Registered number 02313262

Prudential Capital Public Limited Company

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

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Company Information

Directors	D King K McLeland R Monnington S Horgan
Secretary	M&G Management Services Limited
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Registered Office	10 Fenchurch Avenue London EC3M 5AG
Registered number	02313262 (registered in England and Wales)

Strategic Report

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

Principal activity

Prudential Capital Public Limited Company (the ''Company'') provides professional treasury services to the M&G plc group (the "Group"). The Company generates revenue from a portfolio of loans, debt securities, and money market positions, and also acts as a market-facing intermediary for Group corporate hedging programmes.

Business review and key performance indicators

	2022	2021
	£'000	£'000
Net interest	**7,138**	6,087
(Loss)/profit for the year before tax	**(3,404)**	7,560
Net assets	**75,361**	77,785

The loss before tax for the year was £3,404k (2021: £7,560k profit before tax). The drivers behind this loss were:

- Net interest of £7,138k (2021: £6,087k), being interest income of £31,853k less interest expense of £24,715k. Interest income arises on financial assets including debt securities, derivatives and cash at bank. Interest expense arises on intercompany loans and derivatives.
- Other operating income of £4,531k (2021: £9,964k) mainly relating to management fee income from fellow group undertakings and realised gains/losses on debt securities and derivatives. The decrease in other operating income reflects a larger net realised loss on debt securities and derivatives.
- Operating expenses of £13,686k (2021: £17,231k), primarily consisting of staff costs and intercompany recharge expenses. The fall in operating expenses is due to lower recharged expenses.
- Unrealised fair value losses on financial instruments of £1,387k (2021: gain of £8,740k) relating to debt securities and derivatives. The movement in fair value compared with prior year reflects market fluctuation.

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 £75,361k as at 31 December 2022 (2021: £77,785k). The movement reflects the loss incurred in the financial year, as outlined above.

Geopolitical and market events were a key focus area during 2022. Group investment, risk and compliance teams continued to monitor and support the business effectively in responding to the impact of both the conflict in Ukraine and UK political instability. While recent market volatility has reduced there continues to be considerable economic uncertainty requiring continued focus on these risks.

Principal risks and uncertainties

The Company is a wholly owned subsidiary of M&G plc and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Framework (GGF) and associated Group Risk Management Framework (GRMF). 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 GRMF is approved by the Group Board Risk Committee and operates based on the concept of

Strategic report (continued)

Principal risks and uncertainties (continued)

three lines of defence: risk identification and management, risk oversight, advice and challenge and independent assurance. The Company's results and financial condition are exposed to both financial and non-financial risks.

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk factors affecting the Company are market, credit and liquidity risks. These financial risks and how they are managed are discussed in Note 19.

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

Section 172(1) statement

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

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

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

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

The Company's key stakeholders are its beneficial owner, M&G plc, related Group entities, employees and third-party suppliers. 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.

Strategic report (continued)

Section 172(1) statement (continued)

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

Principal Decisions

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

The following demonstrates 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. During 2022, the principal decisions, including decisions made through the PruCap Executive Committee as described above, related to the ongoing management of the Group's liquidity buffer assets within the constraints of the risk appetite defined for the Company by its parent thus determining the Company's investment asset mix between cash products (secured and unsecured), debt securities, loan products and hedging derivatives. The asset mix is designed to enable flexibility in the Group's liquidity management, while also achieving a long-term profitable investment return on the surplus cash managed by the Company on behalf of the Group.

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

R Monnington
Director

16 June 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 King
K McLeland (appointed 22 September 2022)
R Monnington (appointed 22 September 2022)
S Horgan (appointed 31 March 2023)
C Bousfield (resigned 22 September 2022)
E Wenusch (resigned 31 March 2023)

Financial highlights

The results for the year are in the Statement of Comprehensive Income on page 12, showing a loss before tax for the year of £3,404k (2021: £7,560k profit before tax). The Statement of Financial Position is set out on page 13; at 31 December 2022, the net assets of the Company were £75,361k (2021: £77,785k). The movement reflects the loss incurred in the financial year, as outlined above in the Strategic Report.

Dividends

No interim dividends were paid in the year (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 primary focus of the Company will continue to be management of Group liquidity, including collateral management, and the generation of revenue from the investment portfolio.

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

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

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

Directors' report (continued)

Political and charitable contributions

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

Financial risk management

Risk management is outlined within the Strategic Report and in Note 19.

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 auditors

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

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

R Monnington
Director

16 June 2023

Statement of Directors' Responsibilities in respect of the Strategic Report, 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 regulations.

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 UK 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 Capital Public Limited Company

Report on the audit of the financial statements

Opinion

In our opinion, Prudential Capital Public Limited Company'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: Statement of Financial Position as at 31 December 2022; Statement of Comprehensive Income and 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 Capital Public Limited Company
(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, Directors' Report and the audited 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 Capital Public Limited Company
(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 of fraudulent journals to manipulate results. 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 underlying transactions through substantive testing to ensure that there are no fraudulent transactions are recorded;

- 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.

<u>Independent Auditors' Report to the Members of Prudential Capital Public Limited Company</u>
(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.

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 June 2023

Statement of Comprehensive Income

For the year ended 31 December

	Note	2022 £'000	2021 £'000
Interest income	2	**31,853**	17,899
Interest expenses and similar charges	3	**(24,715)**	(11,812)
Net interest		**7,138**	6,087
Other operating income	4	**4,531**	9,964
Operating expenses	5,6	**(13,686)**	(17,231)
Operating loss before tax		**(2,017)**	(1,180)
Unrealised (losses) / gains on measurement to fair value	8	**(1,387)**	8,740
(Loss) / Profit before tax		**(3,404)**	7,560
Tax credit / (charge)	9	**635**	(1,129)
(Loss) / Profit for the year		**(2,769)**	6,431
Other comprehensive income		**-**	-
Total comprehensive (loss) / income for the year		**(2,769)**	6,431

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

The accompanying notes and information on pages 15 to 32 form an integral part of the financial statements.

Statement of Financial Position

As at 31 December

	Note	2022 £'000	2021 £'000 (*Restated)
Assets			
Non - current assets			
Debt securities	10	**987,094**	1,079,145
Derivative assets	12	**125,243**	137,280
Deferred tax assets	9(c)	**2,970**	3,331
Total non – current assets		**1,115,307**	1,219,756
Current assets			
Debt securities	10	**57,508**	187,163
Debtors	11	**12,134**	5,160
Derivative assets	12	**27,914**	6,056
Corporation tax receivable		**1,687**	**-**
Cash and cash equivalents	13	**264,664**	1,015,357
Total current assets		**363,907**	1,213,736
Total assets		**1,479,214**	2,433,492
Non - current liabilities			
Derivative liabilities	14	**215,680**	316,631
Other creditors	15	**372**	700
Total non – current liabilities		**216,052**	317,331
Current liabilities			
Derivative liabilities	14	**2,979**	17,832
Corporation tax payable		**-**	344
Other creditors	15	**1,184,822**	2,020,200
Total current liabilities		**1,187,801**	2,038,376
Total liabilities		**1,403,853**	2,355,707
Net assets		**75,361**	77,785
Equity			
Share capital	16	**10,000**	10,000
Retained earnings		**65,361**	67,785
Total equity		**75,361**	77,785

*The format of statement of financial position has been changed to align to the requirements of IAS 1. The statement of financial position shows the total assets and total liabilities position, whereas the earlier format showed net assets. In addition, in the financial statements for the year ended 31 December 2021, Cash collateral posted in respect of OTC derivatives was presented within Debtors and is now presented within Cash and cash equivalents. The comparatives have been restated to reflect this presentation change, see Notes 11 and 13.

The financial statements were approved by the Board of Directors on 16 June 2023 and were signed on its behalf by:

R Monnington
Director

Company registered number: 02313262

The accompanying notes and information on pages 15 to 32 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		**10,000**	**60,919**	**70,919**
Profit for the year		-	6,431	6,431
Total comprehensive income for the year		**-**	**6,431**	**6,431**
Deferred tax on share-based payments	9(c)	-	282	282
Current tax movements	9(a)	-	111	111
Share based payments		-	42	42
Total transactions with shareholder		**-**	**435**	**435**
At 31 December 2021		**10,000**	**67,785**	**77,785**
At 1 January 2022		**10,000**	**67,785**	**77,785**
Loss for the year		-	(2,769)	(2,769)
Total comprehensive loss for the year		**-**	**(2,769)**	**(2,769)**
Deferred tax on share-based payments	9(c)	-	323	323
Current tax movements	9(a)	-	4	4
Share based payments		-	18	18
Total transactions with shareholder		**-**	**345**	**345**
At 31 December 2022		**10,000**	**65,361**	**75,361**

The accompanying notes and information on pages 15 to 32 form an integral part of the financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Basis of preparation of financial statements

Prudential Capital Public Limited Company (the "Company") is a public 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. 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),
  - 10(f), (statement of financial position as at the beginning of the preceding period when making restatement),
  - 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.

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.

Notes to the Financial Statements (continued)

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

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

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

1.3 Key judgements and estimates

The accounting policies are noted in 1.4-1.11 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.

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

(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) Derivative financial instruments

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

(iv) *Impairment 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 Foreign currency transactions

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

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

1.6 Interest income

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

1.7 Expense recognition

All expenses are recognised in the profit and loss account as a cost when incurred.

1.8 Tax

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

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

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

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

Notes to the Financial Statements (continued)

1.9 Share-based payments

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

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

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

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

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.

1.10 Pension costs

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

1.11 Share capital

Amounts recorded in share capital represent the nominal value of shares issued.

Notes to the Financial Statements (continued)

2. Interest income

	2022 £'000	2021 £'000
Interest income on loan investments	**-**	72
Interest income on debt securities	**16,995**	9,965
Interest and fee income on derivatives	**8,283**	6,389
Interest income from group undertakings	**577**	1,176
Interest income on bank and short-term deposits	**5,998**	297
	31,853	17,899

3. Interest expenses and similar charges

	2022 £'000	2021 £'000
Interest expenses to group undertakings	**16,885**	269
Interest and fee expenses on derivatives	**6,368**	11,384
Other interest expenses	**1,462**	159
	24,715	11,812

4. Other operating income

	2022 £'000	2021 £'000
Fees receivable on loan investments	**1,570**	1,218
Management fees from fellow group undertakings	**12,560**	12,112
Realised (losses) / gains on debt securities	**(43,044)**	949
Realised gains / (losses) on derivatives	**32,941**	(4,323)
Foreign exchange gains	**504**	8
	4,531	9,964

5. Auditor's remuneration

Fees payable to the Company's external auditor, PricewaterhouseCoopers LLP, its member firms and its associates (exclusive of VAT) are £114,660 (KPMG the predecessor auditor - 2021: £73,080).

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

Notes to the Financial Statements (continued)

6. Operating expenses

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

	2022	2021
	£'000	£'000
Wages and salaries	**7,566**	7,426
Share based payments	**1,456**	1,782
Social security costs	**1,265**	1,288
Pension scheme costs	**863**	958
	11,150	11,454

The average number of staff employed by the Company was 22 (2021: 25). Staff provide services to manage the Company's asset portfolio, and also services to fellow group undertakings. Management fee income is recognised for services to fellow group undertakings (note 4).

7. Directors' emoluments

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. There is no impact on the primary statements of the revised disclosure.

	Number of Directors	
	2022	2021
The number of Directors with retirement benefits accruing under the defined benefit schemes.	1	2
The number of Directors who exercised share options	-	1
The number of Directors in respect of whose services shares were received or receivable under long term schemes	5	4

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

	2022	2021
	£'000	£'000
Unrealised (losses) / gains on debt securities	**(83,471)**	15,676
Unrealised gains / (losses) on derivatives	**82,084**	(6,936)
	(1,387)	8,740

Notes to the Financial Statements (continued)

9. Tax

(a) Analysis of tax credit for the year

	2022	2021
	£'000	£'000
Current tax		
Current tax on profit for the year	**1,330**	(826)
Adjustments in respect of prior years	**(11)**	(9)
Total current tax credit / (charge)	**1,319**	(835)
Deferred tax		
Origination and reversal of timing differences	**(746)**	(671)
Adjustments in respect of previous years	**1**	(74)
Effect of changes in tax rate	**61**	451
Total deferred tax charge	**(684)**	(294)
Total tax credit / (charge) on ordinary activities	**635**	(1,129)
Equity items		
Current tax	**4**	111
Deferred tax – current year	**323**	282
Total tax credit to equity	**327**	393

(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	2021
	£'000	£'000
(Loss) / profit on ordinary activities before tax	**(3,404)**	7,560
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**647**	(1,436)
Effects of:		
Tax rate changes	**61**	451
Share options	**(63)**	(61)
Adjustments in respect of previous years	**(10)**	(83)
Total tax credit / (charge) for the year	**635**	(1,129)

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.

(c) Deferred taxation	**2022**	2021
	£'000	£'000
Balance at 1 January	**3,331**	3,342
Charged to profit for the year	**(685)**	(219)
Charge in equity for the year	**323**	282
Adjustments in respect of prior years	**1**	(74)
Balance at 31 December	**2,970**	3,331

Notes to the Financial Statements (continued)

9. Tax (continued)

The deferred tax balance is attributable to the following:	**2022 £'000**	2021 £'000
Employee benefits	**49**	39
Share based payments	**1,402**	1,178
Debt securities	**(4,402)**	(6,123)
Derivatives	**5,921**	8,237
	2,970	3,331

(d) Factors that may affect future tax charges

Deferred tax assets are recognised to the extent that they are regarded as recoverable. On the assessment of all available evidence, the asset is recognised if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. 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.

10. Debt securities

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

	2022 £'000	2021 £'000
Government gilts	**565,055**	687,929
Supranational securities	**49,137**	36,994
Residential mortgage-backed securities	**94,755**	148,399
Other asset-backed securities	**11,231**	39,529
Corporate securities	**324,424**	353,457
	1,044,602	1,266,308

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

	2022 £'000	2021 £'000
AAA	**341,082**	388,611
AA+ to AA-	**653,211**	780,830
A+ to A-	**50,309**	96,867
	1,044,602	1,266,308

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

	2022 £'000	2021 £'000
Listed	**1,024,061**	1,228,684
Unlisted	**20,541**	37,624
	1,044,602	1,266,308

Details of debt securities pledged by the Company as collateral to counterparties in respect of its over-the-counter ('OTC') derivative positions and borrowings under repurchase agreements are detailed in note 19. The debt securities not pledged as collateral, are unencumbered high quality bonds and UK gilts which are liquid and can be readily converted into cash.

Notes to the Financial Statements (continued)

11. Debtors

	2022 £'000	2021 £'000 (*Restated)
Amounts due from group undertakings	**2,032**	1,077
Interest receivable	**10,023**	3,960
Accrued income	**74**	116
Other debtors	**5**	7
	12,134	5,160

Amounts due from Group undertakings are unsecured, interest free and have no fixed date of repayment.

*In the financial statements for the year ended 31 December 2021, Cash collateral of £52,692,000 posted in respect of OTC derivatives was presented in Debtors and is now presented within Cash and cash equivalents, see Note 13.

12. Derivative assets

	2022 £'000	2021 £'000
Derivative assets	**153,157**	143,336

Derivative assets includes an amount of £3,157,448 (2021: £11,296,862) which relates to derivative transactions undertaken with a group counterparty.

13. Cash and cash equivalents

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

	2022 £'000	2021 £'000 (*Restated)
Cash at bank	**242,664**	152,665
Cash collateral posted in respect of OTC derivatives	**22,000**	52,692
Secured deposits made under reverse repurchase agreements	**-**	810,000
	264,664	1,015,357

UK Gilts with a total fair value of £Nil (2021: £811,130,415) were pledged as collateral to the Company by external counterparties in respect of deposits made under reverse repurchase arrangements.

* In the financial statements for the year ended 31 December 2021, Cash collateral of £52,692,000 posted in respect of OTC derivatives was presented in Debtors and is now presented in Cash and cash equivalents, see Note 11.

14. Derivative liabilities

	2022 £'000	2021 £'000
Derivative liabilities	**218,659**	334,463

Derivative liabilities includes an amount of £3,539,332 (2021: £2,605,623) which relates to derivative transactions undertaken with a group counterparty.

Notes to the Financial Statements (continued)

15. Other creditors

	2022 £'000	2021 £'000
Amounts owed to group undertakings	**995,129**	1,873,066
Obligations under repurchase agreement	**77,350**	25,000
Cash collateral received in respect of OTC derivative positions	**103,001**	113,531
Interest payable	**4,710**	3,315
Accrued expenses, deferred income and other payables	**5,004**	5,988
	1,185,194	2,020,900

Amounts owed to group undertakings are repayable on demand with interest charged at overnight SONIA rate compounded daily.

Obligations under repurchase agreement includes an amount of £25,000,000 (2021: £25,000,000) which relates to a repurchase arrangement with a group counterparty and £52,350,000 (2021: £Nil) with an external counterparty.

UK Gilts with a total fair value of £27,731,513 (2021: £27,894,377) were posted as collateral by the Company in respect of obligations under repurchase arrangements with a group counterparty and UK Gilts with a total fair value of £48,275,623 (2021: £Nil) and cash of £2,775,930 (2021: £Nil) were posted as collateral by the Company to external counterparties.

Creditors notes in the financial statements for the year ended 31 December 2021 included Derivative liabilities and Corporation tax payable which are now shown separately on the face of the Statement of Financial Position. Additionally, Accrued expenses were also shown in separate notes, showing amounts falling due within one year and after more than one year, and have now been combined in a singular Creditor note.

16. Issued share capital

	2022 £'000	2021 £'000
Allotted, issued and fully paid		
10 million ordinary shares of £1 each	**10,000**	10,000

17. Commitments

Financial commitments

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

	2022 £'000	2021 £'000
Commitments to group undertakings	**128,795**	325,000
Commitments to external counterparties	**3,440**	126,239
	132,235	451,239

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

Notes to the Financial Statements (continued)

17. Commitments (continued)

Off balance sheet arrangements

The Company provided UK Government credit protection through credit default swaps with various counterparties. The total notional exposure amounted to £220 million (2021: £207 million).

The Company has provided a guarantee to The Prudential Assurance Company Limited ('PAC'), a related group counterparty, under which it provides collateral of £198 million (2021: £218 million) in the form of debt securities. The value of collateral pledged under this guarantee (see note 19) is subject to haircut adjustments.

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

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

18. Share-based payments

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

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

(b) Description of the plans

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

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

Notes to the Financial Statements (continued)

18. Share-based payments (continued)

Approved Schemes	Description
Save As You Earn ("SAYE")	The Company operates SAYE plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remaining in employment for three years after the grant date of the options and the employee satisfying the monthly savings requirement.
Share Incentive Plan ("SIP")	In addition, to celebrate the demerger, all eligible employees were provided with 920 M&G plc shares with a value of £2,000 at the date of the grant. 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
2022				
£1 - £2	326,811	1.83	1.33	-
2021				
£1 - £2	350,066	2.90	1.33	-

19. Financial instruments

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

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

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

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

Notes to the Financial Statements (continued)

19. Financial instruments (continued)

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

	Debt securities		Cash	
	Pledged £'000	**Received £'000**	**Pledged £'000**	**Received £'000**
31 December 2022				
OTC derivative positions	241,170	479	19,224	103,001
Reverse Repo trades	-	-	-	-
Repo trades	76,007	-	2,776	-
Group guarantees (note 17)	213,442	-	-	-
	530,619	**479**	**22,000**	**103,001**
31 December 2021				
OTC derivative positions	321,730	-	52,692	113,531
Reverse Repo trades	-	811,130	-	-
Repo trades	27,894	-	-	-
Group guarantees (note 17)	232,001	-	-	-
	581,625	**811,130**	**52,692**	**113,531**

The Company has also provided credit protection on the UK Government under credit default swaps. The total notional exposure amounted to £220 million (2021: £207 million).

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

Market risk

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

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

Market risk – Interest rate risk

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

	Decrease 2% £'000	**Decrease 1% £'000**	**Increase 1% £'000**	**Increase 2% £'000**
2022				
Debt securities	164,536	74,320	(61,857)	(113,873)
OTC derivatives	(165,390)	(74,702)	62,163	114,411
Current tax	162	73	(58)	(102)
Increase (decrease) in profit after tax	**(692)**	**(309)**	**248**	**436**
2021				
Debt securities	161,600	75,260	(66,394)	(125,196)
OTC derivatives	(159,679)	(74,644)	65,709	123,713
Current tax	(365)	(117)	130	282
Increase (decrease) in profit after tax	**1,556**	**499**	**(555)**	**(1,201)**

Notes to the Financial Statements (continued)

19. Financial instruments (continued)

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

	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
31 December 2022					
Net exposure	**66,970**	**7,468**	**495**	**428**	**75,361**
31 December 2021					
Net exposure	73,584	3,261	557	383	77,785

Sensitivity analysis
A 5 percent weakening of the US dollar and euro currencies against pound sterling at 31 December 2022 would have decreased profit before tax by the amounts shown below. A 5 percent strengthening of the US dollar and euro currencies against pound sterling at 31 December 2022 would have increased profit before tax by the equal and opposite of the amounts shown below. These calculations assume that the change occurred at the balance sheet date and had been applied to risk exposures at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Impact on profit before taxation £'000
2022	
USD	**(393)**
EUR	**(1)**
2021	
USD	(225)
EUR	(5)

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

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

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

	Total carrying value £'000	Contractual cash flows £'000	1 year or less £'000	After 1 year to 5 years £'000	No stated maturity £'000
2022					
Amounts owed to group undertakings	995,129	995,129	995,129	-	-
Obligations under repurchase agreements	77,350	77,350	77,350	-	-
Other creditors	112,715	112,715	4,710	372	107,633
	1,185,194	**1,185,194**	**1,077,189**	**372**	**107,633**
2021					
Amounts owed to group undertakings	1,873,066	1,873,066	1,873,066	-	-
Obligations under repurchase agreements	25,000	25,000	25,000	-	-
Other creditors	123,178	123,178	3,315	700	119,163
	2,021,244	2,021,244	1,901,381	700	119,163

Notes to the Financial Statements (continued)

19. Financial instruments (continued)

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

	Carrying value of derivatives			Maturity profile of net derivative position				
	Derivative assets £'000	Derivative liabilities £'000	Net derivative position £'000	Total expected cash flows £'000	1 year or less £'000	After 1 year to 3 years £'000	After 3 years to 5 years £'000	After 5 years £'000
2022	**153,157**	**(218,659)**	**(65,502)**	**(106,622)**	**34,415**	**2,827**	**11,814**	**(155,678)**
2021	143,336	(334,463)	(191,127)	(209,050)	(10,772)	(6,331)	3,192	(195,139)

Offsetting assets and liabilities

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

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

	Gross amount included in Balance Sheet £'000	Related amounts not offset in the balance sheet: Financial Instruments £'000	Cash Collateral £'000	Securities Collateral £'000	Net Amount £'000
2022					
Financial assets					
Derivative assets	153,157	(53,683)	(94,184)	-	5,290
Reverse repurchase agreements	-	-	-	-	-
	153,157	**(53,683)**	**(94,184)**	**-**	**5,290**
Financial liabilities					
Derivative liabilities	(218,659)	53,683	15,754	143,357	(5,865)
Repurchase agreements	(77,350)	-	2,776	74,574	-
	(296,009)	**53,683**	**18,530**	**217,931**	**(5,865)**
2021					
Financial assets					
Derivative assets	143,336	(20,465)	(110,834)	-	12,037
Reverse repurchase agreements	810,000	-	-	(809,740)	260
	953,336	(20,465)	(110,834)	(809,740)	12,297
Financial liabilities					
Derivative liabilities	(334,463)	20,465	46,262	265,130	(2,606)
Repurchase agreements	(25,000)	-	-	25,000	-
	(359,463)	20,465	46,262	290,130	(2,606)

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

Notes to the Financial Statements (continued)

19. Financial instruments (continued)

Assets and liabilities – Classification and measurement

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

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

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

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

	At fair value through profit & loss £'000	Amortised cost £'000	Total carrying amount £'000
2022			
Debt securities	1,044,602	-	1,044,602
Amounts owed by group undertakings	-	2,032	2,032
Other debtors	-	10,102	10,102
Derivative assets	153,157	-	153,157
Cash and cash equivalents	-	264,664	264,664
	1,197,759	**276,798**	**1,474,557**
Amounts owed to group undertakings	-	(995,129)	(995,129)
Obligations under repurchase agreements	-	(77,350)	(77,350)
Derivative liabilities	(218,659)	-	(218,659)
Other liabilities	-	(112,715)	(112,715)
	(218,659)	**(1,185,194)**	**(1,403,853)**
2021 (*Restated)			
Debt securities	1,266,308	-	1,266,308
Amounts owed by group undertakings	-	1,077	1,077
Other debtors	-	4,083	4,083
Derivative assets	143,336	-	143,336
Cash and cash equivalents	-	1,015,357	1,015,357
	1,409,644	1,020,517	2,430,161
Amounts owed to group undertakings	-	(1,873,066)	(1,873,066)
Obligations under repurchase agreements	-	(25,000)	(25,000)
Derivative liabilities	(334,463)	-	(334,463)
Other liabilities	-	(123,178)	(123,178)
	(334,463)	(2,021,244)	(2,355,707)

*In the financial statements for the year ended 31 December 2021, Cash collateral of £52,692,000 posted in respect of OTC derivatives was presented within Debtors and is now presented within Cash and cash equivalents, see Notes 11 and 13.

Notes to the Financial Statements (continued)

19. Financial instruments (continued)

IFRS 13 Fair value hierarchy

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

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

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

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

The Company's policy is consistent with the Group's policy to recognise transfers out of levels as at the end of each reporting period, except for material transfers, which are recognised as of the date of the event or change in circumstances that caused the transfers. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities. During the year debt securities with an amount of £28,253,875 (2021: £93,348,860) was transferred from level 1 to level 2. This movement arises from refinements made to the Group's levelling policy which is also applied by the Company. There were no other transfers in or out of level 1, level 2 and level 3 (2021: £Nil).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2022				
Debt securities	565,055	479,547	-	1,044,602
Derivative assets	-	153,157	-	153,157
Total assets	**565,055**	**632,704**	**-**	**1,197,759**
Derivative liabilities	**-**	**(218,659)**	**-**	**(218,659)**
2021				
Debt securities	666,264	600,044	-	1,266,308
Derivative assets	-	143,336	-	143,336
Total assets	666,264	743,380	-	1,409,644
Derivative liabilities	-	(334,463)	-	(334,463)

20. 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.

21. Immediate and ultimate parent company

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