Registered No: 05739054

# PRUDENTIAL FINANCIAL PLANNING LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

**PRUDENTIAL FINANCIAL PLANNING LIMITED**

Incorporated and registered in England and Wales. Registered No: 05739054
Registered office: Laurence Pountney Hill, London, EC4R 0HH

CONTENTS

## PRUDENTIAL FINANCIAL PLANNING LIMITED

### Directors

D W King (Chairman)
C G Haines
M Leahy
J Warburton (resigned on 22 September 2017)
D R Macmillan (appointed on 29 November 2017)

### Secretary

Prudential Group Secretarial Services Limited

### Independent Auditor

KPMG LLP, London

PRUDENTIAL FINANCIAL PLANNING LIMITED

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

### Principal activity

The principal activity of Prudential Financial Planning Limited ("the Company") is to provide professional face to face restricted advice services, largely distributing products of the Prudential group companies through non-intermediated channels. These activities will continue in 2018.

### Business review

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

In August 2017, Prudential plc, the parent of the Group, brought together M&G, the investment management business, with Prudential's UK and European life insurance business of which the Company forms a part, to create M&G Prudential.

In March 2018 Prudential plc announced its intention to demerge M&G Prudential from Prudential plc, resulting in two separately-listed companies, with different investment characteristics and opportunities. M&G Prudential is one of the leading retirement and savings business in the UK and Europe. M&G Prudential as a standalone group will continue to drive its transformation into a more capital-efficient and customer-focussed business, targeting growing customer demand for comprehensive financial solutions in these markets.

In support of this, M&G Prudential announced a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development, and widen customer choice. A substantial investment will be made over the next five years in transforming the business's operations, including building the digital distribution capability. M&G Prudential is well placed to meet the growing and evolving saving and investment needs of customers across retail, institutional and direct channels.

| Key Performance Indicators | **2017** | 2016 | Change |
|---|---|---|---|
| | **£'000** | £'000 | % |
| Turnover | **47,215** | 33,025 | 43 |
| Operating expenses | **47,336** | 38,087 | (24) |
| Loss before taxation | **(110)** | (5,041) | 98 |
| Shareholders' funds | **10,226** | 4,180 | 145 |
| Regulatory capital surplus (based on IPRU (INV) and MIPRU requirements, see below) | **7,229** | 976 | 641 |

The Company generated a pre-tax loss of £110k during 2017 (2016: £5,041k). Losses have reduced during 2017 on account of increases in advisor charge income, mainly from increases in sales of Retirement Account products and increased ISA sales.

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

Risks & uncertainties

The Company is a wholly owned subsidiary of the Prudential Group and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual (GGM) and Group Risk Framework (GRF). The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable, rather than absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward with the aim of achieving the business objectives.

The GRF requires all businesses and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The risk management framework is based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

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

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The financial risk factors affecting the Company are credit, liquidity and market risks. These financial risks and the management thereof are discussed in Note 18.

Non-financial risk

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

a) Business environment risk

*Business environment risk is the risk of exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.*

Changes in government policy, legislation (including tax), regulation or regulatory interpretation applying to companies in the financial services sector, may adversely affect the Company's distribution channels, capital requirements and, consequently, reported results and financing requirements.

b) Strategic risk

*Strategic risk is the risk of ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.*

While not directly impacted, the Company is exposed to risk associated with strategic decisions taken at the Group or Prudential UK level. The Prudential UK transformation strategy, along with the integration of the M&G and Prudential UK & Europe businesses, aims to deliver capital-light, digitally enabled, customer-focused solutions. This presents a significant opportunity to leverage scale, financial strength and complementary product and distribution capabilities but does carry an element of strategic risk for the Company in terms of overall availability of funding, resources and the wider impacts of an extensive change agenda.

c) Conduct risk

*Conduct risks are risks that arise from the approach taken to customer relationships throughout the business model and is defined as the risk that Prudential's behaviours and decision making are inappropriate, leading to unfair or poor outcomes for customers.*

Customer needs are central to all decisions the Company makes regarding the provision of financial services. In so doing, the Company aims to uphold its reputation for acting responsibly and with integrity in supporting customers whilst respecting the laws and regulations, as well as meeting internationally accepted standards of responsible business conduct.

d) Operational risk

*Operational risk is the risk of loss (or unintended gain/profit) arising from inadequate or failed internal processes, personnel and systems, or from external events. This includes employee error, system failures, fraud or some other event which disrupts business processes.*

The Company's exposure to operational risk is managed and mitigated using the following:

- operational risk policies including, outsourcing and third-party supply;
- a cyclical risk management framework, based on the policy standards, that delivers processes and tools to identify, assess, control and monitor the operational risk exposures;
- corporate insurance programmes to limit the impact of operational risks;
- internal and external review of cyber security;
- regular testing of elements of the business continuity and disaster recovery plans.

e) Group risk

*Group risk is the risk associated with being part of a group, particularly as a result of contagion.*

Being a member of a group can provide significant advantages for the Company in terms of diversification of risk, financial strength, technical expertise and management experience. It can also give rise to risks; 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 is appropriately managed.

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

L Kodai- Adeya
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
10 May 2018

**PRUDENTIAL FINANCIAL PLANNING LIMITED**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**
Incorporated and registered in England and Wales. Registered No: 05739054

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

## 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).

## Corporate Responsibility

The Company is a wholly owned subsidiary within the Prudential Group 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 for example, the Group Code of Business Conduct.

As a business that provides savings, income, investment and protection products and services social value is created through the day-to-day operations. The Group provides customers with ways to help manage uncertainty and build a more secure future. In seeking to match the long-term liabilities the Group has towards its customers with similarly long-term financial assets, it provides capital that finances businesses, builds infrastructure and fosters growth in both developed and developing markets.

The Group's sustainable approach to business is reinforced by the Group-wide CR strategy. While the Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders, the Group approach is underpinned by four global CR themes:

- Serving its customers: The Group aims to provide fair and transparent products that meet the customers' needs.
- Valuing its people: The Group aspires to retain and develop highly engaged employees.
- Supporting local communities: The Group seeks to make a positive contribution to its communities through long-term partnerships with charitable organisations that make a real difference.
- Protecting the environment: The Group takes responsibility for the environment in which it operates.

These themes demonstrate the Group's CR commitments and principles to its stakeholders and provide clarity to its businesses, including the Company, on where they should focus their CR efforts and resources in the context of their individual markets.

The Prudential plc Board discusses the Group's performance in the areas of social and environmental management at least once a year and also reviews and approves the Group's corporate responsibility report and strategy on an annual basis.

## Accounts

The state of affairs of the Company at 31 December 2017 is shown in the statement of financial position on page 12. The statement of comprehensive income appears on page 11.

## Share Capital

The Company issued 3,000,000 ordinary shares of £1 each on 30 January 2017 and a further 3,000,000 ordinary shares of £1 each on 17 February 2017 to Prudential Financial Services Limited.

## Post Balance sheet events

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business ("M&G Prudential") from Prudential plc, resulting in two separately-listed companies. The Company forms part of M&G Prudential.

## Directors

The present directors are shown on page 1.

Mr J Warburton resigned as a director on 22 September 2017. Mr D R Macmillan was appointed as director of the Company on 29 November 2017. There were no other changes in the year and up to the date of approving this report.

## Political Donations

No donations were made for political purposes during the year (2016:Nil).

## Employees

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

- Equal opportunity

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

- Employee involvement

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

## Financial risk management objectives, policies and exposure

The Company is exposed to risk through its financial assets and liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. Further information on the financial risk management objectives and policies of the Company are given in Note 18.

## Disclosure to auditor

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

## Auditor

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

Directors' and Officers' Protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential 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.

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

L Kodai- Adeya
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
10 May 2018

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of Prudential Financial Planning Limited ("the company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of changes in equity, Statement of Financial Position and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### 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 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view. They 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; 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.

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

**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
10 May 2018

## PRUDENTIAL FINANCIAL PLANNING LIMITED

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

| | **2017** | 2016 | **Note** |
|---|---|---|---|
| | **£'000** | £'000<br>Restated | |
| Operating income | **47,215** | 33,025 | 2 |
| Staff costs | **(30,632)** | (25,611) | 3 |
| Other operating charges | **(16,704)** | (12,476) | 4,5,6 |
| **Operating loss** | **(121)** | (5,062) | |
| Interest receivable | **11** | 21 | 7 |
| **Loss before tax** | **(110)** | (5,041) | |
| Tax (charge)/credit | **(93)** | 1,063 | 8 |
| **Loss for the financial year** | **(203)** | (3,978) | |

Other operating charges for 2016 have been restated to ensure presentation is consistent with 2017. Details are disclosed in Note 4 Other operating charges.

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

The accounting policies on pages 14 to 16 along with accompanying notes on pages 16 to 25 form an integral part of these financial statements.

## PRUDENTIAL FINANCIAL PLANNING LIMITED

### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

| | 2017 | 2016 | Note |
|---|---|---|---|
| | £'000 | £'000 | |
| **Current assets** | | | |
| Trade and other debtors | **5,485** | 5,458 | 9 |
| Deferred tax asset | **432** | 396 | |
| Corporation tax receivable | **854** | 978 | |
| Cash and bank balances | **9,674** | 2,960 | 10 |
| | **16,445** | 9,792 | |
| **Current liabilities** | | | |
| Trade and other creditors: amounts falling due within one year | **6,219** | 5,612 | 11 |
| **Net current assets** | **10,226** | 4,180 | |
| **Total assets less current liabilities** | **10,226** | 4,180 | |
| **Net assets** | **10,226** | 4,180 | |
| **Capital and reserves** | | | |
| Called up share capital | **13,800** | 7,800 | 13 |
| Profit and loss account | **(3,823)** | (3,620) | 14 |
| Capital reserves | **249** | - | 15 |
| **Shareholders' funds - equity interests** | **10,226** | 4,180 | |

The accounting policies on pages 14 to 16 along with accompanying notes on pages 16 to 25 form an integral part of these financial statements.

The financial statements on pages 11 to 25 were approved by the board of directors on 10 May 2018.

D W King
Director
10 May 2018

**PRUDENTIAL FINANCIAL PLANNING LIMITED**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Share capital | Profit and loss account | Capital reserves | Total equity |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2016 | 7,800 | 358 | — | 8,158 |
| Total comprehensive loss for the period | | | | |
| Loss for the financial year | — | (3,978) | — | (3,978) |
| Total comprehensive loss for the period | — | (3,978) | — | (3,978) |
| Balance at 31 December 2016 | 7,800 | (3,620) | — | 4,180 |
| **Balance at 1 January 2017** | **7,800** | **(3,620)** | — | **4,180** |
| Capital contribution for the year | | | 249 | 249 |
| Share capital injected during the year | 6,000 | — | — | 6,000 |
| **Total comprehensive loss for the period** | | | | |
| Loss for the financial year | — | (203) | — | (203) |
| Total comprehensive loss for the period | — | (203) | — | (203) |
| **Balance at 31 December 2017** | **13,800** | **(3,823)** | **249** | **10,226** |

Capital contribution represents the capital reserve in respect of share-based payment created during the year in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 14 to 16 along with accompanying notes on pages 16 to 25 form an integral part of these financial statements.

**NOTES ON THE FINANCIAL STATEMENTS**

## 1. Accounting Policies

### A. Company information

The Company is a private limited company incorporated and domiciled in England and Wales.

### B. Basis of preparation

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

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

The Company's ultimate parent undertaking, Prudential plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Prudential plc are prepared in accordance with International Financial Reporting Standards and may be obtained from the Company Secretary, Laurence Pountney Hill, London EC4R 0HH.

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

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- The effect of new but not effective IFRSs

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

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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation. The Company has a satisfactory capital adequacy, well in excess of the capital requirements stipulated by the FCA. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic report on page 2.

### C. Classification of instruments issued by the Company

Having adopted FRS101, International Accounting Standard (IAS 32) is being applied to the financial instruments issued by the Company and 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's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

**D. Non-derivative financial instruments**

Under IAS39, upon initial recognition financial instruments are recognised at fair value. The Company is permitted, subject to specific criteria, to designate its instruments as either at fair value through profit and loss, held on an available-for-sale basis, held to maturity, or loans and receivables. The Company holds financial instruments on the following bases:

Loans and receivables - this comprises instruments that have fixed or determinable payments and are not designated as fair value through profit and loss. These instruments include deposits and other unsecured loans and receivables and trade and other creditors. These instruments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss, if any, by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

**E. Income**

Operating income represents income earned on advisory services and recharges to group undertakings. As per the requirements of IAS 18, revenue from services is recognised in the accounting periods in which the services are rendered if the Company has no obligation to provide further services over the life of the contract. All other income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be measured reliably.

**F. Expenses**

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

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

**G. Taxation**

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

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

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

**H. Share-based payments**

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

Share options and awards of the parent company's equity instruments, for which the parent company (Prudential plc) has the obligation to settle, are valued using the share price at the date of grant and are accounted for as equity-settled i.e. recognised in equity as a capital contribution from Prudential plc. Share options and awards for which the Company has the obligation to settle are valued using the share price at the balance sheet date and are accounted for as cash-settled i.e. as an obligation to transfer the equity instruments of Prudential plc. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods.

## 2. Operating income

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Income earned from recharges to group undertakings | **9,630** | 7,790 |
| Income earned from advice services | **37,585** | 25,235 |
| | **47,215** | 33,025 |

## 3. Staff costs

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Wages and salaries | **23,260** | 18,634 |
| Other pension costs | **3,720** | 4,255 |
| Social security costs | **3,255** | 2,722 |
| Share based payment expenses | **397** | - |
| Total | **30,632** | 25,611 |
| | **No.** | No. |
| Average number of employees during the period | **329** | 293 |

The majority of staff employed by the Prudential Group in the UK are members of the Prudential Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (PSPS). This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the Scheme. At 31 December 2017, the underlying PSPS liabilities account for 82% (2016: 82%) of the aggregate liabilities of the Prudential Group's defined benefit schemes. There is also a smaller defined benefit scheme, Scottish Amicable Staff Pension Scheme (SASPS).

The contributions into the schemes are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

Further details of the pension schemes operated by the Company are disclosed in the accounts of The Prudential Assurance Company Limited and Prudential Financial Services Limited.

## 4. Other operating charges

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| | | Restated |
| Management expenses | **16,704** | 14,732 |
| Advisor charges recharged | — | (2,256) |
| | **16,704** | 12,476 |

For 2016, advisor charges recharged comprise of the reversal of liability earlier recognised as payable to the product providers.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

Balances previously reported under 'interest payable' have been reclassified to 'management expenses' due to the nature of these specific balances. Accordingly, the comparative balances have been restated.

## 5. Auditor's remuneration

Auditor's remuneration of £15k (2016: £15k) in respect of the audit of the Company's financial statements is borne by another group company, Prudential Distribution Limited. No non-audit services were provided by the auditor in 2017 or 2016.

## 6. Directors' emoluments

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

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Aggregate emoluments and benefits | 322 | 306 |
| Highest paid Director : | | |
| Aggregate emoluments and benefits | 322 | 306 |

Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. Only one such qualifying director is remunerated by the Company. The other directors perform services for other group companies and are remunerated by those companies. Their costs are not included in the amounts reported by the Company in the table above.

The highest paid director in 2017 received shares under long-term incentive schemes and exercised share options in 2017. Two other directors (2016: one) were also entitled to shares under Prudential's main long-term incentive scheme and neither of these directors (2016: nil) exercised share options during the year. No director (2016: nil) was entitled to retirement funds under defined benefit schemes.

## 7. Interest receivable

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Bank interest received | 11 | 21 |

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

## 8. Taxation

### a) Analysis of charge in the period

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Current tax: | | |
| Total current tax charge/(credit) in the period | **68** | (1,021) |
| Adjustments in respect of prior years | **61** | (1) |
| Total tax charge/(credit) on ordinary activities | **129** | (1,022) |
| Deferred tax : | | |
| Adjustments in respect of previous years | **(25)** | (2) |
| Origination and reversal of timing differences | **(11)** | (39) |
| Total deferred tax credit in the period | **(36)** | (41) |
| Total tax charge/(credit) in the period | **93** | (1,063) |

### b) Factors affecting tax charge for the period

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Loss on ordinary activities before tax | **(110)** | (5,041) |
| Tax on loss on ordinary activities at effective rate of corporation tax in the UK of 19.25% (2016 : 20.00%) | **(21)** | (1,008) |
| Effects of: | | |
| Adjustment in respect of share schemes | **25** | — |
| Permanent difference | **64** | (13) |
| Impact of rate change on deferred tax | **—** | (39) |
| Origination and reversal of short term timing differences | **(11)** | — |
| Adjustments to current tax in respect of previous years | **61** | (1) |
| Adjustments to deferred tax in respect of previous years | **(25)** | (2) |
| Total tax charge/(credit) for the year | **93** | (1,063) |

In July 2016, the UK Government announced additional reductions in the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. These additional reductions are reflected in the above figures as the changes were substantively enacted at the balance sheet date.

PRUDENTIAL FINANCIAL PLANNING LIMITED

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**c) Balance sheet**

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Deferred tax asset explained by: | | |
| Short term timing differences | **430** | 394 |
| Accelerated capital allowances | **2** | 2 |
| | **432** | 396 |
| Deferred tax asset at start of period | **396** | 355 |
| Deferred tax for the period | **36** | 41 |
| **Deferred tax asset at end of period** | **432** | 396 |

## 9. Trade and other Debtors

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by group undertakings | **504** | 527 |
| Prepayments and accrued income | **2,598** | 2,453 |
| **Amounts falling due after more than one year:** | | |
| Prepayments and accrued income | **2,383** | 2,478 |
| | **5,485** | 5,458 |

## 10. Cash and bank balances

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

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts owed to group undertakings | **—** | 241 |
| Accruals and deferred income | **6,219** | 5,371 |
| | **6,219** | 5,612 |

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms. All intercompany balances are repayable on demand.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**12. Share-based payments**

The Company maintains the following plans relating to Prudential plc shares:-

**(i) Prudential Long term incentive Plan (PLTIP)**

The PLTIP is a conditional share plan: the shares which are awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses and performance cannot be retested. The performance conditions attached to PLTIP awards are: Relative Total Shareholder Return (TSR) (50 per cent of award); and Group IFRS profit (50 per cent of award), or Business unit IFRS profit (50 per cent of award). The performance conditions attached to each award are dependent on the role of the participants. The Relative TSR is measured over three years. The TSR is measured against a peer group of international insurers (currently 18) which are similar to Prudential in size, geographic footprint and products. IFRS profit is the three year cumulative IFRS operating profit assessed at Group or business unit level. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three year business plan.

**(ii) Savings related options**

The Company participates in share option schemes satisfied by the issue of new shares: UK-based executive directors and eligible employees are eligible to participate in the Prudential HM Revenue & Customs (HMRC)-approved UK savings related share option scheme (SAYE scheme).These schemes allow all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Participants can elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and other share option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

The weighted average share price of Prudential plc for the year ended 31 December 2017 was £17.49 compared to £13.56 for the year ended 31 December 2016.

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2017:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| **Range of exercise prices** | **Number outstanding** | **Weighted average remaining contractual life** | **Weighted average exercise prices** | **Number exercisable** | **Weighted average exercise prices** |
| | | **(years)** | **£** | | **£** |
| **Between £9 and £10** | **6,321** | **1.41** | **9.01** | **—** | **—** |
| **Between £11 and £12** | **90,758** | **2.30** | **11.10** | **467** | **11.55** |
| **Between £14 and £15** | **50,428** | **3.65** | **14.55** | **—** | **—** |
| **Total** | **147,507** | **2.72** | **12.19** | **467** | **11.55** |

## 13. Called up share capital

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **Ordinary shares** | | |
| Balance as at 1 January | | |
| Issued, called up and fully paid :- | | |
| 7,800,000 ordinary shares of £1 each | **7,800** | 7,800 |
| Issued during the year | | |
| Issued and fully paid : | | |
| 6,000,000 ordinary shares of £1 each | **6,000** | — |
| Balance as at 31 December | | |
| Issued, called up and fully paid :- | | |
| 13,800,000 ordinary shares of £1 each | **13,800** | 7,800 |

The Company issued 3,000,000 ordinary shares of £1 each on 30 January 2017 and a further 3,000,000 ordinary shares of £1 each on 17 February 2017 to Prudential Financial Services Limited.

## 14. Profit and loss account

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Balance as at 1 January | **(3,620)** | 358 |
| Loss for the year | **(203)** | (3,978) |
| Balance as at 31 December | **(3,823)** | (3,620) |

## 15. Capital contribution

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Balance as at 1 January | — | — |
| Contribution for the year | **249** | — |
| Balance as at 31 December | **249** | — |

Capital contribution represents the capital reserve in respect of share-based payment created during the year in accordance with IFRS 2 *Share-based Payments*.

## 16. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 relating to the disclosure of transactions with other wholly owned subsidiary undertakings of the Prudential Group. There are no other transactions with related parties.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

## 17. Financial assets and liabilities

### A. Financial assets and liabilities - Measurement and Classification

The classification of the Company's financial assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Company's application of IAS 39 *Financial Instruments: Recognition and Measurement* as described further below. Where financial assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Company has followed the principles under IFRS 13 *Fair Value Measurement*. The basis applied is summarised below.

| **2017** | **Fair value through profit and loss** | **Cost/ Amortised Cost** | **Total carrying value** | **Fair value** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade and other debtors | **—** | **5,485** | **5,485** | **5,485** |
| Cash at bank and in hand | **—** | **9,674** | **9,674** | **9,674** |
| **Total financial assets** | **—** | **15,159** | **15,159** | **15,159** |

| | **Fair value through profit and loss** | **Cost/ Amortised cost** | **Total carrying value** | **Fair value** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade and other creditors | **—** | **6,219** | **6,219** | **6,219** |
| **Total financial liabilities** | **—** | **6,219** | **6,219** | **6,219** |

| 2016 | Fair value through profit and loss | Cost/ Amortised Cost | Total carrying value | Fair value |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Trade and other debtors | — | 5,458 | 5,458 | 5,458 |
| Cash at bank and in hand | — | 2,960 | 2,960 | 2,960 |
| Total financial assets | — | 8,418 | 8,418 | 8,418 |

| | Fair value through profit and loss | Cost/ Amortised Cost | Total carrying value | Fair value |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Trade and other creditors | — | 5,612 | 5,612 | 5,612 |
| Total financial liabilities | — | 5,612 | 5,612 | 5,612 |

A fair value hierarchy has not been produced for items held at amortised cost where a fair value is disclosed because the carrying value approximates to the fair value.

**Market Risk**

The financial assets and liabilities attaching to the Company's business are, to varying degrees, subject to market risk that may have a material effect on the profit or loss and shareholders' funds.

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

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

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

**Interest rate risk**

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

| **2017** | **Fair value interest rate risk** | **Cash flow interest rate risk** | **Not directly exposed to interest rate risk** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial Assets** | | | | |
| Trade and other debtors | — | — | 5,485 | 5,485 |
| Cash at bank and in hand | — | 9,674 | — | 9,674 |
| | — | 9,674 | 5,485 | 15,159 |

| | **Fair value interest rate risk** | **Cash flow interest rate risk** | **Not directly exposed to interest rate risk** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial Liabilities** | | | | |
| Trade and other creditors | — | — | 6,219 | 6,219 |
| | — | — | 6,219 | 6,219 |

| 2016 | Fair value interest rate risk | Cash flow interest rate risk | Not directly exposed to interest rate risk | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | |
| Trade and other debtors | — | — | 5,458 | 5,458 |
| Cash at bank and in hand | — | 2,960 | — | 2,960 |
| | — | 2,960 | 5,458 | 8,418 |

| | Fair value interest rate risk | Cash flow interest rate risk | Not directly exposed to interest rate risk | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | | | | |
| Trade and other creditors | — | — | 5,612 | 5,612 |
| | — | — | 5,612 | 5,612 |

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**Currency risk**

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

**Other price risk**

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

**Liquidity Analysis**

(i) Contractual maturities of financial liabilities

The following tables set out the contractual maturities and repricing dates for applicable classes of financial liabilities. The financial liabilities are included in the column relating to the contractual maturities and repricing dates at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

| **2017** | **1 year or less** | **After 1 year to 5 years** | **Total un-discounted cashflows** | **Total carrying value** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial Liabilities** | | | | |
| Trade and other creditors | **6,219** | **—** | **6,219** | **6,219** |
| | **6,219** | **—** | **6,219** | **6,219** |

| 2016 | 1 year or less | After 1 year to 5 years | Total un-discounted cashflows | Total carrying value |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | | | | |
| Trade and other creditors | 5,612 | — | 5,612 | 5,612 |
| | 5,612 | — | 5,612 | 5,612 |

**18. Financial risk management**

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

a) Credit risk

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

The debtors are predominantly intra-group and therefore the risk of default is considered to be minimal.

b) Liquidity risk

*Liquidity risk is the risk of the Company being unable to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stress scenarios.*

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

c) Market risk

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

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

## 19. Capital requirements and management

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

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

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

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

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

As at 31 December 2017, the minimum regulatory capital requirement of the Company was £2,997k (2016:£3,204k). The Company had capital resources amounting to £10,226k (2016:£4,180k) to meet the capital requirement.

## 20. Immediate and ultimate parent company

The immediate parent company is Prudential Financial Services Limited. The ultimate parent company is Prudential plc which is the only parent company which prepares group accounts, copies of which can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.

## 21. Post Balance sheet events

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business ("M&G Prudential") from Prudential plc, resulting in two separately-listed companies. The Company forms part of M&G Prudential.