Registered number 02313262

Prudential Capital Public Limited Company

Annual Report and Financial Statements

For the year ended 31 December 2023

Incorporated and Registered in England and Wales.

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

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Company Information

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

Strategic Report

The Directors present their strategic report for the year ended 31 December 2023.

Principal activity

Prudential Capital Public Limited Company (the "Company'') provides professional treasury services to the M&G plc group (the "Group") and acts as the Group's central treasury entity. The Company generates revenue from a portfolio of loans, debt securities, and money market positions, and also acts as a market-facing intermediary for Group corporate hedging programmes. The Group is an international savings and investment business offering a range of financial products and services through Asset, Life and Wealth Management.

Business review and key performance indicators

During the year ended 31 December 2023, the Company continued to perform its role as the central treasury entity for the Group.

Key performance indicators, for an understanding of the development, performance and position of the Company, are outlined below:

	2023	2022
	£'000	£'000
Net interest income	**12,333**	7,138
Profit / (Loss) for the year before tax	**8,505**	(3,404)
Net assets	**82,313**	75,361

The profit before tax for the year was £8,505k (2022: £3,404k loss before tax). The drivers behind this profit were:

- Net interest income of £12,333k (2022: £7,138k), consisting of interest income of £66,357k (2022: £31,853k) less interest expense of £54,024k (2022: £24,715k). Interest income arises on financial assets including debt securities, derivatives and cash at bank; whereas interest expense arises on intercompany loans and derivatives. The increase in both interest income and interest expense is as a result of increases in the SONIA interest rate.

- Other operating income of £8,402k (2022: £4,531k), mainly relating to management fee income from fellow Group undertakings and realised gains/losses on debt securities and derivatives. The increase in other operating income reflects lower net realised losses on debt securities and derivatives.

- Operating expenses of £12,343k (2022: £13,686k), primarily consisting of staff costs and also expenses recharged by Group companies. The fall in operating expenses is due to changes in staff composition.

- Unrealised fair value gains on financial instruments of £113k (2022: losses of £1,387k), relating to debt securities and derivatives. The movement in fair value compared with prior year reflects market fluctuations.

Details of the results for the year are set out in the Statement of Comprehensive Income on page 13. The Company has a net asset position of £82,313k as at 31 December 2023 (2022: £75,361k).

Geopolitical and economic uncertainties continued to be a focus area during 2023. Group investment, risk and compliance teams continued to monitor and support the business effectively in responding to the impact of such challenges. While recent market volatility has reduced, there continues to be economic uncertainty requiring continued focus on these risks.

Strategic report (continued)

Principal risks and uncertainties

The Company is a wholly owned subsidiary of M&G plc and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Framework (GGF) and associated Group Risk Management Framework (GRMF). The control procedures and systems established within the Group are designed to manage, rather than eliminate the risk of failure to meet business objectives. As such, they can only provide reasonable rather than absolute assurance against material misstatement or loss and focus on optimising the levels of risk and reward within a clearly defined risk appetite, with the aim of achieving the business objectives. The GRMF is approved by the Group Board and Risk Committee and operates based on the concept of three lines of defence: risk identification and management, risk oversight, advice and challenge and independent assurance. The Company's results and financial condition are exposed to both financial and non-financial risks.

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk factors affecting the Company are market, credit and liquidity risks. These financial risks and how they are managed are discussed in Note 21.

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

Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with Section 172(1) of the Companies Act 2006

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

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

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

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

The Company's key stakeholders are its beneficial owner, M&G plc, related Group entities, its employees and third-party suppliers. The views and impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Directors engage directly with stakeholders on certain issues, the size and spread of Group stakeholders means other stakeholder engagement takes place at various Group committees. There are some matters, including diversity and inclusivity, environmental matters, corporate responsibility and governance, legal and some stakeholder engagement, where the Board has judged that policy and decision-making is best undertaken at a Group level. 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.

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

Strategic report (continued)

Statement by the Directors in Performance of their Statutory Duties in Accordance with Section 172(1) of the Companies Act 2006 (continued)

During the year, the Directors received information to help understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This has allowed the Directors to understand the nature of the Company stakeholders' concerns and to comply with Section 172 of the Companies Act 2006 to promote the success of the Company.

Principal Decisions

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

During 2023, the principal decisions, including decisions made through the PruCap Executive Committee as described above, related to the ongoing management of the Group's liquidity buffer assets within the constraints of the risk appetite defined for the Company by its parent, thus determining the Company's investment asset mix between cash products (secured and unsecured), debt securities, loan products and hedging derivatives. The asset mix is designed to enable flexibility in the Group's liquidity management, while also achieving a long-term profitable investment return on the surplus cash managed by the Company on behalf of the Group.

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

R Monnington
Director
13 June 2024

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2023.

Directors

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

S Horgan	(appointed 31 March 2023)
D King	(resigned 29 September 2023)
K McLeland	
R Monnington	
E Wenusch	(resigned 31 March 2023)

Financial highlights

The results for the year are presented in the Statement of Comprehensive Income on page 13, showing a profit before tax for the year of £8,505k (2022: £3,404k loss before tax). The Statement of Financial Position is set out on page 14; at 31 December 2023, the net assets of the Company were £82,313 (2022: £75,361k). The movement reflects the profit recognised for the year.

Dividends

No interim dividends were paid in the year (2022: £nil). The Directors do not recommend the payment of a final dividend (2022: £nil).

Subsequent events

There have been no subsequent events requiring disclosure at the date of this report.

Future developments

During 2024, the Company will continue to provide professional treasury services to the Group and act as the Group's central treasury entity.

Going concern

The financial statements have been prepared on a going concern basis. The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. The key method for assessing going concern is through the business planning process which considers profitability, liquidity and solvency. The business planning process considers the Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate. The Company is exposed to fair value volatility from its debt securities portfolio. Derivative financial instruments are used to mitigate interest rate and foreign exchange rate exposures, but some fair value volatility remains, including exposure to credit risks. Recognising the potential for market volatility, the parent company, M&G plc, has provided a letter of support, stating M&G plc is willing to provide financial support to the Company if needed.

The Company has a net current liabilities position as a result of using short-term borrowings, received from its parent company, M&G plc, and other related Group undertakings, to purchase debt securities that are intended to be held to their expected maturity. The debt securities consist of high credit quality bonds and UK gilts (see Note 10) which are liquid and can be readily converted into cash. On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2023.

Directors' Report (continued)

Political and charitable contributions

There were no political or charitable contributions during the year (2022: £nil).

Financial risk management

Risk management is outlined within the Strategic Report and in Note 21.

Qualifying third party indemnity provisions

The parent company, M&G plc, has arranged appropriate insurance cover in respect of legal action against Directors and senior managers of companies within the Group. In addition, the Articles of Association of the Company provide for the Directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. The parent company also provides protections for Directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third-party indemnity provisions (as defined by the relevant Companies Act) for the benefits of Directors of the ultimate parent company, including, where applicable, in their capacity as a Director of the Company and other companies within the Group. These indemnities were in force during 2023 and remain in force as at the date of approval of the financial statements.

Disclosure of information to the Independent Auditor

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

- so far as that Director is aware, there is no relevant audit information of which the Company's independent auditor is unaware; and
- that each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditors

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

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

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R Monnington
Director
13 June 2024

Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

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

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

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

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

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

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent Auditors' Report to the Members of Prudential Capital Public Limited Company

Report on the audit of the financial statements

Opinion

In our opinion, Prudential Capital Public Limited Company's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Statement of Financial Position as at 31 December 2023; Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Independent Auditors’ Report to the Members of Prudential Capital Public Limited Company (continued)

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the audited financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of Prudential Capital Public Limited Company (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- Enquiries with management, including consideration of known or suspected instances of fraud or non-compliance with laws and regulations;
- Reviewing relevant board meeting minutes;
- Identifying and testing underlying transactions through substantive testing to ensure that there are no fraudulent transactions are recorded;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Independent Auditors' Report to the Members of Prudential Capital Public Limited Company (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 June 2024

Statement of Comprehensive Income

For the year ended 31 December

	Note	**2023 £'000**	2022 £'000
Interest income	2	**66,357**	31,853
Interest expenses and similar charges	3	**(54,024)**	(24,715)
Net interest income		**12,333**	7,138
Other operating income	4	**8,402**	4,531
Operating expenses	6	**(12,343)**	(13,686)
Operating profit / (loss) before tax		**8,392**	(2,017)
Unrealised gains / (losses) on measurement to fair value	8	**113**	(1,387)
Profit / (Loss) before tax		**8,505**	(3,404)
Tax (charge) / credit	9	**(2,027)**	635
Profit / (Loss) for the year		**6,478**	(2,769)
Other comprehensive income		**-**	-
Total comprehensive income / (loss) for the year		**6,478**	(2,769)

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

The accounting policies and accompanying notes on pages 16 to 34 form an integral part of these financial statements.

Statement of Financial Position as at 31 December

	Note	2023 £'000	2022 (Restated)[1] £'000
Non-current assets			
Debt securities	10	**867,538**	987,094
Derivative assets	11	**124,792**	125,243
Deferred tax assets	9	**1,690**	2,970
Total non-current assets		**994,020**	1,115,307
Current assets			
Debt securities	10	**114,954**	57,508
Derivative assets	11	**12,968**	27,914
Loans	12	**40,005**	-
Current tax assets	9	**752**	1,687
Accrued investment income and other receivables	13	**12,818**	12,134
Cash and cash equivalents	14	**349,908**	264,664
Total current assets		**531,405**	363,907
Total assets		**1,525,425**	1,479,214
Non-current liabilities			
Derivative liabilities	15	**230,433**	215,680
Accruals and other liabilities	16	**627**	372
Total non-current liabilities		**231,060**	216,052
Current liabilities			
Derivative liabilities	15	**32,082**	2,979
Borrowings	17	**950,000**	980,000
Accruals and other liabilities	16	**229,970**	204,822
Total current liabilities		**1,212,052**	1,187,801
Total liabilities		**1,443,112**	1,403,853
Net assets		**82,313**	75,361
Equity			
Share capital	18	**10,000**	10,000
Retained earnings		**72,313**	65,361
Total equity		**82,313**	75,361

[1] The format of the Statement of Financial Position has been changed to show Borrowings separately on the face of the Statement of Financial Position. Previously Borrowings were presented within Accruals and other liabilities in the prior year financial statements. The comparatives have been restated to reflect this presentation change; see Note 16.

The financial statements on pages 13 to 34 were approved by the Board of Directors on 13 June 2024 and were signed on its behalf by:

R Monnington
Director

Company registered number: 02313262

The accounting policies and accompanying notes on pages 16 to 34 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December

	Note	Share Capital	Retained earnings	Total Equity
		£'000	**£'000**	**£'000**
At 1 January 2023		**10,000**	**65,361**	**75,361**
Profit for the year		-	**6,478**	**6,478**
Total comprehensive income for the year		**-**	**6,478**	**6,478**
Deferred tax on share-based payments	9	-	**(409)**	**(409)**
Current tax on share- based payments	9	-	**815**	**815**
SAYE share-based payments		-	**68**	**68**
At 31 December 2023		**10,000**	**72,313**	**82,313**

	Note	Share Capital	Retained earnings	Total Equity
At 1 January 2022		10,000	67,785	77,785
Loss for the year		-	(2,769)	(2,769)
Total comprehensive loss for the year		-	(2,769)	(2,769)
Deferred tax on share-based payments	9	-	323	323
Current tax on share- based payments	9	-	4	4
SAYE share-based payments		-	18	18
At 31 December 2022		10,000	65,361	75,361

The accounting policies and accompanying notes on pages 16 to 34 form an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Basis of preparation of financial statements

Prudential Capital Public Limited Company (the “Company”) is a public company limited by shares incorporated, domiciled and registered in England and Wales in the United Kingdom. The registered number is 02313262 and the registered address is 10 Fenchurch Avenue, London, EC3M 5AG.

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

These financial statements have been prepared under the historical cost convention, except for certain financial instruments measured at fair value through profit or loss. These financial statements have also been prepared in accordance with United Kingdom Accounting Standards comprising Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the legal requirements of the Companies Act 2006. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

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

The financial statements have been prepared in pounds sterling (“£”) which is the functional currency of the Company. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. Various amendments to accounting standards and pronouncements became effective on 1 January 2023, but none of these had a material impact on the financial statements.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.2 Going concern

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

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

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

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2023.

1.3 Key judgements and estimates

The accounting policies are noted in 1.4-1.11 below. The Directors have concluded that there are no critical accounting judgements or estimates in applying these accounting policies.

1.4 Financial instruments

(i) Recognition and initial measurement

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

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

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

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.4 Financial instruments (continued)

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

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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. Currently there are no financial instruments held at FVOCI.

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

(b) Subsequent measurement and gains and losses

Financial assets at amortised cost: these assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by an allowance for expected credit losses (ECLs) based on the difference between contractual cash flows due in accordance with the contract and all cash flows expected to be received, discounted at an approximation of the original effective interest rate. Interest income, foreign exchange gains and losses and impairment and any gain or loss on derecognition are recognised in the Statement of Comprehensive Income

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the Statement of Comprehensive Income.

(c) Impairment of assets

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

(d) Write-offs

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

Financial liabilities and equity

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

– they include no contractual obligations upon the 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

– 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 group's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.5 Foreign currency transactions

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

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

1.6 Interest income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate method.

1.7 Expense recognition

All expenses are recognised in the Statement of Comprehensive Income as a cost when incurred.

1.8 Tax

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

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

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

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

1.9 Share-based payments

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

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.9 Share-based payments (continued)

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

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

The Company offers share award and option plans for certain key employees and a Save As You Earn (SAYE) plan for all UK and certain overseas employees. Share options and awards of the ultimate parent company's equity instruments, for which the ultimate parent company has the obligation to settle, are valued using the fair value at the date of grant and accounted for as equity-settled i.e. recognised in equity as a capital contribution from the ultimate parent company. Share options and awards for which the Company has the obligation to settle are valued using the fair value at the balance sheet date and accounted for as cash-settled i.e. an obligation of the Company to transfer the equity instruments of the ultimate parent company.

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

1.10 Pension costs

Certain employees of the Company are members of the Prudential Staff Pension Scheme ("PSPS") defined benefit scheme which is operated by the Group. Previously, certain other employees of the Company were members of the M&G Group Pension Scheme ("M&GGPS") defined benefit scheme, also operated by the Group. However, during the year ended 31 December 2023, active members of the M&GGPS defined benefit scheme were transferred to the PSPS defined benefit scheme.

Contributions are payable at the minimum level of contributions required under the scheme rules and are charged to the Statement of Comprehensive Income as contributions become due. The net surplus or deficit of the PSPS defined benefit scheme is recognised in the financial statements of The Prudential Assurance Company Limited, M&G Corporate Services Limited and M&G FA Limited, which are all related Group undertakings. The net surplus or deficit of the M&GGPS defined benefit scheme is recognised in the financial statements of M&G FA Limited.

For those employees who are not members of the PSPS defined benefit scheme, contributions are made by the Company to the PSPS defined contribution plan which is also operated by the Group. Contributions are expensed by the Company when due.

1.11 Share capital

Amounts recorded in share capital represent the nominal value of shares issued with any difference between proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued being credited to the share premium reserve.

Incremental costs directly attributable to the issue of new ordinary shares are shown as a deduction to equity, net of tax, from the proceeds.

Notes to the Financial Statements (continued)

2. Interest income

	2023 £'000	2022 £'000
Interest income on debt securities	**34,495**	16,995
Interest and fee income on derivatives	**18,911**	8,283
Interest income from loans to Group undertakings	**555**	577
Interest income on bank and short-term deposits	**12,396**	5,998
	66,357	31,853

3. Interest expenses and similar charges

	2023 £'000	2022 £'000
Interest expenses due to Group undertakings	**41,599**	16,885
Interest and fee expenses on derivatives	**2,064**	6,368
Other interest expenses	**10,361**	1,462
	54,024	24,715

4. Other operating income

	2023 £'000	2022 £'000 (restated)[1]
Fees receivable on loan investments	**-**	1,570
Management fees from fellow Group undertakings	**3,162**	2,300
Other income from recharges to Group undertakings	**9,321**	10,260
Realised losses on debt securities	**(27,709)**	(43,044)
Realised gains on derivatives	**23,619**	32,941
Foreign exchange (losses) / gains	**(84)**	504
Other income	**93**	-
	8,402	4,531

[1] This Note has been restated to separately present non-management fee income earned from recharges related to Group undertakings. The comparatives have been restated to reflect this presentation change

5. Auditors' remuneration

Fees payable to the Company's external auditor, PricewaterhouseCoopers LLP, its member firms and its associates are £165k (2022: £115k). Amounts receivable by the Company's auditors and their associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, M&G plc, in accordance with The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 Part 6(2)(b).

No non-audit services have been provided to the Company by the Company's auditor during the year (2022: £nil).

Notes to the Financial Statements (continued)

6. Operating expenses

	2023	2022
	£'000	£'000 (restated)[1]
Staff costs	**10,077**	11,150
Recharges from Group undertakings	**1,139**	1,689
Other	**1,127**	847
Total operating expenses	**12,343**	13,686

[1]This Note has been restated to present a complete breakdown of Operating expenses as per the line item on the face of the Statement of Comprehensive Income. The comparatives have been restated to reflect this presentation change

Included within Operating expenses are the following staff costs:

	2023	2022
	£'000	£'000
Wages and salaries	**6,912**	7,566
Share based payments	**1,220**	1,456
Social security costs	**1,517**	1,265
Pension scheme costs	**428**	863
Total staff costs	**10,077**	11,150

The average number of staff employed by the Company was 21 (2022: 22). Staff provide services to manage the Company's asset portfolio, and also provide services to related Group undertakings. Management fee income is recognised for services provided to related Group undertakings (see Note 4).

7. Directors' emoluments

Three (2022: three) of the Directors were employed by the Company during the year. The aggregate emoluments for the remaining Directors of the Company are borne by related Group undertakings.

The value of Directors' emoluments is based upon the apportionment of time spent providing qualifying services as Directors for the Company. No apportionment is made to companies where Directors are deemed to spend an inconsequential amount of time providing qualifying services. The Directors of the Company and their time allocated is deemed to be wholly attributable to their services to other affiliate company or companies. Accordingly, the remuneration details are disclosed in the financial statements of the ultimate parent company or the affiliate entities of where their time is allocated to.

	Number of Directors	
	2023	2022
The number of Directors with retirement benefits accruing under the defined benefit schemes.	**2**	2
The number of Directors on whose behalf contributions were made to defined contribution pension schemes during the year	**3**	3
The number of Directors who exercised share options during the year	**4**	-
The number of Directors in respect of whose services shares were received or receivable under long term schemes	**5**	5

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

	2023	2022
	£'000	£'000
Unrealised gains / (losses) on debt securities	**43,288**	(83,471)
Unrealised (losses) / gains on derivatives	**(43,175)**	82,084
Unrealised gains / (losses) on measurement to fair value	**113**	(1,387)

Notes to the Financial Statements (continued)

9. Tax

(a) Analysis of tax (charge) / credit for the year

	2023	2022
Current tax	**£'000**	£'000
Current tax (credit) / charge on profit / (loss) for the year	**(1,108)**	1,330
Adjustments in respect of prior years	**(49)**	(11)
Total current tax (charge) / credit	**(1,157)**	1,319
Deferred tax		
Origination and reversal of timing differences	**(946)**	(746)
Adjustments in respect of previous years	**64**	1
Effect of changes in tax rate	**12**	61
Total deferred tax charge	**(870)**	(684)
Total tax (charge) / credit for the year	**(2,027)**	635
Equity items		
Current tax credit	**815**	4
Deferred tax (charge) / credit	**(409)**	323
Total tax taken to equity	**406**	327

(b) Reconciliation of effective tax rate

The tax assessed for the year is higher (2022: higher) than the blended standard rate of corporate tax in the UK of 23.52% (2022: 19.00%). An increase in the standard rate of Corporation Tax in the UK from 19% to 25% came into effect on 1 April 2023 so a blended rate of 23.52% has been used for the year ended 31 December 2023.

	2023	2022
	£'000	£'000
Profit / (loss) before tax for the year	**8,505**	(3,404)
Tax (charge) / credit on profit / (loss) before tax at standard UK tax rate of 23.52% (2022:19.00%)	**(2,000)**	647
Effects of:		
Tax rate changes	**12**	61
Share based payments	**(54)**	(63)
Adjustments in respect of previous years	**15**	(10)
Total tax (charge) / credit for the year	**(2,027)**	635

(c) Future tax implications

An increase in the standard rate of Corporation Tax in the UK from 19% to 25% was substantively enacted on 24 May 2021 and came into effect on 1 April 2023. This will increase any future tax charge for the Company accordingly. Changes in tax laws and rates may effect the Company's effective tax rate in the future.

(d) Deferred taxation

	2023	2022
	£'000	£'000
Deferred tax assets:		
Opening balance	**2,970**	3,331
Deferred tax charge to income statement for the year	**(934)**	(685)
Deferred tax (charge) / credit in equity for the year	**(409)**	323
Adjustments in respect of prior years	**64**	1
Other	**(1)**	-
Net deferred tax assets	**1,690**	2,970

Notes to the Financial Statements (continued)

9. Tax (continued)

The net deferred tax asset balance is attributable to the following:	**2023 £'000**	2022 £'000
Employee benefits	**43**	49
Share based payments	**865**	1,402
Debt securities	**(2,268)**	(4,402)
Derivatives	**3,050**	5,921
Net deferred tax assets	**1,690**	2,970

Deferred tax assets are recognised to the extent that they are regarded as recoverable. On the assessment of all available evidence, the asset is recognised if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The assessment of future taxable profits includes the availability to surrender tax losses to other Group companies in the M&G plc UK tax group.

(e) Current taxation

	2023 £'000	2022 £'000
Corporation tax receivable	**752**	1,687
Net current tax assets	**752**	1,687

10. Debt securities

Debt securities, which are mandatorily held at fair value through profit and loss, comprise the following:

	2023 £'000	2022 £'000
Government gilts	**601,499**	565,055
Supranational securities	**47,105**	49,137
Residential mortgage-backed securities	**48,966**	94,755
Other asset-backed securities	**2,345**	11,231
Corporate securities	**282,577**	324,424
Total debt securities	**982,492**	1,044,602

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

11. Derivative assets

	2023 £'000	2022 £'000
Derivative assets	**137,760**	153,157

Derivative assets include balances totalling £5,635k (2022: £3,157k) which relate to derivative transactions undertaken with a Group counterparty.

Notes to the Financial Statements (continued)

12. Loans

	2023	2022
	£'000	£'000
Loans to Group undertakings	**40,005**	-
Total loans	**40,005**	-

As at 31 December 2023, the Company had provided loans to its fellow Group undertakings M&G Real Impact Fund and Catalyst Credit Fund, as part of intragroup liquidity arrangements. The loans are repayable as per the repayment dates, along with interest, in full or in part, and each has a contractual maturity of one year from the date of issue. Details of the commitments entered into by the Company to provide loan facilities are disclosed in Note 19.

Interest is accrued at either the SONIA or SOFR daily compounded rate, depending on the counterparty, with margin. As at 31 December 2023 the accrued interest receivable by the Company was £198k (2022: nil) and is presented within Accrued investment income and other receivables on the Statement of Financial Position.

13. Accrued investment income and other receivables

	2023	2022
	£'000	£'000
Amounts due from Group undertakings	**819**	2,032
Interest receivable	**11,750**	10,023
Accrued income	**70**	74
Other debtors	**179**	5
Total accrued investment income and other receivables	**12,818**	12,134

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

14. Cash and cash equivalents

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

	2023	2022
	£'000	£'000
Cash at bank	**228,377**	242,664
Cash collateral posted in respect of OTC derivatives	**71,531**	22,000
Secured deposits made under reverse repurchase agreements	**50,000**	-
Total cash and cash equivalents	**349,908**	264,664

UK Gilts with a total fair value of £49,801k (2022: £nil) were pledged as collateral to the Company by external counterparties in respect of deposits made under reverse repurchase arrangements.

15. Derivative liabilities

	2023	2022
	£'000	£'000
Derivative liabilities	**262,515**	218,659

Notes to the Financial Statements (continued)

15. Derivative liabilities (continued)

Derivative liabilities at 31 December 2022 included balances totalling £3,539k which relate to derivative transactions undertaken with a Group counterparty. There are no such Group counterparty balances at 31 December 2023.

16. Accruals and other liabilities

	2023 £'000	2022 £'000 (restated)[1]
Amounts owed to Group undertakings	**26,426**	15,129
Obligations under repurchase agreements	**102,204**	77,350
Cash collateral received in respect of OTC derivative positions	**92,670**	103,001
Interest payable	**3,867**	4,710
Accrued expenses, deferred income and other payables	**5,430**	5,004
Total accruals and other liabilities	**230,597**	205,194

[1]This Note has been restated to exclude Borrowings which are now presented separately on the face of the Statement of Financial Position. The comparatives have been restated to reflect this presentation change.

Obligations under repurchase agreement includes an amount of £25,000k (2022: £25,000k) which relates to a repurchase arrangement with a Group counterparty and £77,204k (2022: £52,350k) with an external counterparty.

UK Gilts with a total fair value of £25,663k (2022: £27,732k) were posted as collateral by the Company in respect of obligations under repurchase arrangements with a Group counterparty and UK Gilts with a total fair value of £105,042k (2022: £48,276k) and cash of £1,420k (2022: £2,776k) were posted as collateral by the Company to external counterparties.

17. Borrowings

	2023 £'000	2022 £'000
Loans from Group undertakings	**950,000**	980,000
Total borrowings	**950,000**	980,000

As at 31 December 2023 and 31 December 2022, the Company had received loans from its parent, M&G plc, as well as fellow Group undertakings M&G Group Regulated Entity Holding Company Limited and Investment Funds Direct Limited as part of the management of the Group's liquidity. Each of the loans from Group undertakings are repayable on demand, in full or in part, and each has a contractual maturity of one year from the date of issue. Interest is accrued and payable at the SONIA daily compounded rate, with no margin.

18. Issued share capital

	2023 £'000	2022 £'000
Allotted, issued and fully paid 10 million ordinary shares of £1 each	**10,000**	10,000

Amounts recorded in share capital represent the nominal value of shares issued with any difference between proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued being credited to the share premium reserve. The share premium reserve at 31 December 2023 was £nil (2022: £nil).

Notes to the Financial Statements (continued)

19. Commitments

Financial commitments

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

	2023 £'000	2022 £'000
Commitments to Group undertakings	**101,363**	128,795
Commitments to external parties	**-**	3,440
Total financial commitments	**101,363**	132,235

The commitments were entered into in the normal course of business and the Directors do not expect a material adverse impact on the operations to arise from them. Of the facilities provided, these were drawn down by £40,005k (2022: £nil) as at 31 December 2023 and presented as Loans on the Statement of financial position. See Note 12 for further details.

Off balance sheet arrangements

The Company provided credit protection on UK Government to market counterparties under credit default swaps. The total notional exposure amounted to £210,000k (2022: £220,000k).

The Company has provided a guarantee to The Prudential Assurance Company Limited ('PAC'), a related Group undertaking, under which it provides collateral of £170,000k (2022: £198,000k) in the form of debt securities. The value of collateral pledged under this guarantee (see Note 19) is subject to haircut adjustments.

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

The Company has provided an indemnity to the participants of the M&G securities lending programme in respect of losses arising from the securities lending activity which is uncapped for credit and market risks and capped at £7,500k per annum for operational losses. Losses relating to retrospective changes in tax legislation are not covered by the indemnities. This indemnity did not give rise to any liabilities as at 31 December 2023 (2022: none)

Notes to the Financial Statements (continued)

20. Share-based payments

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

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

(b) Description of the plans

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

Discretionary Schemes	Description
Long-term Incentive Plan ("LTIP")	The LTIP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met. The last of these awards vested in 2022.
Group Deferred Bonus Plan ("GDBP")	Under these plans, part of the participant's annual bonus is paid in the form of a share award that vests after three years. There are no performance conditions associated with this plan. The last of these awards vested in 2022.
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. The last of these awards vested in 2023.
Performance Share Plan ("PSP")	The PSP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met.
Deferred Incentive Plan ("DIP")	Under these plans, part of the participant's annual bonus is paid in the form of a share award that vests after three or four years. There are no performance conditions associated with this plan.

Approved Schemes	Description
Save As You Earn ("SAYE")	The Company operates SAYE plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in M&G plc at a predetermined price, subject to the employee remaining in employment for three years after the grant date of the options and the employee satisfying the monthly savings requirement.
Share Incentive Plan ("SIP")	The Company also participates in SIPs operated by the Group, which allow eligible employees to invest a monthly or annual amount from their salaries in M&G plc shares; M&G plc will then contribute a share for every two the employee purchases.

Notes to the Financial Statements (continued)

20. Share-based payments (continued)

(c) Outstanding options and awards

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

	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices (£)	Number exercisable
2023				
£1 - £2	**254,225**	**2.09**	**1.42**	**-**
2022				
£1 - £2	326,811	1.83	1.33	-

21. Financial instruments

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

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

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

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

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

	2023 £'000	2022 £'000
AAA	**283,531**	341,082
AA+ to AA-	**671,323**	653,211
A+ to A-	**27,638**	50,309
Total debt securities	**982,492**	1,044,602

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

	2023 £'000	2022 £'000
Listed	**962,659**	1,024,061
Unlisted	**19,833**	20,541
Total debt securities	**982,492**	1,044,602

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Collateral pledged and received

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

	Debt securities		Cash	
	Pledged £'000	Received £'000	Pledged £'000	Received £'000
31 December 2023				
OTC derivative positions	**217,929**	**5,517**	**70,111**	**92,670**
Reverse Repo trades	**-**	**49,801**	**-**	**-**
Repo trades	**130,706**	**-**	**1,420**	**-**
Group guarantees (Note 19)	**180,309**	**-**	**-**	**-**
Total debt securities and cash collateral pledged or received	**528,944**	**55,318**	**71,531**	**92,670**
31 December 2022				
OTC derivative positions	241,170	479	19,224	103,001
Reverse Repo trades	-	-	-	-
Repo trades	76,007	-	2,776	-
Group guarantees (Note 19)	213,442	-	-	-
Total debt securities and cash collateral pledged or received	530,619	479	22,000	103,001

The Company has also provided credit protection on the UK Government to external counterparties under credit default swaps. The total notional exposure amounted to £210 million (2022: £220 million).

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

Market risk

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

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

Market risk – Interest rate risk:

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

	Decrease 2% £'000	Decrease 1% £'000	Increase 1% £'000	Increase 2% £'000
2023				
Debt securities	**168,436**	**75,038**	**(51,128)**	**(113,769)**
OTC derivatives	**(125,873)**	**(61,128)**	**48,032**	**116,306**
Current tax	**(10,011)**	**(3,272)**	**728**	**(597)**
Increase / (decrease) in profit after tax	**32,552**	**10,638**	**(2,368)**	**1,940**
2022				
Debt securities	164,536	74,320	(61,857)	(113,873)
OTC derivatives	(165,390)	(74,702)	62,163	114,411
Current tax	162	73	(58)	(102)
Increase / (decrease) in loss after tax	(692)	(309)	248	436

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

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

	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
31 December 2023					
Net exposure	**(98,953)**	**181,664**	**(780)**	**380**	**82,311**
31 December 2022					
Net exposure	66,970	7,468	495	428	75,361

Sensitivity analysis
A 5 percent weakening of the US dollar and euro currencies against pound sterling at 31 December 2023 would have decreased profit before tax by the amounts shown below. A 5 percent strengthening of the US dollar and euro currencies against pound sterling at 31 December 2023 would have increased profit before tax by the equal and opposite of the amounts shown below. These calculations assume that the change occurred at the balance sheet date and had been applied to risk exposures at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Impact on profit / (loss) before tax £'000
2023	
USD	**(99)**
EUR	**(43)**
2022	
USD	(393)
EUR	(1)

Market risk - Liquidity risk
Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management in the Company and the wider group seeks to ensure that, even under adverse conditions, the Company has access to funds necessary to cover maturing liabilities.

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

	Total carrying value £'000	Contractual cash flows £'000	1 year or less £'000	After 1 year to 5 years £'000	No stated maturity £'000
2023					
Amounts owed to group undertakings	**976,426**	**976,426**	**976,426**	**-**	**-**
Obligations under repurchase agreements	**102,204**	**102,204**	**102,204**	**-**	**-**
Other creditors	**101,967**	**101,967**	**3,867**	**626**	**97,474**
	1,180,597	**1,180,597**	**1,082,497**	**626**	**97,474**
2022					
Amounts owed to group undertakings	995,129	995,129	995,129	-	-
Obligations under repurchase agreements	77,350	77,350	77,350	-	-
Other creditors	112,715	112,715	4,710	372	107,633
	1,185,194	1,185,194	1,077,189	372	107,633

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

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

	Carrying value of derivatives			Maturity profile of net derivative position				
	Derivative assets	**Derivative Liabilities**	**Net derivative position**	**Total expected cash flows**	**1 year or less**	**After 1 year to 3 years**	**After 3 years to 5 years**	**After 5 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2023	**137,760**	**(262,515)**	**(124,755)**	**(149,539)**	**(15,389)**	**11,171**	**6,743**	**(152,064)**
2022	153,157	(218,659)	(65,502)	(106,622)	34,415	2,827	11,814	(155,678)

Offsetting assets and liabilities

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

		Related amounts not offset in the balance sheet			
	Gross amount included in Balance Sheet £'000	**Financial Instruments £'000**	**Cash Collateral £'000**	**Securities Collateral £'000**	**Net Amount £'000**
2023					
Financial assets					
Derivative assets	**137,760**	**(42,443)**	**(87,802)**	**(5,517)**	**1,998**
Reverse repurchase agreements	**50,000**	**-**	**-**	**(49,801)**	**199**
	187,760	**(42,443)**	**(87,802)**	**(55,318)**	**2,197**
Financial liabilities					
Derivative liabilities	**(262,515)**	**42,443**	**28,717**	**195,881**	**4,526**
Repurchase agreements	**(127,203)**	**-**	**1,420**	**130,706**	**4,923**
	(389,718)	**42,443**	**30,137**	**326,587**	**9,449**
2022					
Financial assets					
Derivative assets	153,157	(53,683)	(94,184)	-	5,290
Reverse repurchase agreements	-	-	-	-	-
	153,157	(53,683)	(94,184)	-	5,290
Financial liabilities					
Derivative liabilities	(218,659)	53,683	15,754	143,357	(5,865)
Repurchase agreements	(77,350)	-	2,776	74,574	-
	(296,009)	53,683	18,530	217,931	(5,865)

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

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Assets and liabilities – Classification and measurement

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

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

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

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

	At fair value through profit & loss £'000	Amortised cost £'000	Total carrying amount £'000
2023			
Debt securities	**982,492**	**-**	**982,492**
Derivative assets	**137,760**	**-**	**137,760**
Loans	**-**	**40,005**	**40,005**
Accrued investment income and other debtors	**-**	**12,818**	**12,818**
Cash and cash equivalents	**-**	**349,908**	**349,908**
Total financial assets	**1,120,252**	**402,731**	**1,522,983**
Derivative liabilities	**(262,515)**	**-**	**(262,515)**
Accruals and other liabilities	**-**	**(230,597)**	**(230,597)**
Borrowings	**-**	**(950,000)**	**(950,000)**
Total financial liabilities	**(262,515)**	**(1,180,597)**	**(1,443,112)**
2022[1]			
Debt securities	1,044,602	-	1,044,602
Derivative assets	153,157	-	153,157
Accrued investment income and other debtors	-	12,134	12,134
Cash and cash equivalents	-	264,664	264,664
Total financial assets	1,197,759	276,798	1,474,557
Derivative liabilities	(218,659)	-	(218,659)
Accruals and other liabilities	-	(205,194)	(205,194)
Borrowings	-	(980,000)	(980,000)
Total financial liabilities	(218,659)	(1,185,194)	(1,403,853)

[1] The comparatives have been restated to reflect the amended line item presentation on the face of the Statement of Financial Position but the classification of the underlying financial instruments is unchanged.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

IFRS 13 Fair value hierarchy

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

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

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

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

The Company's policy is consistent with the Group's policy, which is to recognise transfers out of levels as at the end of each reporting period, except for material transfers, which are recognised as of the date of the event or change in circumstances that caused the transfers. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities.

During the year debt securities with a fair value of £23,903k (2022: £nil) were transferred from Level 2 to Level 1. In the prior year debt securities with a fair value of £28,254k were transferred from level 1 to level 2. These movements arose from refinements made to the Group's levelling policy which is also applied by the Company. There were no other transfers in or out of level 1, level 2 or level 3 (2022: none).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2023				
Debt securities	**616,899**	**365,593**	**-**	**982,492**
Derivative assets	**-**	**137,760**	**-**	**137,760**
Total assets held at fair value	**616,899**	**503,353**	**-**	**1,120,252**
Derivative liabilities	**-**	**(262,515)**	**-**	**(262,515)**
2022				
Debt securities	565,055	479,547	-	1,044,602
Derivative assets	-	153,157	-	153,157
Total assets held at fair value	565,055	632,704	-	1,197,759
Derivative liabilities	-	(218,659)	-	(218,659)

22. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 from disclosing transactions with other wholly owned subsidiary undertakings of the M&G plc group.

There were no other related party transactions in the year ended 31 December 2023 and 31 December 2022 other than those with wholly owned subsidiary undertakings of the Group and those disclosed in Note 7.

23. Immediate and ultimate parent company

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