Registered No: 05739054

PRUDENTIAL FINANCIAL PLANNING LIMITED

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

PRUDENTIAL FINANCIAL PLANNING LIMITED

Incorporated and registered in England and Wales. Registered No: 05739054
Registered office: 10 Fenchurch Avenue, London EC3M 5AG

CONTENTS

PRUDENTIAL FINANCIAL PLANNING LIMITED

Directors

D W King (Chairman)
C G Haines
M Leahy
D R Macmillan (resigned on 1 May 2020)
Michael Payne (appointed on 11 November 2019)

Secretary

M&G Management Services Limited

Independent Auditor

KPMG LLP, London

Principal activity

The principal activity of Prudential Financial Planning Limited (“the Company”) is to provide professional face-to-face restricted advice services, largely distributing products of companies within the insurance business unit of the M&G plc group through non-intermediated channels. These activities will continue in 2020.

Business review

The Company receives charges for providing advice to clients. The initial advice charges are contingent to a product sale. The Company also provides advice services in respect of certain pension withdrawals where the income is not contingent to a sale. The ongoing adviser charges are paid by deduction from the fund value and continue while the client wishes to benefit from ongoing advice services. The Company also earns commission on the sale of protection products.

On 26 November 2018 the legal ownership of the parent company, Prudential Financial Services Limited ("PFSL"), was transferred from its previous parent company Prudential plc to a new holding company, M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales.

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

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

COVID-19 is expected to result in a deterioration in financial performance over 2020. Operating income is expected to decline due to reduced activity which will affect income earned from adviser charges. The expenses are expected to be lower as advisers adopt technology to replace face-to face interactions with customers. The impact is discussed further in the post balance sheet event note in the Director’s report and note 19 to the financial statements.

Whilst full financial implications are not yet known, based on the Company’s current financial and liquidity position, the Directors believe the Company is in a position to withstand the financial impact of the pandemic.

Key performance indicators

	2019	2018	Change
	£'000	£'000	%
Operating Income	**64,873**	57,244	13
Operating expenses	**64,394**	56,980	(13)
Profit before taxation	**586**	320	83
Shareholders' funds	**10,672**	10,080	6
Regulatory capital surplus (based on IPRU (INV) and MIPRU requirements, see below)	**5,705**	6,064	(6)

The Company generated a pre-tax profit of £586k during 2019 (2018: £320k). The higher profit in 2019 as compared to 2018 is on account of increases in adviser charge income, mainly from increased sales of Retirement Account products and an increase in commission income from protection business offered through a panel of providers, following its commencement in 2018.

Since 2016, the Company has retained all advice related income and expenses; prior to that, all advice related income and expenses were passed back to the product providing entities. Early year losses on the advice business administered by the Company were principally borne by The Prudential Assurance Company Ltd ('PAC'), the main product provider. As such, during 2018, an agreement was entered into to pay PAC an amount equivalent to its share of losses borne prior to 2016 (plus interest) in the years in which the Company makes a profit (subject to a floor of 90% of profit). The Company accrued an amount of £5,272k payable to PAC for this in 2019 (2018: £2,887k).

The regulatory capital requirements of the Company are governed by the Interim Prudential Sourcebook for Investment Business (IPRU (INV)) and the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU). The Company relies on a group policy to meet the requirement for Professional Indemnity Insurance as per IPRU (INV). The regulatory capital surplus for each of the years has been calculated based on the rules in force at that time.

Section 172(1) Statement

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

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

In discharging the Board's section 172 duties, regard has been given to the factors set out above. The Board also recognises the matters it considers can often have unique characteristics. This can require the Board to consider 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 they consider will vary depending on the decision being taken across all the Board's decisions and that they are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with the Group's overarching culture, vision and values.

As is normal for large companies, authority for day-to-day management is delegated to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Directors review at each regular Board meeting: financial and operational performance; risk, compliance and regulatory reporting. The Board also reviews other areas over the course of the financial year including the Company's business strategy; financial reporting; key risks; stakeholder-related matters; and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

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

During the period the Board received information to help them understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance, non-financial key performance indicators, risk and the outcomes of specific pieces of engagement (for example, the results of customer surveys and focus groups). As a result of this, the Board has had an overview of engagement with stakeholders and other relevant factors which allows it to understand the nature of the stakeholders' concerns and to comply with the section 172 duty to promote success of the Company.

Principal Decisions

The Board sets out below, some examples of how they have had regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duty and the effect of that on decisions taken. The Board defines principal decisions as both those that are material to the Company, but also those that are significant to any of the Company's key stakeholders. In making the following principal decisions the Board considered relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal decision 1 - Annual Strategy Review and Business Plan Approval

The Board carries out a review of the Company's strategy on an annual basis. This includes approving the three-year rolling business plan where the summary financials, headlines of the delivery plan, key themes, key dependencies and key risks are considered. At its quarterly meeting, the Board also receives an update on progress through the CEO Report and discusses business performance, development and implementation of strategy, objectives and business plans. In addition, appropriate management actions are taken to ensure that the Company continues to operate within risk appetite. In 2019, the Board discussed the Company's strategy taking into consideration the market dynamics, SWOT analysis and current plans and strategic options. The Business Plan for 2020-2022 also focused on the ongoing transformation in the business, the key deliverables and dependencies to ensure that it was well-positioned for long-term success.

Principal decision 2 - Transformation and Change

There has been a significant amount of ongoing strategic transformation within the Company with a number of initiatives being delivered in late 2019. The business has adopted large provider-led initiatives (e.g. Digital Account and policy administration system - BaNCS migration), with Digital ISA expected to finalise in early 2020. The new shape of the business will provide the platform for future step-change growth, and support the wider Group strategy of building distribution in cost-effective channels and markets, at a time when the demand for advice is increasing.

A self-employed proposition (The Advice Partnership) was launched in 2019 to support the natural lifestyle and career choices of the Company's advisers. The overwhelming majority of the adviser market is self-employed, in part driven by the common desire of career advisers to develop some form of enterprise value from their practices. The Advice Partnership will allow the collaborative transition of its employed advisers and their Prudential clients into self-employment, retaining goodwill and future commercial value; in contrast to the alternative of losing the same advisers, and a number of their clients, to the external market. This development will extend the reach of advice beyond its current limits and support the Company's belief that customers who receive advice experience better outcomes.

Principal decision 3 - Engagement with key stakeholder groups

Customers

Helping clients achieve their financial planning goals is at the heart of what the Company does by providing advice to existing customers as well as those who are new to M&G plc. Our advisers focus on understanding our clients' financial aims, in order to effectively meet their needs. The Company operates in a way that allows it to build meaningful relationships through ongoing advice to its clients and to understand how their requirements evolve. Successful technology-led innovation is a key driver of value for the clients (and advisers). The Board evaluated the effectiveness of the service provided to customers and the use of new tools such as video advice capability providing multiple ways in which clients can engage with the Company and ways in which client satisfaction can be regularly monitored (through the collection of net promoter scores (NPS)) to inform ongoing improvements.

Workforce

There is regular engagement with the employees through formal and informal meetings such as company-wide employee surveys and regular team meetings so they can provide their views on our strategic direction, and confidence in our leaders. The performance of the business, vision, and strategic direction are communicated to employees during the Company's conferences, alongside regular updates and discussions held within business unit teams.

Additionally the employed field advisers get the opportunity to engage and provide feedback to the business via a weekly pulse survey. By understanding the sentiment of its workforce through these means, the Company factors in their needs and concerns in management and Board meetings, and in developing its change initiatives. Colleagues in the UK are now located in a single site in Edinburgh allowing for improved connectivity across teams. A collaborative culture following the formation of M&G plc has helped forge stronger relationships with other parts of the Group. The business is represented by the CEO in various committees and governance forums of the Customer & Distribution Unit of the Group, providing input to a range of strategic and operational initiatives, and fostering deeper collaboration.

As mentioned in the Directors' Report, employees are invited to participate in the M&G plc Savings Related Share Option Scheme and can also participate in the M&G plc Share Incentive Plan.

Regulators

There is regular dialogue with the regulator through the Company's Supervisory Team to provide key business updates. The business continues to collaborate with the regulator by providing inputs and feedback into market reviews and consultation papers such as the Financial Advice Market Review (FAMR) and the consultation on the provision of Defined Benefit (DB) advice.

Risks & uncertainties

The Company is a wholly owned subsidiary of Prudential Financial Services Limited ('PFSL') which is a subsidiary of M&G plc. The Company is subject to the Group’s internal control and risk management processes as detailed in the Group Governance Framework ("GGF") and 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 requires all entities within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The GRMF for the Company is approved by the Group Board Risk Committee and operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

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

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The financial risk factors affecting the Company are credit, liquidity and market risks. These financial risks and the management thereof are discussed in Note 15.

Non-financial risk

The Company is exposed to business environment, strategic, conduct, operational and group risk.

a) Business environment risk

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

Customer behaviour may change as customers could have fewer assets to save or customers could be less inclined to take significant financial decisions while the outbreak persists.

b) Strategic risk

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

c) Operational risk

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

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

d) Reputational risk

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

e) Regulatory compliance risk

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

f) Group risk

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

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

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

H Archbold
On behalf of M&G Management Services Limited
Company Secretary
12 May 2020

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Incorporated and registered in England and Wales. Registered No: 05739054

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

Future Developments

Likely future developments in the business of the Company are discussed in the strategic report in accordance with section 414C(11) of the Companies Act 2006 ("the Act").

Ultimate Parent Company

On 23 November 2018 the legal ownership of the parent company, Prudential Financial Services Ltd (PFSL), was transferred from its previous parent company Prudential plc to a new holding company, M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales. M&G plc was previously named M&G Prudential Limited. It registered as a public limited company M&G Prudential plc on 24 July 2019 and changed its name to M&G plc on 16 September 2019.

Corporate Responsibility

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

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

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

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

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

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

Governance

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

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

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

Accounts

The state of affairs of the Company at 31 December 2019 is shown in the statement of financial position on page 15. The statement of comprehensive income appears on page 14.

Share Capital

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

Post Balance sheet events

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

COVID-19 is expected to result in a deterioration in financial performance over 2020. Operating income is expected to decline due to reduced activity which will affect adviser charge income. Expenses are also expected reduce as advisers adopt technology over face-to-face interactions with customers.

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

Dividends

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

Directors

The present directors are shown on page 1. Mr Michael Payne was appointed as a director of the Company on 11 November 2019. Mr David Macmillan resigned as a Director on 1 May 2020.

Employees

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

- Equal opportunity

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

- Employee involvement

It is the Company's policy to communicate with employees on issues that concern them and to provide information to them through employee reports and regular manager briefings. Views of employees are sought through a number of channels including consultation through the medium of a staff consultative group.

Employees are invited to participate in the M&G plc Savings Related Share Option Scheme and can also participate in the M&G plc Share Incentive Plan.

Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders, please see the Section 172 Statement on pages 2-5. Being a wholly owned subsidiary of PFSL, which is wholly owned by M&G plc, stakeholder engagement also takes place at a Group level.

Financial risk management objectives, policies and exposure

The Company is exposed to risk through its financial assets and liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. Further information on the financial risk management objectives and policies of the Company are given in Note 15.

Disclosure to the auditor

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

Auditor

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

Directors' and Officers' Protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc group. M&G plc 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 indemnities were in force during 2019 and remain in force. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

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

H Archbold
On behalf of M&G Management Services Limited
Company Secretary
12 May 2020

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL FINANCIAL PLANNING LIMITED

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

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic Report and director's report

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL FINANCIAL PLANNING LIMITED (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

William Greenfield

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018	Note
	£'000	£'000	
Operating income	**64,873**	57,244	2
Staff costs	**(43,116)**	(36,226)	3,6
Other operating charges	**(21,278)**	(20,754)	4,5
Operating profit	**479**	264	
Interest receivable	**107**	56	7
Profit before tax	**586**	320	
Tax charge	**(146)**	(693)	8
Profit/(loss) for the financial year	**440**	(373)	

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

The accounting policies on pages 17 to 20 with accompanying notes on pages 20 to 31 form an integral part of these financial statements.

PRUDENTIAL FINANCIAL PLANNING LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	2019	2018	Note
	£'000	£'000	
Non-current assets			
Deferred tax asset	**188**	64	8
Current assets			
Trade and other debtors	**8,253**	6,327	9
Cash and bank balances	**17,248**	12,615	10
	25,501	18,942	
Current liabilities			
Trade and other creditors: amounts falling due within one year	**14,537**	8,614	11
Corporation tax payable	**480**	312	
Net current assets	**10,484**	10,016	
Total assets less current liabilities	**10,672**	10,080	
Net assets	**10,672**	10,080	
Capital and reserves			
Called up share capital	**13,800**	13,800	13
Profit and loss account	**(3,756)**	(4,196)	
Capital reserves	**628**	476	
Shareholders' funds - equity interests	**10,672**	10,080	

The accounting policies on pages 17 to 20 with accompanying notes on pages 20 to 31 form an integral part of these financial statements.

The accounts were approved by the Board of Directors on 12 May 2020.

C Haines
Director
12 May 2020

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

	Share capital	Profit and loss Account	Capital reserves	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2018	13,800	(3,823)	249	10,226
Increase in capital reserve during the year	—	—	145	145
Current tax credited to capital reserve	—	—	55	55
Deferred tax credited to capital reserve	—	—	27	27
Loss for the financial year	—	(373)	—	(373)
Total comprehensive loss for the period	—	(373)	—	(373)
Balance at 31 December 2018	13,800	(4,196)	476	10,080
Balance at 1 January 2019	**13,800**	**(4,196)**	**476**	**10,080**
Increase in capital reserve during the year	—	—	179	179
Deferred tax debited to capital reserve	—	—	(27)	(27)
Profit for the financial year	—	440	—	440
Total comprehensive profit for the period	—	440	—	440
Balance at 31 December 2019	**13,800**	**(3,756)**	**628**	**10,672**

The increase in the capital reserve represents the movement in respect of share-based payments during the year in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 17 to 20 with accompanying notes on pages 20 to 31 form an integral part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company information

The Company is a private limited company incorporated and domiciled in England and Wales. The address of its registered office is 10 Fenchurch Avenue, London EC3M 5AG.

B. Basis of preparation

The financial statements have been prepared in accordance with FRS101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

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

IFRS 16 *Leases* (“IFRS 16”) introduces a single model for all leases, eliminating the distinction in accounting treatment between operating and finance leases for lessees. This standard is effective from 1 January 2019 and replaces IAS 17 *Leases* (“IAS 17”). The adoption of the standard does not have any impact on the financial statements of the Company as the Company does not have any lease agreements.

The Company’s ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. The consolidated financial statements of M&G plc are prepared in accordance with International Financial Reporting Standards and may be obtained from the Company Secretary, 10 Fenchurch Avenue, London, England, EC3M 5AG.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- The effect of new but not yet effective accounting standards;
- Disclosures in respect of revenue from contracts with customers.

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

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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the M&G Group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation. The Company has a satisfactory capital adequacy, in excess of the capital requirements stipulated by the FCA.

In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report on page 2. The key method for assessing going concern is through the business planning process which considers profitability, liquidity and solvency. The business planning process considers the Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate. These plans have been updated to take into consideration the current information available in respect of the coronavirus ("COVID-19") outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Due to the uncertainty regarding COVID-19, additional stress tests of severe but plausible downside scenarios have been carried out to test the Company's resilience to these developments and actions available to the Company to mitigate or reduce the impact. On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2019.

C. Financial instruments - recognition and measurement

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

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

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

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

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

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

Financial liabilities

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

D. Financial instruments - Impairment

Financial assets impairment

Impairment is recognised on financial assets measured at amortised cost based on expected credit losses (ECL).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive).

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

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

A financial instrument is considered to have low credit risk when it has an external credit rating of 'investment grade'. The entity has determined that the cash balances and deposits with credit institutions are considered to have low credit risk and therefore impairment is based on a 12 month ECL for these assets.

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

E. Revenue recognition

Operating income, comprising income earned on advice services and recharges to group undertakings is recognised when the Company satisfies the related performance obligation, in accordance with IFRS 15 *Revenue from contracts with customers*.

Interest receivable is recognised on an accruals basis.

F. Expenses

Operating expenses comprise of management expenses incurred by the Company in relation to the distribution activities. Expenses are recognised on an accruals basis.

Interest payable by the Company is accounted for on an accruals basis.

G. Taxation

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

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

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

H. Share-based payments

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

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

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

2. Operating income

	2019	2018
	£'000	£'000
Income earned from recharges to group undertakings	**4,189**	8,699
Income earned from advice services	**60,684**	48,545
	64,873	57,244

Income earned from advice services includes income receivable from regular premium policies and is estimated based on the adviser charge per month and discounted using an appropriate discount rate. An allowance is also made for estimated lapses.

3. Staff costs

	2019	2018
	£'000	£'000
Wages and salaries	**32,321**	27,566
Other pension costs	**5,267**	4,506
Social security costs	**4,681**	3,799
Share based payment expenses	**847**	355
Total	**43,116**	36,226
	Number	Number
Average number of employees during the period	**396**	375

The majority of staff employed by the M&G plc group in the UK are members of the M&G plc group's pension schemes, including both defined contribution and defined benefit schemes. The largest scheme is the Prudential Staff Pension Scheme ("PSPS"), which accounts for 82% (2018: 82%) of the present value of M&G plc group's defined benefit pension obligation.

Further details of the PSPS pension scheme are disclosed in the accounts of M&G plc.

4. Other operating charges

	2019	2018
	£'000	£'000
Management expenses	**21,278**	20,754

Management expenses include expenses other than staff costs incurred to run the business.

5. Auditors' remuneration

Auditor's remuneration of £20k (2018: £20k) in respect of the audit of the Company's financial statements is borne by a group company, Prudential Distribution Limited. No non-audit services were provided to the Company by the auditor in 2019 or 2018.

6. Directors' emoluments

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

	2019	2018
	£'000	£'000
Aggregate emoluments and benefits	**383**	344
Highest paid Director :		
Aggregate emoluments and benefits	**367**	344

NOTES ON THE FINANCIAL STATEMENTS (continued)

Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. Only one such qualifying director is remunerated by the Company.

The highest paid director received shares under long-term incentive schemes in both 2019 and 2018, and exercised share options in both 2019 and 2018. No director (2018: None) was entitled to retirement funds under a defined contribution pension scheme.

7. Interest receivable

	2019	2018
	£'000	£'000
Bank interest received	**107**	56

8. Taxation

a) Analysis of charge in the period

	2019	2018
	£'000	£'000
Tax reported in the statement of comprehensive income		
Current tax:		
Total current tax charge in the period	**375**	338
Adjustments in respect of prior years	**(78)**	(40)
Total tax charge on ordinary activities	**297**	298
Deferred tax :		
Current year	**(147)**	50
Adjustments in respect of previous years	**—**	350
Effect of changes in tax rates	**(4)**	(5)
Total deferred tax (credit)/charge in the period	**(151)**	395
Total tax charge in the period	**146**	693

	2019	2018
	£'000	£'000
Tax reported in the capital reserve		
Current tax:		
Adjustments in respect of prior years	**—**	(55)
Deferred tax :		
Current year	**27**	43
Adjustments in respect of previous years	**—**	(70)
Total tax charge/(credit) in the period	**27**	(82)

b) Factors affecting tax charge for the period

	2019	2018
	£'000	£'000
Profit/(loss) on ordinary activities before tax	**586**	320
Tax on profit/(loss) on ordinary activities at effective rate of corporation tax in the UK of 19% (2018: 19%)	**111**	61
Effects of:		
Share options	**(147)**	282
Expenses not deductible	**264**	45
Tax rate changes	**(4)**	(5)
Adjustments in respect of prior years	**(78)**	310
Total tax charge for the year	**146**	693

The standard rate of Corporation Tax in the UK was due to change from 19% to 17% with effect from 1 April 2020. Following the budget announcement on 11 March 2020, the repeal of the legislation to reduce the tax rate was substantively enacted on 17 March 2020. Accordingly, the reduction in tax rate will no longer take place.

c) Balance sheet

	2019	2018
	£'000	£'000
Deferred tax asset explained by:		
Short term timing differences	**185**	61
Accelerated capital allowances	**3**	3
	188	64
Deferred tax asset at start of period	**64**	432
Deferred tax credited/(charged) in Statement of comprehensive income for the year	**151**	(395)
Deferred tax (charged)/credited to Capital reserves	**(27)**	27
Deferred tax asset at end of period	**188**	64

9. Trade and other debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Amounts owed by group undertakings	**1,945**	158
Accrued income	**1,503**	1,269
Sundry debtors	959	2,000
Amounts falling due after more than one year:		
Accrued income	**3,846**	2,899
	8,253	6,327

	2019	2018
	£'000	£'000
Accrued income previously expected to be received within the year	**1,269**	1,177
Actual income received during the year	**1,139**	940

2019	**As at 1 Jan 2019**	**New business**	**Settlements**	**As at 31 Dec 2019**
	£'000	**£'000**	**£'000**	**£'000**
Accrued income	**4,168**	**2,906**	**(1,725)**	**5,349**

2018	As at 1 Jan 2018	New business	Settlements	As at 31 Dec 2018
	£'000	£'000	£'000	£'000
Accrued income	3,560	2,162	(1,554)	4,168

Accrued income on adviser charges from regular premium policies is estimated based on adviser charge per month and discounted using an appropriate discount rate. An allowance is also made for estimated lapses.

(i) An increase of 100bps in the discount rate would decrease the fair value of accrued income by £68k (2018: decrease of £54k) and a decrease of 100bps would increase the fair value by £70k (2018: increase of £56k).
(ii) An increase of 10% in the lapse rates would decrease the fair value of accrued income by £139k (2018: decrease of £111k). A decrease of 10% in the lapse rates would increase the fair value by £149k (2018: increase of £112k).

10. Cash and bank balances

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

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

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	**5,148**	3,075
Accruals and deferred income	**9,389**	5,539
	14,537	8,614

The Company's standard contractual payment terms for all qualifying contracts are payments within 30 days after the invoice date. All inter-company balances are repayable on demand.

12. Share-based payments

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

Discretionary schemes:

i. Long term Incentive Plan (LTIP)

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

ii. Restricted Share Plan (RSP)

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

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

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

Approved schemes:

i. Save As You Earn (SAYE) plans

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible UK-based 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.

ii. Share Incentive Plan (SIP)

UK-based employees are eligible to participate in the Company's HM Revenue & Customs (HMRC) approved SIP. All UK-based employees are able to purchase shares of M&G plc up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every two partnership shares bought, an additional matching share is awarded. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares are forfeited. Partnership share must be held for a minimum of 5 years for employees to realise the full income tax and national insurance savings.

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

All approved schemes are accounted for as equity-settled schemes as the awards will be settled in M&G plc shares. The previous approved SAYE and SIP schemes that operated prior to demerger were cancelled with all participants treated as good leavers. This resulted in an incremental expense of £75k recorded at the date of demerger. Prior to demerger the schemes were accounted for as equity-settled as Prudential plc had the obligation to settle these awards.

The weighted average share price of M&G plc for the period from the date of demerger to 31 December 2019 was £2.24.The weighted average share price of Prudential plc for the period up to the date of demerger was £15.52 and the weighted average share price for the year ended 31 December 2018 was £16.78.

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

At 31 December 2019		**Outstanding**			**Exercisable**
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices £**	**Number exercisable**	**Weighted average exercise prices £**
Between £1 and £2	**854,018**	**3.62**	**1.84**	**—**	**—**
Total	**854,018**	**3.62**	**1.84**	**—**	**—**

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

At 31 December 2018	Outstanding			Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £9 and £10	3,328	0.41	9.01	3,328	9.01
Between £11 and £12	63,643	1.55	11.09	12,571	11.11
Between £14 and £15	44,573	2.68	14.55	—	—
Total	111,544	1.97	12.41	15,899	10.67

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

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

13. Called up share capital

	2019	2018
	£'000	£'000
Ordinary shares		
Balance as at 1 January		
Issued, called up and fully paid :-	**13,800**	13,800
Balance as at 31 December		
Issued, called up and fully paid :- 13,800,000 ordinary shares of £1 each	**13,800**	13,800

14. Financial assets and financial liabilities

A. Financial assets and financial liabilities - classification and measurement

For financial investments the basis of valuation reflects the Company's application of IFRS 9 *Financial Instruments* . Financial assets and financial liabilities are measured at either fair value through profit or loss or amortised cost.

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

2019	**Fair value through profit or loss**	**Amortised Cost**	**Total carrying value**	**Fair value**
	£'000	**£'000**	**£'000**	**£'000**
Trade and other debtors	**—**	**2,904**	**2,904**	**2,904**
Cash at bank and in hand	**—**	**17,248**	**17,248**	**17,248**
Total financial assets	**—**	**20,152**	**20,152**	**20,152**

	Fair value through profit or loss	**Amortised cost**	**Total carrying value**	**Fair value**
	£'000	**£'000**	**£'000**	**£'000**
Trade and other creditors	**—**	**14,537**	**14,537**	**14,537**
Total financial liabilities	**—**	**14,537**	**14,537**	**14,537**

2018	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Trade and other debtors	—	2,159	2,159	2,159
Cash at bank and in hand	—	12,615	12,615	12,615
Total financial assets	—	14,774	14,774	14,774

	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Trade and other creditors	—	8,614	8,614	8,614
Total financial liabilities	—	8,614	8,614	8,614

NOTES ON THE FINANCIAL STATEMENTS (continued)

Market Risk

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

Market risk arises from:

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

Due to the nature of the Company's assets and liabilities, the Company does not have a significant exposure to market risk.

Interest rate risk

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

2019	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Not directly exposed to interest rate risk**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Trade and other debtors	**5,349**		**2,904**	**8,253**
Cash at bank and in hand	**—**	**17,248**	**—**	**17,248**
	5,349	**17,248**	**2,904**	**25,501**

	Fair value interest rate risk	**Cash flow interest rate risk**	**Not directly exposed to interest rate risk**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Liabilities				
Trade and other creditors	**—**	**—**	**14,537**	**14,537**
	—	**—**	**14,537**	**14,537**

NOTES ON THE FINANCIAL STATEMENTS (continued)

2018	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Trade and other debtors	4,168		2,159	6,327
Cash at bank and in hand	—	12,615	—	12,615
	4,168	12,615	2,159	18,942

	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
Financial Liabilities				
Trade and other creditors	—	—	8,614	8,614
	—	—	8,614	8,614

Currency risk

The Company is not exposed to currency risk as it does not have significant foreign currency exposures.

Other price risk

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

Liquidity Analysis

Contractual maturities of financial liabilities

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

2019	**1 year or less**	**After 1 year to 5 years**	**Total un-discounted cashflows**	**Total carrying value**
	£'000	**£'000**	**£'000**	**£'000**
Financial Liabilities				
Trade and other creditors	**14,537**	**—**	**14,537**	**14,537**
	14,537	**—**	**14,537**	**14,537**

2018	1 year or less	After 1 year to 5 years	Total un-discounted cashflows	Total carrying value
	£'000	£'000	£'000	£'000
Financial Liabilities				
Trade and other creditors	8,614	—	8,614	8,614
	8,614	—	8,614	8,614

15. Financial risk management

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

a) Credit risk

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

Impairment methodology

The impairment allowance calculation is based on M&G plc group's counterparty default risk calibration used for Solvency II. The counterparty default risk uses a default state model and a recovery rate model which is run through 1 million scenarios to generate a probability distribution of losses.

This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2019 to derive the ECL. The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL.

The entity held cash balances of £17,248k at 31 December 2019 (2018: £12,615k). These balances are held with banking and financial institution counterparties, which are rated AA- (2018: AA-) (or an equivalent grade from another major credit rating agency) or above.

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

b) Liquidity risk

Liquidity risk is the risk that the Company is unable to generate sufficient cash resources at a reasonable cost to meet financial obligations (e.g. claims, creditors) as they fall due. This risk is managed through careful management of bank balances and cash flow forecasting.

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

c) Market risk

Market risk is the risk of loss, or of adverse changes in the Company's financial situation resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

The Company's direct exposure to market risk is limited to the interest rate fluctuations on the bank balances held by the Company.

16. Contingent liability

Since 2016, the Company has retained all advice related income and expenses; prior to that, all advice related income and expenses were passed back to the product-providing entities. Early year losses on the advice business administered by the Company were principally borne by The Prudential Assurance Company Ltd ('PAC'), the main product provider. As such, during 2018, an agreement was entered into to pay PAC an amount equivalent to its share of losses borne prior to 2016 (plus interest) in the years in which the Company makes a profit (subject to a floor of 90% of profit).

17. Capital requirements and management

The Company is regulated by the Financial Conduct Authority (FCA) as the Company is engaged in insurance mediation. The Company is also regulated by the FCA as a personal investment firm. The Company is subject to the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) and the Interim Prudential Sourcebook for Investment Businesses (IPRU(INV)).

As stipulated in MIPRU rule 4.2.11R, the Company is required to maintain capital resources equivalent to the higher of £5k and 2.5% of the annual income from its protection and mortgage mediation activity.

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

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

In addition to the above requirements the Company is also required to maintain additional capital of 3.44% of its relevant income to meet the Professional Indemnity Insurance (PII) requirements based on the IPRU (INV) rules. The Company relies on a Group insurance policy to meet the PII requirements. The additional capital requirement is based on the excess on the PII policy and the level of annual income.

As at 31 December 2019, the minimum unaudited regulatory capital requirement of the Company was £4,947k (2018: £4,016k). The Company had capital resources amounting to £10,672k (2018: £10,080k) to meet the capital requirement.

18. Immediate and ultimate parent company

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

19. Post balance sheet events

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

COVID-19 is expected to result in a deterioration in financial performance over 2020. Operating income is expected to decline due to reduced activity which will affect the income from adviser charges. Expenses are also expected to reduce as the advisers adopt technology over face to face interaction with customers.