Registered number 02448335

Prudential Portfolio Management Group Limited

Annual Report and Financial Statements

For the year ended 31 December 2022

Incorporated and Registered in England and Wales.

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

Contents **Page**

Company Information

Directors	D W King R A Monnington
Secretary	M&G Management Services Limited
Independent Auditors	PricewaterhouseCoopers LLP 144 Morrison Street Edinburgh EH3 8EB
Registered Office	10 Fenchurch Avenue London EC3M 5AG
Registered number	02448335 (registered in England and Wales)

Strategic report

The Directors present their strategic report for the year ended 31 December 2022.

Principal activity

The principal activity of Prudential Portfolio Management Group Limited (the ''Company'') is the provision of investment management and advisory services to other entities within the M&G plc group.

Business review and key performance indicators

	2022	2021
	£	£
Loss for the year before tax	**(356,006)**	(100,870)
Net assets	**1,081,774**	1,240,331

The Company's objective is to provide services to the group without profit margin; remuneration for the services provided is determined on a cost transfer basis of operating expenses without mark-up. The operational loss before tax for the year was £356,006 (2021: £100,870) primarily due to Investment Management Loss (''IML'') claim outlined in Note 12. Details of the results for the year are set out in the Statement of Comprehensive Income on page 12.

The Company has a net asset position of £1,081,774 as at 31 December 2022 (2021: £1,240,331). The movement reflects loss incurred in the financial year.

Principal risks and uncertainties

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

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

The Company has limited exposure to financial risk through its financial assets and liabilities. From a credit risk perspective, the primary exposures are ISMA service fees receivable from related group undertakings, and cash at bank. From a liquidity risk perspective, cash inflow is managed through collection of fees from material service recipients as they accrue, thereby allowing the Company to settle external third party invoices, payroll and group overhead costs as and when required. The financial risks affecting the Company and the management thereof are further discussed in Note 11. The Company has no significant direct interest rate or currency risk.

The key risk factors mentioned above should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Strategic report (continued)

Section 172(1) Statement

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

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

In discharging section 172 duties the Company has regard to the factors set out above. The Company also recognises the matters considered by the Directors can have unique characteristics. This can require the board to have regard to additional factors which are relevant to the specific matter under consideration. There is an acknowledgement from the board that the relative importance of each factor considered will vary depending on the decision being taken. Across all the board's decisions, the Company is mindful of its purpose, strategic priorities and alignment with the M&G plc group's regulatory obligations, overarching culture, vision and values.

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

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

Principal decisions

Set out below are some examples of how the Company has had regard to the matters set out in section 172(1)(a)-(f) when discharging its section 172 duty and the effect of that on decisions taken by the Company. The Company defines principal decisions as both those that are material to the Company, but also those that are significant to any key stakeholders. Through making the principal decisions outlined below, the Directors were focused on protecting and developing the Company's long-term success:

During 2022 the primary principal decisions included the strategic asset allocation and investment mix recommendations agreed by the Investment Office Executive Committee, and subsequently tabled for final decision at relevant boards and committees of the ISMA service recipients. The annual strategic asset allocation review is a significant component of the Company's service offering and of strategic importance to the performance of the investment portfolios within scope of the ISMA.

Strategic report (continued)

Principal decisions (continued)

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

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

D.W King

D W King
Director
18 May 2023

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022.

Directors

The Directors who served during the year and up to the date of signing were:

D W King
R A Monnington

Financial highlights

The results for the year are shown in Statement of Comprehensive Income on page 12. This shows a loss before tax of £356,006 (2021: £100,870). The loss was primarily due to IML loss incurred (see note 12) and approved share based compensation schemes (see Note 10b), for which the cost is recovered via equity contribution (and therefore not recovered via management fees to group undertakings).

The Statement of Financial Position is set out on page 13. At 31 December 2022, the net assets of the Company were £1,081,774 (2021: £1,240,331).

Dividends

Interim dividends paid in the year amounted to £Nil (2021: £Nil). The Directors do not recommend the payment of a final dividend (2021: £Nil).

Subsequent events

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

Future developments

During 2023, the Company expects to continue to provide investment management and advisory services to other group undertakings.

Going Concern

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

The Directors gave particular attention to the strength of the Company's net current asset position, liquidity and resilience of the Company's operations. Expenses incurred by the Company will (except in rare circumstances) continue to be recharged and recovered from other statutory entities within the Group.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2022.

Political and charitable donations

There were no political or charitable contributions during the period (2021: £Nil).

Directors' report (continued)

Financial risk management

Risk management is outlined within the Strategic Report.

Streamlined Energy and Carbon Reporting (SECR)

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

Qualifying third party indemnity provisions

The ultimate parent company, M&G plc, has arranged appropriate insurance cover in respect of legal action against Directors and senior managers of companies within the Group. In addition, the Articles of Association of the Company provide for the Directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. The ultimate parent company also provides protections for Directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third-party indemnity provisions (as defined by the relevant Companies Act) for the benefits of Directors of the ultimate parent company, including, where applicable, in their capacity as a Director of the Company and other companies within the Group. These indemnities were in force during 2022 and remain in force as at the date of approval of the financial statements.

Disclosure of information to auditor

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

- so far as that Director is aware, there is no relevant audit information of which the Company's independent auditor is unaware; and

- that each Director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

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

D.W King

D W King
Director
18 May 2023

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

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law).

Under Company law, 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also 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.

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

Report on the audit of the financial statements

Opinion

In our opinion, Prudential Portfolio Management Group Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditors’ Report to the Members of Prudential Portfolio Management Group Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries. Audit procedures performed by the engagement team included:

- Enquiries with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing relevant board meeting minutes;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations, posted by unexpected users or without appropriate approvers, or during unusual times; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Iain Kirkpatrick (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
18 May 2023

Statement of Comprehensive Income

For the year ended 31 December

	Note	**2022** **£'000**	2021 £'000
Revenue	2	**27,794**	24,542
Operating expenses	3	**(28,150)**	(24,643)
Loss before tax		**(356)**	(101)
Tax credit	5	**95**	3
Loss for the year		**(261)**	(98)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(261)**	(98)

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The accompanying Notes on pages 15 to 24 form an integral part of the financial statements.

Statement of Financial Position

As at 31 December

	Note	2022 £'000	2021 £'000
Non - current assets			
Deferred tax assets	5(c)	**609**	539
Current assets			
Debtors	6	**5,420**	6,145
Cash at bank		**2,871**	3,946
		8,291	10,091
Current liabilities			
Creditors - amounts falling due within one year	7	**(7,330)**	(9,133)
Net current assets		**961**	958
Total assets less current liabilities		**1,570**	1,497
Non-current liabilities			
Creditors – amounts falling due after more than one year	8	**(488)**	(257)
Net assets		**1,082**	1,240
Capital and reserves			
Share capital	9	**1,000**	1,000
Retained earnings		**82**	240
Total shareholders' funds		**1,082**	1,240

These financial statements were approved by the Board of Directors on 18 May 2023 and were signed on its behalf by:

D.W King

D W King
Director

Company registered number: 02448335

The accompanying Notes on pages 15 to 24 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31 December

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021		**1,000**	**102**	**1,102**
Loss for the year		-	(98)	(98)
Total comprehensive loss for the year		**-**	**(98)**	**(98)**
Share based payments	10	-	73	73
Deferred tax on share-based payments	5(a)	-	156	156
Current tax movements	5(a)	-	7	7
Total transactions with shareholder		**-**	**236**	**236**
At 31 December 2021		**1,000**	**240**	**1,240**
At 1 January 2022		**1,000**	**240**	**1,240**
Loss for the year		-	(261)	(261)
Total comprehensive loss for the year		**-**	**(261)**	**(261)**
Share based payments	10	-	25	25
Deferred tax on share-based payments	5(a)	-	76	76
Current tax movements	5(a)	-	2	2
Total transactions with shareholder		**-**	**103**	**103**
At 31 December 2022		**1,000**	**82**	**1,082**

The accompanying Notes on pages 15 to 24 form an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Basis of preparation of financial statements

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

These financial statements present information about the undertaking as an individual undertaking and not about its Group. The Company has taken advantage of the exemption not to prepare Group financial statements under Section 400 of the Companies Act 2006, since it is included in the consolidated financial statements of M&G plc, a company registered in England and Wales. The consolidated financial statements of M&G plc are prepared in accordance with UK-adopted International Accounting Standards (IAS) and the legal requirements of the Companies Act 2006 and are available to the public from the Company Secretary, at 10 Fenchurch Avenue, London, EC3M 5AG.

These financial statements have been prepared under the historical cost basis in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 Presentation of Financial Statements:
  - 10(d), (statement of cash flows),
  - 16(a) (statement of compliance with all UK-adopted IAS),
  - 38 in respect of paragraph 79(a)(iv) (outstanding shares comparative),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B–D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134–136 (capital management disclosures);
- *IAS 7 Statement of Cash Flows*;
- *IFRS 7 Financial Instrument Disclosures*;
- Paragraph 30 and 31 of *IAS 8 Accounting Policies*, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- The requirements in *IAS 24 Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group and key management compensation.

The financial statements have been prepared in pounds sterling ("£") which is the functional currency of the Company.

Notes to the Financial Statements *(continued)*

1.1 Basis of preparation of financial statements *(continued)*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. Various amendments to accounting standards and pronouncements became effective on 1 January 2023, but none of these had a material impact on the financial statements.

1.2 Going concern

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

The Directors gave particular attention to the strength of the Company’s net current asset position, liquidity and resilience of the Company’s operations. Expenses incurred by the Company will (except in rare circumstances) continue to be recharged and recovered from other statutory entities within the Group.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company’s financial statements for the year ended 31 December 2022.

1.3 Key judgements and estimates

The accounting policies are noted in 1.4-1.10 below and that there are no critical accounting judgements or estimates in applying these accounting policies.

1.4 Financial instruments

(i) Recognition and initial measurement

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

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, financial assets are classified into three categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortised cost. The classification is based on the business model on which the financial assets are managed and the contractual cash flows of these assets.

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

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

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

Notes to the Financial Statements *(continued)*

1.4 Financial instruments *(continued)*

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. The Company has no assets classified as FVPTL or FVOCI.

Cash and cash equivalents comprise cash at bank.

(b) Subsequent measurement and gains and losses

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

Financial 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 liabilities and equity

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

- they include no contractual obligations upon the group 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 group; and
- where the instrument will or may be settled in the group’s own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group’s own equity instruments or is a derivative that will be settled by the group’s exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss.

(iii) Impairment of assets

Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised.

Write-offs

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

Notes to the Financial Statements *(continued)*

1.5 Management fee revenue

Revenue includes fees for providing investment management and advisory services to group undertakings. Management fees are determined on a cost transfer basis of operating expenses with no profit margin.

Management fee revenue is only recognised when the Company satisfies its performance obligation to provide the asset management services. It is recognised in the accounting period in which the services are rendered.

1.6 Expense recognition

All expenses are recognised in the Profit and Loss Account as a cost when incurred.

1.7 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.8 Share-based payments

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

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

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

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

Notes to the Financial Statements *(continued)*

1.8 Share-based payments *(continued)*

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.

1.9 Pension costs

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

1.10 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Company, after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Notes to the Financial Statements *(continued)*

2. Revenue

	2022 £'000	2021 £'000
Management fees from group undertakings	**27,794**	24,542

3. Operating expenses

	2022 £'000	2021 £'000
Included within operating expenses are the following staff costs:		
Wages and salaries	**10,291**	10,964
Share based payments	**78**	469
Social security costs	**1,536**	1,334
Other pension costs	**877**	891
	12,782	13,658

The average number of staff employed by the Company was 58 (2021: 63).

Fees payable to the Company's external auditor, PricewaterhouseCoopers LLP, its member firms and its associates (exclusive of VAT) are £38,220 (2021: £20,254).

No non-audit services have been provided to the Company by the Company's auditor during the year (2021: £Nil).

4. Directors' emoluments

The aggregate emoluments for the Directors of the Company are borne by related Group undertakings.

The value of Directors' emoluments is based upon the apportionment of time spent providing qualifying services both as Directors for the Company and as directors of the Company's subsidiary undertakings. No apportionment is made to companies where Directors are deemed to spend an inconsequential amount of time providing qualifying services.

The financial statements for the year ended 31 December 2021 disclosed Directors' emoluments that comprised the value attributable to prior year time allocations, subsequently been deemed to be inconsequential, and the value of incentive plan awards settled via shares, which are no longer included in the total value of emoluments. Additionally, in the table below, the number of Directors with retirement benefits accruing under defined benefit schemes was incorrectly disclosed as nil and has now been restated. There is no impact on the primary statements of the revised disclosure.

	Number of directors 2022	2021 Restated
The number of Directors with retirement benefits accruing under defined benefit schemes	**1**	1
The number of Directors who exercised share options	**-**	-
The number of Directors in respect of whose services shares were received or receivable under long term schemes	2	3

Notes to the Financial Statements *(continued)*

5. Tax

(a) Analysis of tax credit for the year

	2022 £'000	2021 £'000
Current Tax		
Current tax on profit for the year	**279**	50
Adjustment in respect of prior years	**(178)**	6
Total current tax credit	**101**	56
Deferred Tax		
Origination and reversal of timing differences	**(233)**	(89)
Adjustment in respect of previous periods	**177**	-
Effect of changes in tax rates	**50**	36
Total deferred tax charge	**(6)**	(53)
Total tax credit on ordinary activities	**95**	3
Equity Items		
Current tax	**2**	7
Deferred tax – current year	**76**	156
Total tax credit to equity	**78**	163

(b) Factors affecting tax credit for the year

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

	2022 £'000	2021 £'000
Loss on ordinary activities before tax	**(356)**	(101)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**68**	19
Effects of:		
Share schemes	**(16)**	(52)
Tax rate changes	**50**	36
Expenses not deductible	**(6)**	-
Transfer pricing adjustments	**-**	(6)
Adjustments in respect of previous years	**(1)**	6
Total tax credit for the year	**95**	3

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

Notes to the Financial Statements *(continued)*

5. Tax (continued)

(c) Deferred taxation

	2022	2021
	£'000	£'000
Balance at 1 January	**539**	435
(Charge) to profit for the year	**(183)**	(53)
Credit to equity for the year	**76**	156
Adjustments in respect of prior years	**177**	1
Balance at 31 December	**609**	539

The deferred tax balance is attributable to the following:

	2022	2021
Employee benefits	**110**	91
Share based payments	**498**	447
Capital allowances	**1**	1
	609	539

(d) Factors that may affect future tax charges

Deferred tax assets are recognised to the extent that they are regarded as recoverable. On the assessment of all available evidence, the asset is recognised if it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The assessment of future taxable profits includes the availability to surrender tax losses to other group companies in the M&G plc UK tax group.

6. Debtors: amounts receivable in less than one year

	2022	2021
	£'000	£'000
Amounts due from group undertakings	**5,253**	5,646
Prepayments and other debtors	**8**	447
Corporation tax receivable	**159**	52
	5,420	6,145

7. Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Amounts due to group undertakings	**2,288**	4,053
Accrued expenses and other payables	**5,042**	5,080
	7,330	9,133

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

	2022	2021
	£'000	£'000
Accrued expenses and other payables	**488**	257

9. Called up share capital

	2022	2021
	£'000	£'000
Issued and fully paid		
One million ordinary shares of £1 each	**1,000**	1,000

Notes to the Financial Statements *(continued)*

10. Share-based payments

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

Share-based compensation expenses recognised during the year are disclosed in note 3.

(b) Description of the plans

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

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

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

(c) Outstanding options and awards

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

	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices (£)	Number exercisable
2021				
£1 - £2	466,712	2.55	1.34	-
2022				
£1 - £2	468,385	1.62	1.34	-

Notes to the Financial Statements *(continued)*

11. Financial risk management

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

Liquidity risk

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

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

Credit risk

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

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

12. Investment Management Loss (''IML'')

Where the Company is involved in operational events or service failure that result in a service recipient making an IML, the Company may be required to provide service recipients with compensation equal to the loss incurred.

During the year the Company paid a claim of £331,055 for compensation of an IML arising from a prior period. This claim was previously shown as a contingent liability by the Company. The IML relates to an error in process and consequential underlying data quality, upon which decisions were made regarding a service recipient's investment portfolio composition. The compensation paid was a cost absorbed by the Company (i.e., not recoverable through management fees), thereby directly reducing the Company's net asset position.

The contingent liability for potential IML claims is £Nil for the year ended 31 December 2022 (2021: £312,316).

13. Immediate and ultimate parent company

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

14. Related party transactions

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

There were no other related party transactions in the years ended 31 December 2022 and 31 December 2021 other than those with wholly owned subsidiary undertakings of the Group.