Company No. 02042953

PRUDENTIAL FINANCIAL SERVICES LIMITED

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

PRUDENTIAL FINANCIAL SERVICES LIMITED
Incorporated and registered in England and Wales. Registered No 02042953
Registered office: 10 Fenchurch Avenue, London, EC3M 5AG

CONTENTS Page

PRUDENTIAL FINANCIAL SERVICES LIMITED

Directors

C Bousfield (appointed on 22 February 2019)
M A Payne (resigned on 22 February 2019)
D King (appointed on 3 October 2019)

Secretary

M&G Management Services Limited

Auditor

KPMG LLP, London

PRUDENTIAL FINANCIAL SERVICES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Principal activity

The principal activity of Prudential Financial Services Limited (‘the Company’) is that of an investment holding company which invests in subsidiaries. This activity will continue in 2020.

One of the Company’s subsidiaries Prudential Distribution Limited ('PDL'), is the principal employer in respect of the Scottish Amicable Staff Pension Scheme ('SASPS'). SASPS is a defined benefit scheme operated by the M&G plc group ("the Group") for UK employees and the deficit in SASPS attributable to the shareholder’s funds was borne by the Company until 30 June 2019. The demerger from Prudential plc, presented the opportunity to restructure the group entities. As the Company relied on funding received from Prudential Assurance Company Limited (‘PAC’) to contribute towards the SASPS deficit, it was decided to transfer the deficit to PAC to simplify the structure. Note 1(J) presents the change in policy and note 9 the financial impact of the transfer.

Business review

As the Company’s principal activity is that of an investment holding company, its income is primarily derived from dividends. Up to 30 June 2019, the Company also incurred a share of the administrative expenses and funded the deficit attributable to SASPS as the holding company of PDL, the principal employer in respect of the SASPS. The pension liability was transferred to the shareholder fund of The Prudential Assurance Company Limited ('PAC'), a fellow group undertaking, on 30 June 2019.

The Company is a wholly owned subsidiary of M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales. M&G plc was previously named M&G Prudential Limited. The beneficial ownership of the Company was transferred from its previous parent company Prudential plc to M&G Prudential Limited on 23 November 2018, with the legal ownership transferring on 26 November 2018. M&G Prudential Limited registered as a public limited company M&G Prudential plc on 24 July 2019 and changed its name to M&G plc on 16 September 2019.

The Company continues to monitor the effects of the coronavirus ('COVID-19') outbreak which has been declared as a pandemic by the World Health Organization. COVID-19 has caused significant sickness and death globally, along with substantial isolation. 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 not expected to result in a major impact on the financial performance of the Company over 2020. The Company has limited activities and does not hold any financial assets and liabilities other than balances with group undertakings and investments in subsidiaries. This is also discussed in the post balance sheet event section in the Directors' report and note 13 to the financial statements.

Key Performance Indicators	**2019**	2018	Change
	£'000	£'000	**%**
Profit/(loss) before taxation	**43,785**	(12,140)	461
Other comprehensive (loss)/income for the year, net of tax	**(8,833)**	26,782	133
Shareholders' funds at end of year	**(4,256)**	(105,142)	96

The Company generated a pre tax profit of £43,785k (2018: loss of £12,140k). The current year profit is principally due to the transfer of pension liability resulting in operating profit.

Other comprehensive income for the year, net of tax comprises the actuarial loss (net of tax) on SASPS of £8,833k (2018: gain of £26,782k) arising principally from the effect of discount rate changes on the present value of the scheme liabilities.

Shareholders' funds have increased to negative £4,256k (2018: negative £105,142) due to the write off of loans payable to the parent company and PAC, a fellow group undertaking, with the corresponding creation of a capital reserve.

As the Company is in a net liabilities position at the balance sheet date, a letter of support has been provided by the parent company, M&G plc, committing to subscribe to additional share capital of up to £136 million, in the event of future financing being required in the period up to twelve months from the date of signing these financial statements.

Section 172(1) Statement

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

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

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

As an intermediate holding company, Board decisions are made as and when appropriate. Over the course of the financial year they review a range of corporate activity including financial reporting. This is done through the consideration and discussion of reports which are sent in advance of each Board decision and/or through presentations to the Board.

The Company's key stakeholders are its ultimate beneficial owner, M&G plc, and related M&G plc group entities. The views and impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions. The Company has no employees and therefore has nothing to report in respect of employee engagement activity during the year. While there are cases where the Board itself judges that it should engage directly with other stakeholder groups or on certain issues, the size and spread of the M&G plc Group means that other stakeholder engagement takes place at Group level. 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 alone as an individual company.

Principal Decisions

Below is an example of how the directors 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 by them. They define principal decisions as both those that are material to the Company, but also those that are significant to any of their key stakeholders. In making the following principal decisions, the Board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal decision 1 - Sale Of Prudential Polska Sp. Z.O.O. To Prudential International Management Services Limited

On 3 April 2019, the Group's Approvals Committee approved a request for Prudential Polska Sp.z.o.o to be transferred from the Company to become a wholly owned subsidiary of Prudential International Management Services Limited (the 'Purchaser'). Pursuant to a Share Purchase Agreement (the 'SPA') between the Company and the Purchaser, the Purchaser agreed to purchase and the Company agreed to sell the entire share capital of 40,100 shares with a nominal value of PLN50 each in Prudential Polska for a total consideration of £1. This was agreed by the directors of the Company on 26 November 2019 and the Sale and Purchase Agreement was signed on 29 November 2019.

Principal decision 2 – Funding of the Scottish Amicable Staff Pension Scheme ("SASPS") Deficit

The SASPS deficit contributions are funded via a combination of policyholder and shareholder payments, with the policyholder providing 40% and the shareholder 60% of the required funding. As the shareholder, the Company, until 30 June 2019, provided the requisite funding, pursuant to a contractual agreement.
On 17 January 2019 the Board approved funding to SASPS in the amount of £8,100,000, in order to pay the SASPS deficit contributions and associated administrative expenses for the period 1 January 2019 to 30 June 2019. To facilitate the funding, the Company entered into a loan agreement with The Prudential Assurance Company Limited ("PAC"), pursuant to which PAC granted the Company access to a £8,100,000 loan facility.

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

The RMF requires all entities within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The RMF for the Company is approved by the Group Board Risk Committee and operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance. The Company's results and financial condition are exposed to both financial and non-financial risks. The key risk factors, mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Financial risk

The Company is exposed to limited financial risk through its financial assets and financial liabilities as the Company does not have any complex financial assets or financial liabilities and the exposures are primarily within the Group The Company has a negative shareholder funds position. The Company's current liabilities exceed its current assets leading to the liquidity risk of not being able to meet its liabilities as they fall due.

This risk has been mitigated by securing a letter of support from the parent company, M&G plc committing to subscribe to additional share capital of up to £136 million, in the event of future financing being required in the period up to twelve months from the date of signing of these financial statements.

Non-financial risk

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

a. Business environment risk

Changing economic, political, environmental and market conditions, as well as changing customer needs and expectations, could adversely impact the Company and have implications for the profitability of its business model. The key dimensions to business environment risk pertaining to the Company are economic, political, competition and environmental. The COVID-19 outbreak could have an impact on the environment the Company operates in. Consumers, businesses and governments are already counting the economic cost of the outbreak, necessitating governments across the world to intervene with rescue and stimulus packages at unprecedented levels. The virus could not only impact global growth in the short term, but could lead to a sustained period of economic stagnation. The Company's financial position is not expected to be impacted as the Company has limited activities and does not hold substantial financial assets and financial liabilities other than balances due to and due from group undertakings and investments in subsidiaries.

b. Strategic risk

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

c. Operational risk

Operational risk is the risk of financial and non-financial impacts resulting from inadequate or failed internal processes, or from personnel and systems.
The Company's primary exposure to operational risk arises from business processes, people capabilities, operation of systems and financial reporting activity. Specific examples of potential operational risk exposures include technology and security risk and people risk, including impacts from COVID -19. Business continuity and resilience plans have been implemented to mitigate the operational and other risk impacts from the pandemic.

d. Reputational risk

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

e. Regulatory compliance risk

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

f. Group risk

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

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

Until 30 June 2019, the Company bore a portion of the costs and a share of the deficit for the SASPS and was exposed to risks associated with that obligation. The pension scheme liability was transferred to another group company on 30 June 2019.

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

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

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

Future developments

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

Ultimate parent company

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

Corporate responsibility

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

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

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

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

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

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

Governance

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

A CR Governance Committee is in place, with senior management representation, which oversees community investment activity and agrees strategy and spend. The Group Executive Committee and the M&G plc 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 as at 31 December 2019 is shown in the statement of financial position on page 14. The income statement and statement of comprehensive income appear on page 13.

Share Capital

There were 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 not expected to result in a major impact on the financial performance over 2020. The Company does not hold financial assets and financial liabilities other than balances with group undertakings and investments in subsidiaries.

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

Mr M A Payne resigned on 22 February 2019 and Ms C Bousfield was appointed on the same date. Mr D King was appointed on 3 October 2019. Prudential Group Secretarial Services Limited resigned as Secretary on 4 October 2019 and M&G Management Services Limited was appointed as Secretary on 4 October 2019.

Financial risk management objectives, policies and exposure

The Company is exposed to limited risk through its financial assets and financial liabilities as the Company does not have any complex financial assets or financial liabilities and the exposures are primarily within the Group.
The Company has a negative shareholder funds position. The Company's current liabilities exceed its current assets leading to the liquidity risk of not being able to meet its liabilities as they fall due.

These risks have been mitigated by securing the letter of support from the parent company, M&G plc, committing to subscribe to additional share capital up to £136 million, in the event of future financing being required in the period until twelve months from the date of signing of these financial statements.

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

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and that each director has taken all the steps that they ought to have taken as a director to make themselves 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 Act.

Auditor

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

Directors' and Officers' Protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. 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. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2019 and remain in force.

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

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

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

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

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

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

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

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

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

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

Opinion

We have audited the financial statements of Prudential Financial Services Limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement, 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 Directors' Report

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

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

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, 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
17 June 2020

PRUDENTIAL FINANCIAL SERVICES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £'000	2018 £'000	Note
Reversal of impairment losses	**391**	—	6
Realised loss on sale of investment	**(391)**	—	6
Operating expenses	**46,473**	(10,010)	2
Operating profit/(loss)	**46,473**	(10,010)	
Interest receivable	**33**	24	3
Interest payable	**(2,721)**	(2,154)	4
Profit/(loss) before taxation	**43,785**	(12,140)	
Tax (charge)/credit	**(7,228)**	2,434	5
Profit/(loss) for the financial year	**36,557**	(9,706)	

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

	2019 £'000	2018 £'000	Note
Profit/(loss) for the financial year	**36,557**	(9,706)	
Other comprehensive income :- Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on pension scheme	**(10,642)**	32,268	9
Deferred tax credit/(charge) on actuarial gains/(losses)	**1,809**	(5,486)	5
Other comprehensive (loss)/income for the year, net of tax	**(8,833)**	26,782	
Total comprehensive income for the financial year	**27,724**	17,076	

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

The accounting policies on pages 16 to 21 along with accompanying notes on pages 21 to 29 form an integral part of these financial statements.

PRUDENTIAL FINANCIAL SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	2019	2018	Note
	£'000	£'000	
Investments			
Investment in group undertakings	**85,950**	85,950	6
	85,950	85,950	
Non current assets			
Deferred tax asset	**—**	7,468	5
Current assets			
Cash at bank and in hand	**8,562**	3,319	7
Corporation tax receivable	**4,278**	6,824	
Total current assets	**12,840**	10,143	
Current liabilities			
Trade and other creditors: amounts falling due within one year	**(103,046)**	(164,772)	8
Net current liabilities	**(90,206)**	(154,629)	
Total assets less current liabilities	**(4,256)**	(61,211)	
Pension liability	**—**	(43,931)	9
Net liabilities	**(4,256)**	(105,142)	
Capital and reserves			
Called-up share capital	**10,500**	10,500	10
Capital reserve	**73,162**	—	
Profit and loss account	**(87,918)**	(115,642)	
Shareholders' funds	**(4,256)**	(105,142)	

The accounting policies on pages 16 to 21 along with accompanying notes on pages 21 to 29 form an integral part of these financial statements.

The accounts were approved by the Board of Directors on 17 June 2020.

C Bousfield
Director
17 June 2020

PRUDENTIAL FINANCIAL SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

	Share Capital	Profit and Loss Account	Capital reserve	Total Equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2018	10,500	(132,718)	—	(122,218)
Loss for the financial year	—	(9,706)	—	(9,706)
Other comprehensive income	—	26,782	—	26,782
Total comprehensive income for the year	—	17,076	—	17,076
Balance at 31 December 2018	10,500	(115,642)		(105,142)
Balance at 1 January 2019	**10,500**	**(115,642)**	**—**	**(105,142)**
Increase in capital reserve during the year	**—**	**—**	**73,162**	**73,162**
Profit for the financial year	**—**	**36,557**	**—**	**36,557**
Other comprehensive loss	**—**	**(8,833)**	**—**	**(8,833)**
Total comprehensive income for the year	**—**	**27,724**	**—**	**27,724**
Balance at 31 December 2019	**10,500**	**(87,918)**	**73,162**	**(4,256)**

The Capital reserve represents the reserve created on the write off of loans payable to the parent company during the year.

The accounting policies on pages 16 to 21 along with accompanying notes on pages 21 to 29 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company Information

Prudential Financial Services Limited is a 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 FRS 101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('EU-adopted IFRS'), 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.

There were no other significant accounting pronouncements taking effect from 1 January 2019.

The Company has taken advantage of the exemption afforded by s400 of the Companies Act 2006 and not prepared consolidated accounts. This is on the basis the Company's immediate and ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. The consolidated financial statements of M&G plc are prepared in accordance with EU-adopted IFRS and are available to the public and may be obtained from the Company Secretary, 10 Fenchurch Avenue, London, England, EC3M 5AG.

The financial statements present information about the Company as an individual undertaking and are not consolidated.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosure related to capital management;
- 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 effective IFRS's; and
- Disclosures in respect of revenue from contracts from customers.

As the consolidated financial statements of M&G plc include the equivalent disclosures, the Company has also taken advantage of exemptions available under FRS 101 in respect of any relevant disclosures required by IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the M&G plc group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation. Notwithstanding net current liabilities of £90,206k and net liabilities of £4,256k as at 31 December 2019, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate. The directors have prepared cash flow forecasts for a period of twelve months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its immediate parent company, M&G plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on M&G plc providing additional financial support during that period. M&G plc has committed to subscribe to additional share capital of up to £136 million, in the event of future financing being required by the Company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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. Whilst there is an uncertainty regarding the financial impact of COVID-19, the Company has limited activities and does not hold assets and liabilities that expose the Company to the adverse impact of COVID-19. On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2019.

C. Classification of instruments issued by the Company

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

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

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

D. Financial instruments - recognition and measurement

Recognition and initial measurement

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

Classification and subsequent measurement

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not recognised at FVTPL:

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

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

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

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

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

Financial liabilities

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

E. Financial instruments - Impairment

Financial assets impairment

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

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

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

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

A financial instrument is considered to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. This is considered to be BBB- or an equivalent or higher grade as rated by a major credit rating agency. 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 and contract assets are always measured at an amount equal to lifetime ECLs, where material.

F. Investments in group undertakings

Investments in group undertakings are valued at cost less impairment.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account. In case of disposal of impaired investments, impairment loss is reversed and recognised in profit and loss account.

G. Income

Interest income includes interest received on loans and bank interest and is accounted for on an accruals basis.

H. Expenses

Operating expenses and interest payable are accounted for on an accruals basis. Operating expenses include expenses towards the administration of the pension scheme, up to 30 June 2019.

I. 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.

J. Pension Costs

Policy applicable until 30 June 2019

The Group operates a number of defined contribution and defined benefit pension schemes and a portion of one of these defined benefit pension schemes' deficit was attributed to the Company. Further details are disclosed in note 9. The assets and liabilities of the defined benefit pension schemes of the Group are subject to a full triennial actuarial valuation using the projected unit credit method.

Following the adoption of FRS 101 the Company applied the requirements of IAS 19 *Employee Benefits* (as revised in 2011) for its Defined Benefit Pension Scheme accounting. Estimated future cash flows were discounted at a high quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine the present value of the defined benefit obligation of the scheme. These calculations were performed by independent actuaries. The difference in the fair value of the scheme assets and the actuarial value of the scheme liabilities is a surplus or deficit on the scheme.

The aggregate of the actuarially determined service cost of the currently employed personnel, gains and losses on settlements and curtailments and the net interest on the defined benefit liability (asset) at the start of the reporting period were recognised in the profit and loss account.

Actuarial gains and losses as a result of the changes in assumptions, experience variances or the return on scheme assets excluding amounts included in the net interest on the net defined benefit liability (asset) were recognised as other comprehensive income.

The costs associated with SASPS were shared across different entities under common control. The deficit in SASPS was apportioned in accordance with IAS 19 *Employee Benefits*, by way of stated policy:40% of the deficit and related costs of SASPS was allocated to the with-profits fund of The Prudential Assurance Company Limited ('PAC'), a fellow group undertaking and 60% was allocated to the Company.
Policy applicable after 30 June 2019

As from 30 June 2019, the entire deficit and related costs of SASPS are allocated to PAC, a fellow group undertaking. The Company no longer accounts for a portion of SASPS.

2. Operating expenses

Directors remuneration in respect of the Company was £10k (2018: £5k). This remuneration was borne by another group undertaking. The Company's directors perform services for other Group companies. These costs are not included in the amounts charged to the Company as shown above. Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. An assessment has been made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this.

Two directors (2018: two) received shares under long-term incentive schemes, and no director (2018: none) exercised share options in both 2019 and 2018. One director (2018: one) was entitled to retirement funds under a defined benefit pension scheme.

The Company has no employees and is provided with services by Prudential Distribution Limited (PDL), one of the Company's subsidiaries and the principal employer in respect of SASPS. SASPS is a defined benefit scheme operated by the M&G plc group for UK employees and the Company bore the deficit and related costs of SASPS attributable to shareholders, until 30 June 2019. The deficit attributable to policyholders funds, and since 30 June 2019 that attributable to shareholders' funds is borne by another group company, PAC.

Operating expenses include:

	2019	2018
	£'000	£'000
Pension levies	**(300)**	(795)
Pension credit / (charge) attributable to the Company (see note 9)	**25,372**	(15,593)
Contributions paid by other entities within the Group	**2,498**	6,378
Transfer of pension liability (see note 9)	**18,903**	—
	46,473	(10,010)

Auditor's remuneration of £23k (2018: £23k) in respect of the audit of the Company's financial statements is borne by PDL. No non-audit services were provided to the Company by the auditor in 2019 or 2018.

3. Interest receivable

	2019	2018
	£'000	£'000
Interest on bank balances	**33**	24

The interest income is earned from financial assets recognised at amortised cost.

4. Interest payable

	2019	2018
	£'000	£'000
Interest payable to group undertakings	**2,721**	2,154

The interest is payable on financial liabilities recognised at amortised cost.

5. Taxation

a) Tax (charge)/credit

	2019	2018
	£'000	£'000
Current tax:		
Current period corporation tax at 19% (2018: 19%)	**2,050**	3,520
Adjustment in respect of previous year	**(1)**	—
Total current tax credit in the year	**2,049**	3,520
Deferred tax:		
Origination and reversal of timing differences	**(10,369)**	(1,213)
Effect of change in tax rate	**1,092**	127
Total deferred tax charge in the year	**(9,277)**	(1,086)
Total tax (charge)/credit for the year	**(7,228)**	2,434

In addition, deferred tax of £1,809k has been credited (2018: £5,486k, charged) to the statement of other comprehensive income.

b) Factors affecting the tax credit for the year

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 11th 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.

	2019	2018
	£'000	£'000
Profit / (loss) before tax	**43,785**	(12,140)
Tax (charge)/credit on loss at rate of 19.00% (2018: 19%)	**(8,319)**	2,307
Effects of:		
Rate differential between deferred tax and current tax	**1,092**	127
Prior year adjustment	**(1)**	—
Total tax (charge) / credit for the year	**(7,228)**	2,434

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Balance Sheet

	2019	2018
	£'000	£'000
Deferred tax asset explained by:		
Scottish Amicable Staff Pension Scheme	**—**	7,468
Deferred tax asset at start of year	**7,468**	14,040
Deferred tax charged to the income statement for the year	**(9,277)**	(1,086)
Deferred tax credited / (charged) to other comprehensive income for the year	**1,809**	(5,486)
Deferred tax asset at end of year	**—**	7,468

6. Investments in group undertakings

	Shares in group undertakings
	£'000
Shares in group undertakings	
Cost	
At the beginning of the year	243,121
Investment during the year	—
Sale during the year	(391)
At the end of the year	242,730
Provisions	
At the beginning of the year	(157,171)
Impairment losses recognised during the year	—
Reversal of impairment loss on sale of investment	391
At the end of the year	(156,780)
Net Book value	
As at 31 December 2019	**85,950**
As at 31 December 2018	85,950

During the year the Company sold its investment in Prudential Polska Sp.z.o.o for £1 to a group company. The asset was purchased at £391k and an impairment loss of £391k was recognised on this asset in prior years. The impairment loss previously recognised was reversed during the year and a realised loss was booked.

Particulars of wholly owned group undertakings at 31 December 2019 are as follows:

	Class of shares held	Principal Activity	Place of registration
Prudential UK Services Limited	£1 Ordinary	Service Company	Craigforth, Stirling, Scotland, FK9 4UE
Prudential Distribution Limited	£1 Ordinary	Distribution and Service Company	Craigforth, Stirling, Scotland, FK9 4UE
Prudential Distribution Limited	£1 Preference	Distribution and Service Company	Craigforth, Stirling, Scotland, FK9 4UE
Prudential Group Pensions Limited	£1 Ordinary	Non-Trading Company	10 Fenchurch Avenue, London, EC3M 5AG
ScotAm Pension Trustees Limited	£1 Ordinary	Non-Trading Company	Craigforth, Stirling, Scotland, FK9 4UE
Prudential Financial Planning Limited	£1 Ordinary	Distribution Company	10 Fenchurch Avenue, London, EC3M 5AG
Prudential Mortgages Limited	£1 Ordinary	Non-Trading Company	10 Fenchurch Avenue, London, EC3M 5AG
Prudential Protect Limited	£1 Ordinary	Non-Trading Company	10 Fenchurch Avenue, London, EC3M 5AG
Scottish Amicable Holdings Limited	£1 Ordinary	Non-Trading Company	Craigforth, Stirling, Scotland. FK9 4UE
Scottish Amicable Pensions Investments Limited	£1 Ordinary	Non-Trading Company	Craigforth, Stirling, Scotland, FK9 4UE

7. Cash at bank

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

8. Trade and other creditors: Amounts falling due within one year

	2019	2018
	£'000	£'000
Amounts due to group undertakings	**103,046**	164,772

Amount due to group undertakings comprises loan balance repayable on demand. The interest is charged at twelve month LIBOR rate plus 60 basis points on the outstanding loan balance. During the year, M&G plc lent the Company £9,803k to repay a balance the Company owed to Prudential plc, (the previous parent company). The loan received from M&G plc was subsequently written off. A £63,349k loan outstanding to PAC, a fellow group undertaking was also written off during the year. The write off of the loans resulted in the creation of a capital reserve on the Company's balance sheet.

9. Defined benefit pension scheme

The M&G plc group operates a number of defined contribution and defined benefit pension schemes including Scottish Amicable Staff Pension Scheme (SASPS). The costs associated with SASPS are shared across different entities under common control. The deficit in SASPS is apportioned in accordance with IAS 19 *Employee Benefits*, by way of stated policy:

A change in the policy for the allocation of the deficit and costs related to SASPS was effective from 30 June 2019. Prior to 30 June 2019, the deficit in SASPS was apportioned in accordance with IAS 19 *Employee Benefits*, with 40% of the deficit and related costs of SASPS being allocated to the with-profits fund of PAC, a fellow group undertaking and 60% allocated to the Company. As per the change in policy for the allocation, the Company is not expected to bear the administration costs or fund the deficit in the future.

The Company is not a participating employer in SASPS and has no obligation to fund the scheme.

As the Company bore a portion of the deficit in the SASPS until 30 June 2019, the scheme exposed the Company to a number of risks such as interest rate and investment risk, inflation risk and mortality risk.

Defined benefit schemes are generally required to be subject to a full actuarial valuation every three years to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The projected unit method was used for the most recent full actuarial valuations.

The last completed actuarial valuation of SASPS was as at 31 March 2017. This valuation was finalised during 2017 and demonstrated the scheme to be 75 per cent funded. It was agreed with the Trustees that the level of deficit funding be increased from the previous level of £21 million per annum to £26 million per annum from 1 April 2017 until 31 March 2027, or earlier if the scheme's funding level reaches 100 per cent before this date, to eliminate the actuarial deficit. The deficit funding was to be reviewed every three years at subsequent valuations.

In January 2019, following consultation, the Group (Prudential plc, the previous ultimate parent of the Company) reached agreement that salary increases for defined benefit scheme members (including members of the SASPS) who earn in excess of £35,000 would no longer be pensionable after 30 September 2019. Pension benefits would still relate to how many years they have been active scheme members, as they do now, as long as they remain working for the Group. The impact of this was reflected in the balance of deficit transferred to PAC as at 30 June 2019.

The deficit in the scheme transferred to PAC as at 30 June 2019, was as follows:

	2019 **£'000**
Attributable to the Company - as at 1 January 2019	(43,931)
Less: pension credit attributable to the Company	25,372
Less: contributions paid by other entities within the Group	2,498
Add: actuarial loss for the period	(10,642)
Less: contribution paid for the period to 30 June 2020	7,800
Transferred to PAC as at 30 June 2019	**(18,903)**

A full valuation for SASPS was updated to 30 June 2019 applying the principles prescribed by IAS 19, ahead of the transfer of the deficit to PAC.
The assets and liabilities of SASPS were:

NOTES TO THE FINANCIAL STATEMENTS (continued)

	As at 30 June 2019		As at 31 December 2018	
	£'000	**%**	£'000	%
Bonds	**786,632**	**91**	692,796	86
Properties	**61,353**	**7**	64,518	8
Other assets	**19,910**	**2**	48,707	6
Total value of assets*	**867,895**	**100**	806,021	100
Present value of underlying scheme liabilities	**(899,400)**		(879,241)	
Deficit in the scheme	**(31,505)**		(73,220)	

*Of the total assets of £867,895k (2018: £806,021k), 91% (2018: 86%) was valued based on quoted prices in an active market.

Deficit in the scheme has been allocated as:

	As at 30 June 2019	As at 30 December 2018
	£'000	£'000
Attributable to the PAC with-profits funds	**(12,602)**	(29,289)
Attributable to the Company	**—**	(43,931)
Transferred from the Company to the PAC shareholder fund	**(18,903)**	—
	(31,505)	(73,220)

Underlying scheme assets and liabilities of SASPS

The change in the present value of scheme liabilities and the change in the fair value of the scheme assets of SASPS are as follows:

	As at 30 June 2019	As at 31 December 2018
	£'000	£'000
Present value of scheme liabilities at beginning of year	**879,241**	959,522
Current service costs	**3,704**	10,178
Interest cost	**12,100**	23,444
Actuarial loss/(gains)	**90,186**	(61,018)
Benefit payments	**(37,368)**	(64,243)
Past Service (credit) / costs*	**(48,463)**	11,358
Present value of scheme liabilities at 30 June 2019	**899,400**	879,241
Fair value of scheme assets at beginning of year	**806,021**	822,149
Interest income on scheme assets at the IAS19 discount rate	**11,057**	20,192
Employer contributions**	**17,165**	36,630
Return on plan assets greater/(lower) than the discount rate	**72,450**	(7,236)
Benefit payments	**(37,368)**	(64,243)
Administration expenses	**(1,430)**	(1,471)
Fair value of scheme assets at 30 June 2019	**867,895**	806,021

NOTES TO THE FINANCIAL STATEMENTS (continued)

*In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions (GMPs). GMPs are a minimum benefit that schemes that were contracted out on a salary related basis between 1978 to 1997 are required to provide. In light of this Court ruling, at 31 December 2018, the Company had recognised an estimated allowance of £11,358k for GMP equalisation within the valuation for SASPS. A portion of these costs were allocated to the Company until 30 June 2019 in line with the apportionments described below.

**The employer contributions of £17,165k (2018: £36,630k) above relate to both shareholder and policyholder amounts.
The contributions include ongoing service contributions of £4,164k up to 30 June 2019 (2018: £10,630k) made by other entities within the Group and deficit funding of £13,000k made by the Company and PAC up to 30 June 2019 (2018: £26,000k).

Pension credit/(charge) and actuarial (loss)/gains of SASPS:

	6 months to June 2019	Year ended 31 December 2018
	£'000	£'000
Pension charge:		
Current service cost	**(3,704)**	(10,178)
Past service credit / (cost)	**48,463**	(11,358)
Net interest on net defined benefit liability	**(1,043)**	(3,252)
Administration costs	**(1,430)**	(1,471)
Total pension credit/(charge)	**42,286**	(26,259)
Less: amount attributable to the PAC with-profits fund	**(16,914)**	10,666
Pension credit/(charge) attributable to the Company	**25,372**	(15,593)

	6 months to June 2019	Year ended 31 December 2018
	£'000	£'000
Actuarial (loss)/gains:		
Return on plan assets greater/(lower) than the discount rate	**72,450**	(7,236)
Experience gain on scheme liabilities	**7,667**	2,260
Actuarial gain - demographic assumptions	**15,219**	27,716
Actuarial (loss)/gain - financial assumptions	**(113,072)**	31,042
Total actuarial (loss)/gains of the SASPS schemes	**(17,736)**	53,782
Less: amount attributable to the PAC with-profits fund	**7,094**	(21,514)
Actuarial (loss)/gains attributable to the Company before deferred tax	**(10,642)**	32,268

PRUDENTIAL FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

The total actual return on scheme assets for SASPS was a gain of £83,507k (2018: £12,956k).

The actuarial loss after related deferred tax attributable to the Company of £8,833k (2018: gain of £26,782k) is recognised as other comprehensive gains/losses.

With regard to the year ended 31 December 2018:

The key assumptions adopted for the IAS 19 valuations in SASPS were:

	6 months to June 2019	**2018**
	%	**%**
Price inflation:		
Retail Price Index (RPI)	**3.2**	**3.3**
Consumer Price Index (CPI)	**2.2**	**2.3**
Rate of increase in salaries	**3.2**	**3.3**
Rate of increase of pensions in payments	**3.2**	**3.3**
Rate used to discount scheme liabilities	**2.2**	**2.8**

The calculations are based on current mortality estimates with an allowance made for future improvements in mortality. This allowance reflected the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuary (CMI) 2016 Core projections model (2018: (CMI) 2015 Core projections model) . In 2019, for members post retirement a long-term mortality improvement rates of 1.75 per cent per annum (2018: 1.75 per cent per annum)and 1.50 per cent per annum (2018: 1.50 per cent per annum)was applied for males and females, respectively.

The table below shows the sensitivity of the underlying SASPS liabilities at 31 December 2018 of £879,241k to changes in discount rate, inflation rate and mortality rate. The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivity is calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded.

Assumption	**Change in assumption**	**Impact on SASPS scheme liabilities on IAS 19 basis**
2018		
Discount rate	Decrease by 0.2% from 2.8% to 2.6%	Increase scheme liabilities by 5.1%
Discount rate	Increase by 0.2% from 2.8% to 3.0%	Decrease scheme liabilities by 4.7%
Rate of inflation	RPI: Decrease by 0.2% from 3.3% to 3.1% CPI: Decrease by 0.2% from 2.13 to 2.1% with consequent reduction in salary increases	Decrease scheme liabilities by 3.8%
Mortality rate	Increase life expectancy by 1 year	Increase scheme liabilities by 3.7%

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Called-up share capital

	2019	2018
	£'000	£'000
Issued and fully paid:		
10,500,000 ordinary shares of £1 each	**10,500**	10,500

There has been no change in share capital in the year.

11. Immediate and ultimate parent company

The immediate and 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.

12. Parent company support

As discussed in the Basis of Preparation (Note 1B), the Company has been provided with a letter of support by the parent company, M&G plc, committing to subscribe to additional share capital of up to £136 million, in the event of future financing being required in the period up to twelve months from the date of signing these financial statements.

13. 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 not expected to have any impact on the financial performance over 2020. The Company has limited activities and does not hold any financial assets and financial liabilities other than balances with group undertakings and investments in subsidiaries.

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