 | — | 107,739 |
| | — | 182,468 | 56,235 | 238,703 |
| **Financial Liabilities** | | | | |
| Trade and other creditors | — | — | 242,261 | 242,261 |
| | — | — | 242,261 | 242,261 |

**Sensitivity to interest rate movements**

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

**Currency risk**

The Company has immaterial currency risk arising from payments to be made in other currencies. The Company did not enter into forward contracts during the year. Unrealised losses during the year are on reversal of unrealised gains previously recognised on contracts settled during the year.

**Other price risk**

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

**Liquidity Analysis**

(i) Contractual maturities of financial liabilities

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

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

| 2018 | 1 year or less | After 1 year to 5 years | After 5 year to 10 years | Total undiscounted cashflows | Total carrying value |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Financial Liabilities** | | | | | |
| Trade and other creditors | 242,261 | — | — | 242,261 | 242,261 |
| | 242,261 | — | — | 242,261 | 242,261 |

(ii) Maturity analysis of derivatives

The following table provides a maturity analysis of derivative assets:

The Company did not hold any derivatives as at 31 December 2019

| 2018 | Total carrying value | 1 year or less | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Derivative assets | 419 | 419 | 419 |

The derivative assets have been included at fair value within the "1 year" column representing the basis on which they are managed (i.e. to manage principally current asset or liability value exposures).

**23. Financial risk management**

The Company is exposed to financial risk through its financial assets and financial liabilities. The key financial risk factors affecting the Company are described below together with details of the management of the risks.

(a) Credit risk

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

Impairment methodology

The impairment allowance calculation is based on M&G plc group's counterparty default risk calibration used for Solvency II. The counterparty default risk uses a default state model and a recovery rate model which is run through 1 million scenarios to generate a probability distribution of losses.
This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2019 to derive the ECL.

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

The entity held cash balances of £89,274k at 31 December 2019 (2018: £107,739k). These balances are held with banking and financial institution counterparties, which are rated AA- (2018:AA-) (or an equivalent grade from another major credit rating agency) or above.

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

The entity has an outstanding inter-company loan due from its parent company PFSL of £58,817k (2018: £57,863k) and from fellow subsidiary, Prudential UK Services Limited of £4,826k (2018: £4,742k). The loans are repayable on demand with no fixed maturity. For the purposes of calculating impairment losses under IFRS 9, it is assumed that the outstanding balances are called at the reporting date and a lifetime ECL has been calculated in respect of these balances. Reliance has been placed on a letter of support provided by M&G plc and the credit risk associated with the guarantor has been considered in the calculation of ECL.

The entity has an outstanding inter-company loan due from fellow group undertaking, PGDS (UK One) Limited of £5,384k at 31 December 2019 (2018: £12,124k). The loan is repayable in September 2020. For the purposes of calculating impairment losses under IFRS 9, it is assumed that the outstanding balance is called on reporting date and a lifetime ECL has been calculated in respect of this balance. The loan is guaranteed by PAC, a fellow group undertaking, and the credit risk associated with the guarantor has been considered in the calculation of ECL.

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

(b) Liquidity risk

*Liquidity risk is the risk 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.*

The Company is covered by the Group Risk Framework (GRF) and the supporting policies for managing risk within the Group and, in accordance, has a defined liquidity appetite with associated triggers and limits. This risk is managed through careful management of bank balances and cash-flow forecasting.

(c) Market risk

*Market risk is the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities. Market risk includes but is not limited to equity risk, interest rate risk, inflation risk, currency risk, property risk, and alternative investments risk.*

The Company has limited exposure to market risk. The exposure arises from fluctuations in interest rates pertaining to the intra-group loans granted by the Company and currency risk arising from payments to be made in other currencies.

## 24. Capital requirements and management

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

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

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

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

As at 31 December 2019, the minimum regulatory capital requirement of the Company was £4,811k (unaudited) (2018: £5,385k (unaudited)) including the additional capital of £3,440k to meet the PII requirements. The Company had capital resources amounting to £48,573k (2018: £85,635k) to meet the capital requirement.

## 25. Ultimate and immediate parent company

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

### 26. Parent company support

As discussed in the Basis of Preparation (Note 1B), the Company has been provided with a letter of support by the ultimate parent company, M&G plc, committing to subscribe to additional share capital of up to £83 million, in the event of future financing being required in the period up to twelve months from the date of signing these financial statements.

### 27. Post balance sheet events

The Company continues to monitor the effects of the coronavirus (COVID-19) outbreak which has been declared as a pandemic by the World Health Organization. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

COVID-19 is expected to result in a deterioration in financial performance over 2020. Operating income is expected to decline due to a reduction in income from the collectives arrangement if the funds under management reduce. The Company is not expected to incur any additional losses as any increase in expenses will be recharged and recovered from other statutory entities.