M&G plc
2019 Annual Report and Accounts

We have been helping people to live the life they want for more than 170 years – by managing and growing their savings and investments.

Throughout this time, we have also sought to make the world a little better – through how and where we invest our customers' money.

Performance highlights from continuing operations[1]

Adjusted operating profit before tax[2] KPM APM

£1,149 million

2018: £1,621 million

Savings and Asset Management net client outflows KPM

£1.3 billion

2018: £1.7 billion

Total capital generation KPM

£1,509 million

2018: £2,369 million

IFRS profit after tax

£1,065 million

2018: £811 million

Assets under management and administration KPM

£352 billion

2018: £321 billion

Shareholder Solvency II coverage ratio[3] KPM APM

176%

2018: 170%

Contents

KPM Key performance measure

APM Alternative performance measure

1. Continuing operations excludes our Asia insurance operations and treasury services provided to Prudential plc which are presented as discontinued operations.
2. Adjusted operating profit before tax is profit before tax excluding short-term fluctuations from investment returns, profit/loss on disposal of business and corporate transactions, restructuring and other costs, and profit/loss before tax from discontinued operations.
3. Shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. Key Performance Measures are defined in the glossary at 254.

M&G plc

M&G plc is a newly listed savings and investments business, serving individual savers and institutional investors in 28 markets.

We were formed by the merger of Prudential plc's UK and Europe life insurance operation and M&G Investments, the international asset manager.

We demerged from Prudential, the international financial services group, and listed on the London Stock Exchange on 21 October as an independent business.

Our aim is to make our innovative savings and investment solutions available to more customers and clients around the world.

"Our vision is to be the best loved and most successful savings and investments business."

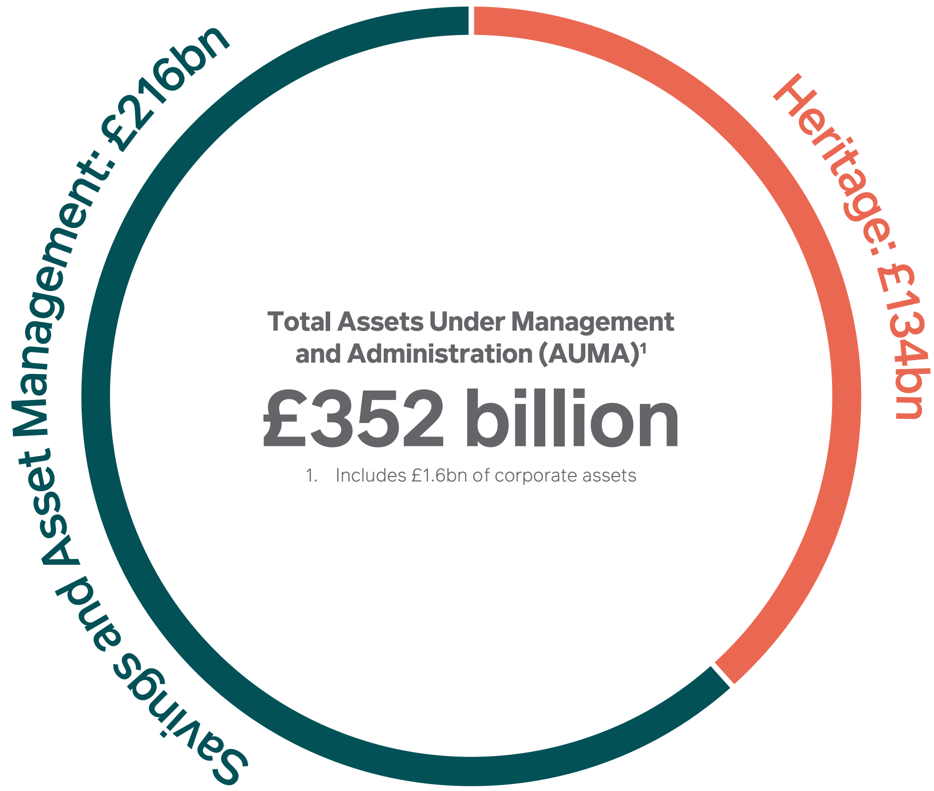
Mike Evans
Chair

John Foley
Chief Executive

We are an international savings and investments business

Focused on delivering great customer and client outcomes through active, high value-added solutions

Operating segments



Savings and Asset Management

We offer a broad range of savings and investment solutions to retail customers and institutional clients.

For retail savers in the UK, we offer propositions powered by our With-Profits Fund, including our market-leading PruFund. We also have a family of UK-domiciled mutual funds and Luxembourg-domiciled SICAV funds for retail investors.

To institutional clients, we provide investment strategies covering both private and public assets through a variety of formats, from pooled funds to segregated mandates.

Heritage

We manage the traditional life savings and retirement plans of retail customers.

While open to top-ups, this part of our business is closed to new customers.

The Heritage segment includes our annuity business, which provides policyholders with an income for life.

Our Heritage business also includes the £85 billion book of traditional with-profits business, the inspiration for our market-leading PruFund proposition.

28 markets
22 locations

Our customers and clients

We are an international savings and investments business serving:

Over
5 million
retail customers

We manage and administer their assets through our With-Profits Fund, annuities and a range of mutual funds.

More than
800
institutional clients

We are growing our institutional franchise from being UK-focused to having an established international footprint.

Two strong customer brands

Established in 1931, M&G Investments is an international asset manager serving individual and institutional investors.

Founded in 1848, Prudential manages long-term savings, investments and retirement solutions for our customers in the UK and Europe.

Welcome to M&G plc

As Chair of your company, it gives me great pleasure to present to you our first annual report

"Our new independence puts us in an even stronger position to seize the many growth opportunities we see in long-term savings and investments"

Mike Evans
Chair

Last year marked the beginning of an exciting new era for our company. Following the demerger from Prudential plc, M&G plc listed on the London Stock Exchange on 21 October and became a member of the FTSE 100 group of leading companies.

Independence enables us to focus fully on our purpose: to help people manage and grow their savings so they can live the life they want, while making the world a little better along the way.

We see tremendous growth opportunities as a result of economic and demographic shifts across the developed world. Increasing life expectancy and declining government support create an imperative for people to save more for retirement. Low interest rates are eroding the real value of the €11 trillion of cash sitting idle across Europe. Individuals and institutions are seeking trusted providers of savings and investment solutions who can address this challenge.

M&G plc is especially well placed to be the partner of choice because of our unique business model. As an asset manager, we have a diversified set of global investment capabilities that span both public and private markets. As an asset owner of scale through our policyholder funds, we use our insights and the strength of our balance sheet to support innovation in savings and investments, alongside the delivery of good outcomes for our five million customers. Across both, we take great care to balance investment returns with responsible stewardship.

Our focus on innovation, coupled with our continual efforts to improve outcomes for our existing customers, will power our growth – and so drive sustainable returns for shareholders.

Governance

I joined as Chair in October 2018, attracted by the potential of the business and the ambition of its leadership team. We have brought two great customer brands – Prudential and M&G Investments – together under one roof, combining the strengths of both. We have ambitious growth plans, in the UK and internationally. We are undergoing a transformation to modernise and simplify our business, while also driving efficiency. Underlying all of this is a shared conviction that the customer always comes first.

On joining, my priority was to appoint a strong and effective Board for the demerger and Stock Exchange listing. I am delighted to have assembled a team which is both diverse and highly experienced. It comprises myself as Chair, our two executive directors – Chief Executive John Foley and Chief Financial Officer Clare Bousfield – and four Non-Executive Directors: Caroline Silver as Senior Independent Director, Clive Adamson as Chair of the Risk Committee, Robin Lawther as Chair of the Remuneration Committee, and Clare Thompson as Chair of the Audit Committee.

Regrettably, in February Caroline informed me of her decision to step down from the Board at our upcoming Annual General Meeting, because of other significant demands on her time. I would like to thank Caroline for her excellent support over the past year. A search is underway for her replacement and in 2020 I will look at broadening the composition of the Board.

Dividend

The Board's policy is to pay stable or increasing dividends over time. The dividend in respect of each financial year will comprise a first interim dividend, expected to be one-third of the previous financial year's total dividend, followed by a second interim dividend.

In addition, the Board is declaring a one-off demerger-related dividend of £100 million (3.85 pence per share), reflecting the fact that M&G plc head office costs and debt interest costs were covered by its former parent for most of the year under review.

I would like to close by acknowledging the talent and dedication of all my colleagues at M&G plc. To deliver on our vision for customers while simultaneously executing the merger, demerger, stock exchange listing and transformation programme, is an outstanding achievement. They all have the sincere gratitude of the Board for their efforts.

Mike Evans
Chair

Statement under Section 172 of the Companies Act 2006

Any company's licence to operate is dependent on its relationships with a wide range of stakeholders – from its shareholders and customers, to its employees and those groups which represent the interests of wider society.

At M&G plc, the Board seeks to consider the interests of all our stakeholders when reaching decisions. Often, this will involve a detailed assessment of the effect on the relevant stakeholder groups.

Our considerations also include M&G's impact on the environment and our part in tackling climate risk, as well as how our activities affect the many communities we serve. We are always mindful of our reputation.

Throughout this report, you can find details of how the Board operates and the way we reach decisions. Below are links to more information on the matters discussed and debated during the course of the year.

Read more about:

- Our stakeholder groups on page 8
- Our business model and strategy on pages 10
- How the views and interests of all of our stakeholders were represented in the boardroom on pages 58 to 59
- How our governance processes have supported the delivery of our strategic objectives in 2019 on page 61

Helping people manage and grow their savings so they can live the life they want

Our 170-year history has been built on caring for our customers. Our purpose has remained the same throughout that time – to help millions of people to manage and grow their savings so that they can live the life they want.

Today, we serve more than 5 million savers in the UK through our Prudential business, and many more retail and institutional investors around the world under the M&G Investments brand.

Increasingly, our customers and clients are seeking savings and investment solutions from us; propositions designed to meet a specific outcome.

We provide them with advice, support and solutions through a range of formats, from PruFund which offers UK retail savers a smoothed return over time, through mutual funds and other pooled structures, to segregated and bespoke mandates.

Delivering long-term smoothed returns

For more than a century, we have been helping savers in the UK to smooth out the ups and downs of their investments through our With-Profits Fund.

At £143 billion of AUMA, our With-Profits Fund is the largest in the UK by some distance. Its portfolio of global assets aims to provide customers with steady, reliable returns over time.

The reliability of the Fund's returns is underpinned by three aspects of with-profits: the performance of the investments, the management of risk that comes with a diversified portfolio of assets and the smoothing process.

In 2020, the holders of traditional with-profits pensions and accumulating with-profits pensions and savings plans will typically see plan increases of between 10% and 12%, net of our management fees and expenses.

And over the 10 years to the end of 2019, the investment performance of the With-Profits Fund has beaten the FTSE 100 index of leading companies, delivering 115.7% before charges, compared with 104% from the index.

Today, new customers in the UK can invest in the With-Profits Fund through PruFund, our £54 billion range of savings propositions.

Making the world a little better along the way

As a leading provider of long-term savings, we play an important social and economic role in helping millions of people save for life's major events and supporting them financially through retirement.

We are also a major investor and steward of our customers' savings. Through the investment of their money, we aim to make the world a little better by channelling it into businesses, organisations and projects which seek to enrich society and contribute to economic growth.

As an important financial institution, we must also play our part in managing climate risk, as well as improving diversity and raising standards of governance in companies we invest in. To do so, we engage proactively with companies in which we invest and strive to lead by example.

As a new corporate entity, we have committed to reducing our own carbon emissions to net zero by 2030 and to achieving carbon net zero investment portfolios by 2050. We also aim to achieve 40% female representation in our leadership team by 2025 and 20% representation from those with ethnically diverse backgrounds by the same date.

Helping improve the UK's healthcare

M&G's funding for the redevelopment of Alder Hey Children's Hospital in Liverpool is a good example of how long-term investing can also help to make a positive impact on society.

When the Alder Hey NHS Children's Foundation Trust was in need of new facilities to match the expertise of its staff and to keep pace with modern developments in medicine, M&G was chosen to provide financing to help build the Trust's brand new hospital.

For our institutional clients, such as pension funds, Alder Hey is a 30-year investment backed by reliable cashflows. But for the children and staff at the hospital, it is much more than that. The children were given the opportunity to work with the designers and architects of the new building – ensuring that the space met their needs.

Market and industry trends

Structural changes in our chosen markets are driving demand for active, high-value savings and investment solutions

We aim to be the partner of choice for individual savers and institutional investors, both in the UK and internationally. That means supporting their financial needs throughout the different phases of their lives. Retirement is a key area of focus for many, but we want to help our customers in all their financial needs, whether they are saving to pay for college tuition or buy their first home.

The savings and investments market is large, with $21 trillion of assets in Europe alone, and is expected to increase rapidly in the coming years thanks to long-term economic and demographic trends. An ageing society and widening savings gap require people to think earlier and harder about how to manage and grow their savings, while large amounts of wealth still kept in cash indicate that there is ample room to improve their financial returns by optimising investment strategies.

Given the supportive macro-trends in the savings and investments market, we are optimistic about the growth trajectory of our business. Over the medium term, we plan to extend our geographic reach while broadening our range of propositions – to bring more of our expertise in savings and investments to more customers, in more markets.

Ageing society

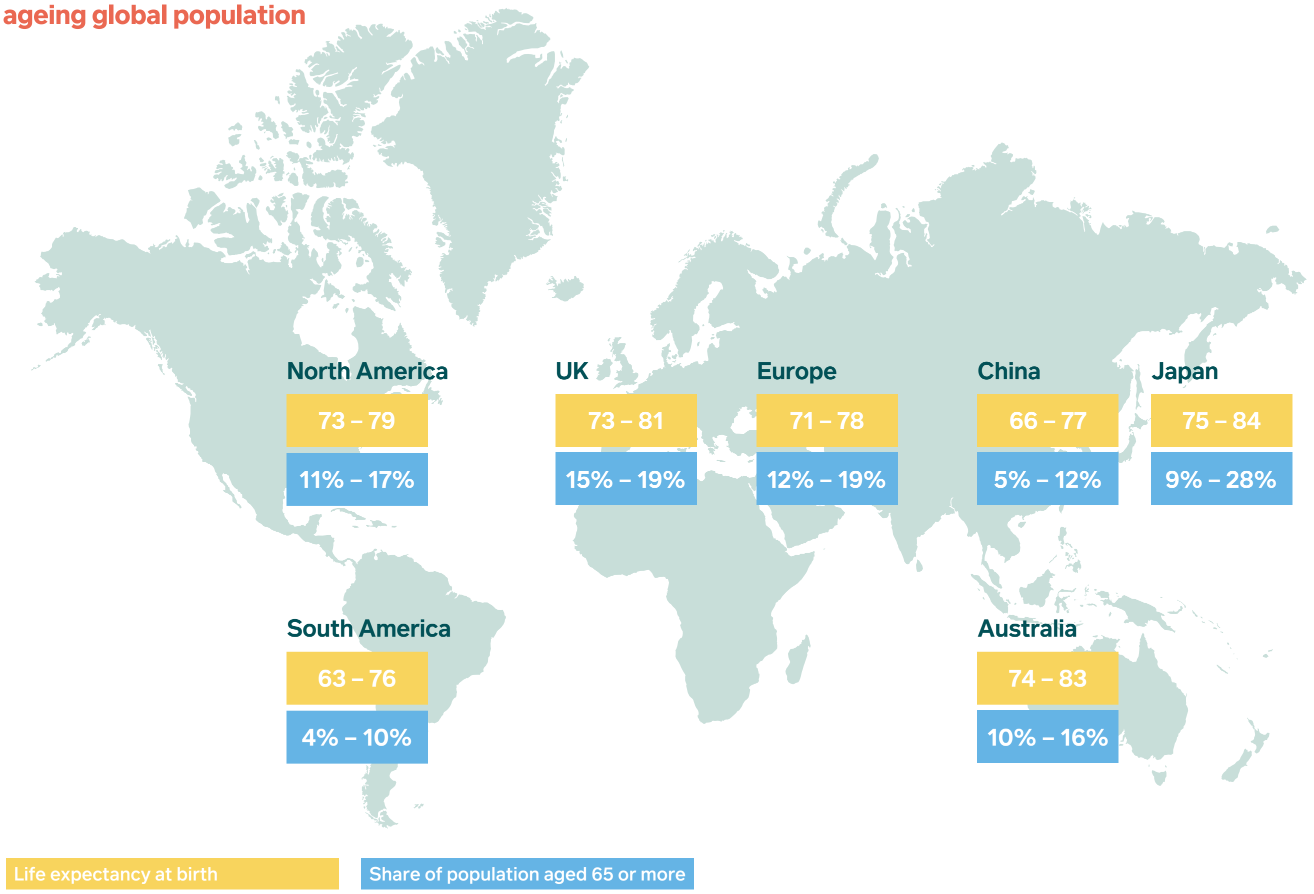
Life expectancy at birth has been increasing steadily over the recent past. In several European and Asian countries, medical improvements and reduced mortality rates have driven it up to 80 years and higher. As a consequence, the number of people aged 65 or over has increased, both in absolute terms and as a share of the total population.

These trends are expected to continue; in Europe, over the next 40 years, Eurostat forecasts the number of people aged 65 or over will grow by over 50 million, taking the total to 150 million, a number equivalent to around 30% of the overall population, up from the current 20%.

These are fundamental shifts reshaping our society and its needs.

Higher life expectancy requires us to save more as we face a longer retirement; at the same time, the increasing old-age dependency ratio (the balance of elderly versus working-age population) will reduce the resources available to governments to fund public pension schemes, leading some countries to defer the statutory retirement age.

An ageing global population



(change between 1980 and 2020) (change between 1980 and 2020)

Source: World Population Prospects 2019, United Nations.

Widening savings gap

Just as people have to save more to enjoy a comfortable life, governments are scaling back the help they provide through welfare benefits. The combination of greater need and reduced support results in a widening savings gap.

The World Economic Forum estimates that in the UK the savings gap stands at more than $8 trillion and is expected to increase fourfold by 2050. These numbers might seem high but they are hardly exceptional in the context of other large economies such as the US and Japan. These two countries have savings gaps of $28 and $11 trillion respectively, forecast to grow at a similar pace to the UK.

The size and growth of the savings gap are a real challenge for those who want to lead a comfortable life or seek peace of mind as they approach their retirement.

At present, the only real solution available to them is to start saving earlier, save more, and invest in assets that generate strong returns over time. People need to improve their understanding of their financial needs and of the propositions available to them. In doing so, they look for trusted partners that can help them meet their needs.

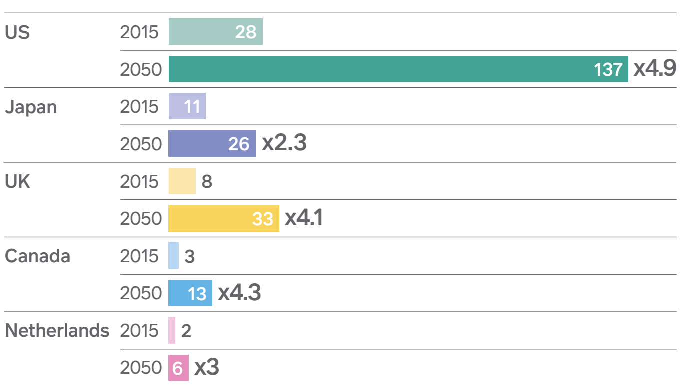
Large cash holdings

Despite the need to set aside enough money for a longer life and to close the savings gap, people still hold a large proportion of their wealth in cash. These cash deposits, earning very low returns, often reduce in real-value terms over time due to inflation.

In Europe there are over €11 trillion of deposits sitting idle in cash, of which €1.8 trillion is in the UK. The share of financial assets kept in cash varies country by country but is, in most cases, well above 20%, with peaks of 40 to 45% in Germany, Spain and Portugal.

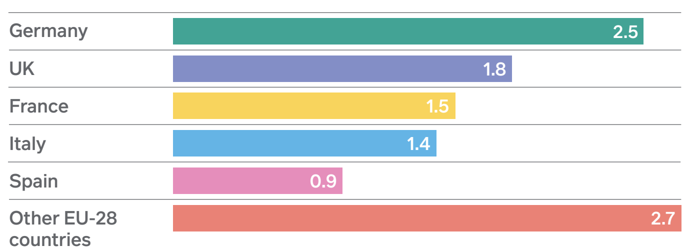
Getting cash to work and earn returns is a core element of any sound financial strategy. At the same time, delivering value to customers and society at large – through increasing long-term investment in businesses, schools, hospitals, housing and infrastructure – represents the single biggest growth opportunity for companies operating in the savings and investments market.

Growth in savings gap in the 2015 to 2050 period ($ trillion)



Source: Investing in (and for) Our Future, World Economic Forum, June 2019.

Cash deposit assets in Europe (2018, € trillion)



Source: Eurostat

How we put our purpose into action and our strategic objectives

Our vision

To be the best loved and most successful savings and investments business

Our purpose

To help people manage and grow their savings so they can live the life they want, while making the world a little better along the way

Our key stakeholders

Fulfilling our purpose relies on open and honest relationships with our stakeholders.

Customers and clients

We help manage and grow the savings of over 5 million customers, and of more than 800 institutional clients such as pension funds and insurers. We deliver high-quality services, drawing on the expertise of selected financial and technology business partners.

Colleagues

Our people bring a diverse range of skills and experiences to support our customers. Among them are hundreds of investment professionals and client relationship managers. While headquartered in London, UK, we have colleagues in 22 locations. We want M&G plc to be an exceptional place to work, and we promote a safe and inclusive environment.

Investors

We maintain a continuous dialogue with our current and prospective shareholders and credit investors across the main financial centres of the world. In addition, we regularly engage with sell-side analysts and credit rating agencies.

Communities and charities

We actively work to help tackle social challenges and support the communities in which we work. We establish long-term relationships with our charity partners to improve lives and build communities, supporting them with funding and the expertise of our colleagues.

Refer to page 58 for the full list of our stakeholders

Our core values underpin everything we do

Care

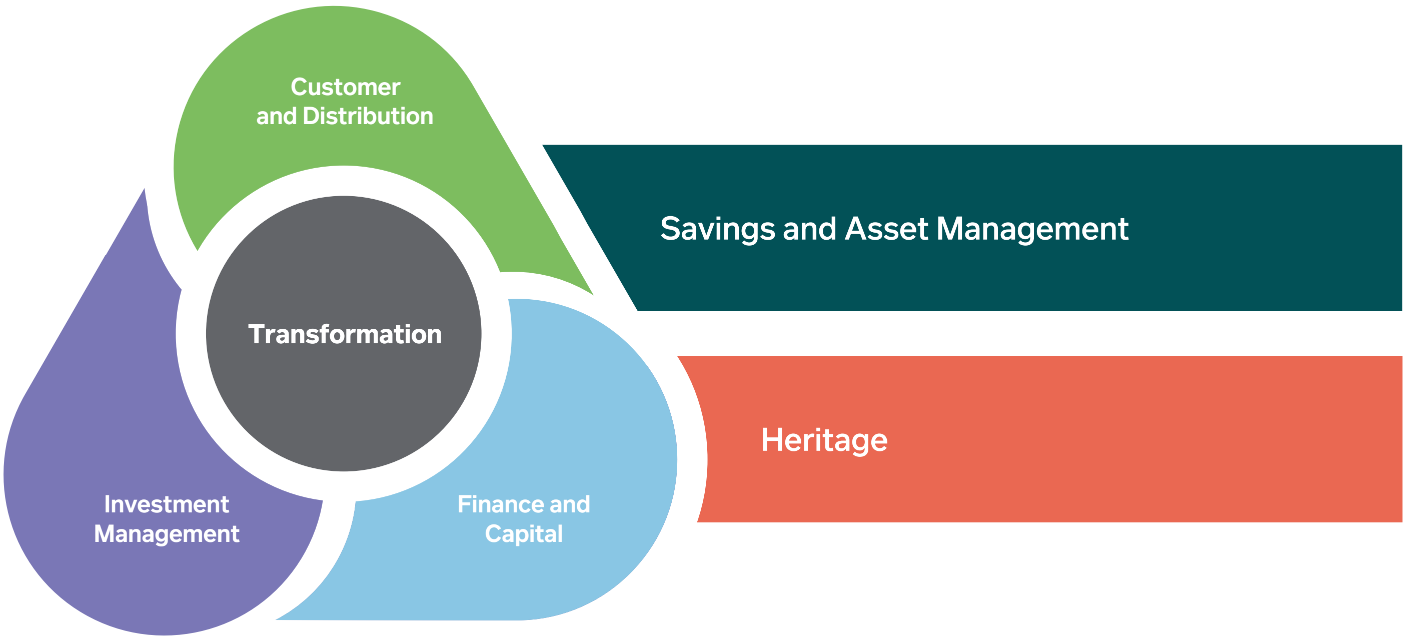
We act with care – treating customers, clients and colleagues with the same level of respect we would expect for ourselves. We also invest with care, making choices for the long-term.

Integrity

We empower our people to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we don't take that lightly.

Our organisation

Four components working together to deliver superior outcomes across our operating segments



Customer and Distribution

Develops our propositions and distributes our solutions, providing advice and guidance where needed.

Investment Management

Delivers our investment performance and develops our investment capability to create active high-value solutions for customers and clients.

Finance and Capital

Allocates resources as efficiently as possible to generate sustainable growing returns over time.

Transformation

Allows us to meet customer and client expectations in a modern, effective and efficient way.

Strategic objectives

- Broaden and digitise our proposition, extending our distribution capabilities both in the UK and internationally.
- Provide customers and clients with propositions that are easy to access, and that evolve as people's needs change over time.

- Build on the strength of our investment capabilities across public and private asset classes.
- Expand our range of active solutions, delivering specific outcomes and superior performance.
- Drive innovation in investment solutions building on insights from the asset manager and asset owner relationship.

- Achieve attractive and sustainable returns for our shareholders, through a combination of profitable growth and dividends.
- Retain appropriate financial strength and flexibility by being proactive and disciplined managers of capital.
- Target £2.2bn cumulative total capital generation for 2020-2022.

- Modernise our business to make it more customer-centric, resilient and efficient.
- Ensure we have strong operations that are scalable and can support future growth.
- Realise annual £145 million shareholder run-rate cost savings by end of 2022.

How our business model supports our purpose

Our purpose…

is to help people…

Customers and clients entrust us with their savings so that we can help them secure their long-term financial future.

…manage and grow their savings…

We cater to a wide range of financial needs, offering an array of savings and investment solutions, leveraging our best-in-class asset management capabilities.

…so they can live the life they want…

The solutions we provide meet customer and client needs as they evolve, so we can establish strong and deep relationships over time with the people we help.

…while making the world a little better along the way

We invest our customers' savings in ways that benefit society and the economy.

…which we deliver across both operating segments…

Savings and Asset Management

- We partner with financial intermediaries in the UK and internationally to provide relevant advice and innovative investment solutions.
- We offer these services through a comprehensive range of structures including mutual funds, smoothed funds, pooled and bespoke segregated mandates.
- We continually seek to improve the ease with which people interact with us by maximising our use of technology.

£474 million Adjusted operating profit
£216 billion Assets under management and administration

Heritage

- This segment, which is closed to new customers, includes retirement savers and other customers with long-term savings products that will be with us for many years to come.
- Traditional with-profits customers benefit from the same smoothing and investment capabilities offered to Savings and Asset Management customers.
- Our annuitants receive a regular retirement income as we carefully manage risks to deliver this outcome.

£752 million Adjusted operating profit
£134 billion Assets under management and administration

...through our comprehensive range of solutions...

Asset Management

As part of our asset management offering, we pool the savings of our customers and invest them across a global range of public and private assets, to generate long-term returns or deliver specific client outcomes.

Adjusted operating profit drivers
Customer fees net of operating expenses

With-Profits

Across both of our operating segments, we provide steady returns to customers by using the capital strength of our With-Profits Fund to smooth investment returns.

Adjusted operating profit drivers
Returns generated by our main With-Profits Fund are split 90% to policyholders and 10% to shareholders

Annuities

Within our Heritage business, we pool pension savings and invest them in assets which generate sustainable returns enabling us to provide customers with a regular lifetime income.

Adjusted operating profit drivers
Investment income, actual experience against actuarial assumptions, and management actions to optimise the portfolio

...to achieve strong outcomes for our key stakeholders

Customers and clients

- Innovative solutions that address their financial needs, with advice where needed
- Strong investment performance delivered through relevant propositions

Colleagues

- A great place to work
- Growth and talent development opportunities

Investors

- Sustainable, attractive returns
- Balance of profitable growth and dividends

Communities and charities

- Creation of wealth and jobs by investing in real estate, infrastructure and renewable energy
- Charitable giving and financial inclusion

Delivering on our strategy

In order to turn our vision into reality, we have set clear strategic objectives for each one of the four components of our organisation. We are starting 2020 with strong momentum after having achieved significant milestones over the course of 2019.

	Customer and Distribution	Investment Management
Strategic objectives	– Broaden and digitise our proposition, extending our distribution capabilities both in the UK and internationally. – Provide customers and clients with propositions that are easy to access, and that evolve as their needs change over time.	– Build on the strength of our investment capabilities across public and private asset classes. – Expand our range of active solutions, delivering specific outcomes and superior performance. – Drive innovation in investment solutions, building on insights from the asset manager and asset owner relationship.
Progress over the past 12 months	– Broadened our proposition with the new PruFolio range, including active, passive and smoothed solutions. – Launched, in early 2019, improved and modernised customer and adviser platforms for the UK market. – Added a self-employed model to our advice business, complementing the traditional employed one, to provide greater flexibility, and retain and attract talent.	– Strengthened our Public Asset capabilities by adding a specialised Asia Equity team. – Added Private Assets sourcing capacity in Asia and the US, allowing us to commit just under $1 billion to new investments. – Expanded our solutions offering with new ESG and Systematic Equity funds and broadened Real Estate proposition.
Priorities for the next 12 months	– Provide smoothed solutions to European customers and finalise distribution agreements with our core banking partners. – Refresh our UK retail proposition, reviewing our asset management offering and bringing all existing tax wrappers onto a single platform. – Design multi-credit solutions for institutional clients looking to partly outsource their portfolio management. – Strengthen our relationship with key global financial institutions.	– Further broaden our geographic coverage of Public Asset classes, Emerging Markets in particular. – Continue deployment of additional Private Asset sourcing capabilities in the US and Asia via local recruiting and transfers from London. – Identify value-adding opportunities to support innovation through deployments of internal funds. – Build on ESG capabilities, including an assessment of climate-related financial risk and opportunities.
Key performance indicators	**+8** **UK Net Promoter Score (Retail Savings and Heritage)** **4.5** **Complaints per 1,000 customers (Retail Savings and Heritage)** **8th** **Europe Fund Brand Ranking (Asset Management)**	**£352bn** **Total AUMA** **59%** **Retail mutual funds with 3-year performance in top 2 quartiles** **5.5%** **3-year annualised smoothed return to PruFund customers**

Finance and Capital

- Achieve attractive and sustainable returns for our shareholders, through a combination of profitable growth and dividends.
- Retain appropriate financial strength and flexibility by being proactive and disciplined managers of capital.
- Target £2.2bn total capital generation for 2020-2022.

- Demerged from Prudential plc, beginning our life as an independent company.
- Defined a new dividend policy, aiming to pay stable or increasing dividends over time. Interim dividends expected to be one-third of previous year's total dividend.
- Announced an ordinary dividend for 2019 of £310m and an additional, one-off, demerger-related dividend of £100m.
- Generated £1.5bn of capital supporting a strong shareholder Solvency II coverage ratio of 176%.

- Identify further levers for balance sheet optimisation and capital generation.
- Review the With-Profits strategy to fully leverage the current capital strength of the fund.
- Continue preparatory work for the implementation of IFRS 17, the new insurance accounting standard.

Transformation

- Modernise our business to make it more customer-centric, resilient and efficient.
- Ensure we have strong operations that are scalable and can support future growth.
- Realise annual £145 million shareholder run-rate cost savings by end of 2022.

- Launched a new digital account for our Retail Savings customers.
- Refreshed and improved resiliency of MyPru, the digital interface for over 4.5 million customers.
- Invested in modernising our IT infrastructure and systems.
- Began consolidating 14 back-office policy administration systems, successfully migrating the first and most complex one in October (accounting for c. 450,000 policies).

- Drive up digital adoption and coverage across customer and adviser journeys.
- Increase automation and efficiency across enterprise-wide processes and systems to support stronger controls.
- Continue consolidation of IT landscape onto a few, core, resilient platforms, and commence migration to the cloud, simplifying IT and operations while reducing running costs.

15.77p

Dividend per share to be paid in May 2020 (including one-off demerger-related dividend)

£1.5bn

Total capital generation

176%

Shareholder Solvency II coverage ratio

c. 30%

Run-rate shareholder cost savings achieved by 2019 (£145m target by end of 2022)

Well placed for long-term growth

A review of our achievements in 2019 and an outline of our plans for the future

A historic year

We have achieved much in 2019. We demonstrated clearly the value of our business mix and the quality of our diverse earnings against the backdrop of a challenging market.

In October, we demerged from our former parent Prudential plc and established ourselves as an independent business with a premium listing on the London Stock Exchange.

Our preparations for demerger required the establishment of new functions and new governance structures, including the appointment of the Board of Directors and the formation of its Committees.

We also created a new Executive Committee to implement M&G plc's strategy to meet the growing demand for active high-value savings and investment solutions, both in the UK and internationally.

At the same time, we continued to serve our customers and clients to a high standard, while introducing a number of new propositions and upgrading the service experience for retail savers and their advisers in the UK.

In our UK Retail Savings business, in January 2019 we launched PruFolio, a family of risk-oriented investment strategies for the customers of Independent Financial Advisers, and upgraded the MyPru digital service in April. Fund launches in Retail Asset Management included an environmental, social and governance (ESG) version of the M&G Emerging Markets Corporate Bond Fund.

Simultaneously, we made good progress on our five-year business transformation programme to improve customer outcomes and to strengthen our position for future growth. We are on track to achieve annual run-rate shareholder cost savings of £145 million from transformation by full year 2022. Notable achievements in 2019 included the successful transfer in October of our most complex life assurance administration system to Diligenta, the UK subsidiary of Tata Consultancy Services.

Challenges during the year included the intended legal transfer of £12 billion of assets and liabilities behind part of the Prudential annuity book to Rothesay Life plc. This was not sanctioned by the High Court in 2019 and an appeal is expected to be heard in mid-2020. M&G plc had already secured the economic value of the transfer through a reinsurance agreement with Rothesay in 2018, and this remains in place.

In December, we temporarily suspended dealing in the M&G Property Portfolio Fund following a period of sustained redemptions. The suspension allows the fund's managers to protect the interests of our customers by raising cash to meet redemptions without disposing of assets at below-market values.

We also paid a fine of £24 million to the Financial Conduct Authority for historical failings in our non-advised annuities business. We have largely completed the remediation on the relevant cases.

Positive financial performance in a challenging market

Financial performance in 2019 reflected the value of our unique business mix and the diversity of our earnings. IFRS profit after tax of £1,065 million and adjusted operating profit before tax of £1,149 million were in line with our expectations. Assets under management and administration are up 9% to £352 billion on the previous year.

Across Savings and Asset Management, net client outflows were modest at £1.3 billion. Outflows of £7.5 billion in Asset Management were largely offset by £6.2 billion inflows into our UK Retail Savings propositions, including PruFund.

Savings and Asset Management contributed £474 million to adjusted operating profit. Heritage, home to our traditional with-profits policies and annuities which is closed to new customers, contributed £752 million to adjusted operating profit, including a £126 million longevity release.

Investment performance picked up over the second half of the year, with 59% of our mutual funds weighted by assets under management delivering above median returns over the three years to the end of 2019.

From a capital perspective, the business remains strong with a shareholder Solvency II coverage ratio of 176%, up from 170% last year.

Total capital generated over the year was £1.5 billion which benefitted from strongly positive market impacts and management actions. We remain confident of meeting our three-year target of £2.2 billion capital generation by full year 2022.

Well positioned for growth

Our strategy at M&G plc is straightforward. It is to provide more of our active high-value investment solutions, to more customers and clients, in more markets, through a wider range of structures.

Key to this is the continued development and diversification of our investment capabilities. In line with this, in 2019 we hired a team of Asia Pacific fund managers and researchers to increase our capability in this important region.

We also strengthened our international asset origination teams to support the growth of our private assets business, placing private debt analysts in Asia. During the year we committed to just under $1 billion of new private asset investments in Asia and the US.

Improving the customer experience is also an important driver of growth. Whether our UK customers choose to deal with us directly or through an adviser, we are harnessing digital technology to make their lives easier. For example, the new and improved Digital Account allows UK savers to keep up to date with some of their Prudential products any time they want through their smart phones.

In Institutional Asset Management, we expanded our partnerships with clients. This increased coverage helped us to win 67 new institutional mandates in the UK and 47 in Europe.

Responsible stewards

For more than 170 years, we have been responsible stewards of our customers' savings, first as The Prudential Assurance Company Limited and since 1931 as M&G Investments. Throughout that time, the challenge has been the same – to balance the saver's requirement for good financial returns against the wider needs of society and the economy.

Many of our customers and clients now expect us to give explicit consideration to ESG issues when we deploy their savings. That is why we are embedding ESG into M&G plc – from the way we manage assets to how we operate as a business.

In asset management, we put the emphasis on engagement over exclusion. We will continue to work with the companies in which we invest to create sustainable businesses. However, we will consider disinvestment from companies which fail to engage.

On climate, our goal is to reduce the carbon emissions on our total book of assets under management and administration to net zero by 2050, in line with the Paris Agreement and the UK Government's target.

As a major employer with almost 6,000 employees in 22 locations around the world, we have our own part to play in managing climate risk. We are committed to reducing our own carbon emissions to net zero by 2030. We will achieve this through a new approach to travel, energy-efficient investment in our buildings and the adoption of new technology.

A great place to work

We want M&G plc to be an exceptional place to work, reflecting our corporate values of care and integrity. Central to that is creating a safe, inclusive and diverse working environment.

29% of the leadership team and their direct reports are female, while 11% come from ethnically diverse backgrounds. By 2025 or sooner, we aim to achieve 40% female representation among this group and 20% representation from ethnically diverse backgrounds.

For the communities we serve and the charities we support, we will continue to increase our donations and volunteering activity, year on year. Over the next three years, we aim to help a million people to secure their financial futures through our work with community and charity groups to break down some of the social barriers to economic wellbeing.

Our success is built on our people. So I want to take this opportunity to thank all of my colleagues at M&G plc for their hard work and commitment over 2019. With the merger of our two businesses and then demerger from Prudential plc, our business has undergone great change in the past two years. I am proud of how my colleagues have handled the challenge with professionalism and care.

Outlook

While the long-term outlook for savings and investments is positive because of the structural shifts in societies, the industry faces a number of challenges in the short term.

Global markets continue to be unnerved by a series of factors, including most recently the spread of COVID-19 and the potential economic impacts of it. There remains significant uncertainty. We are monitoring the situation and have made preparations to ensure we are able to continue to operate effectively. Further market turbulence could have an impact on our capital strength. As at 6 March 2020, our shareholder Solvency II coverage ratio was estimated at 166%[1], which remains firmly within our risk appetite.

Across the asset management industry, active managers continue to face pressure on profitability because of the popularity of passives and changes in the distribution landscape.

At M&G plc, we are rising to this challenge by restructuring costs and concentrating our resources on areas where client demand is rising and profit margins are resilient.

We will achieve a significant shift in our cost base through our five-year transformation programme. As part of this programme, we have launched a voluntary redundancy scheme with the aim of reducing total staff costs by 10% in 2020.

Our Executive team

Left to right: Keith Davies, Chief Risk and Resilience Officer; Roddy Thomson, Chief Operating Officer; Jonathan Daniels, Chief Investment Officer; Alan Porter, Group General Counsel and Company Secretary; David Macmillan, Chief Customer and Distribution Officer

Our Executive team

Left to right: Julian Adams, Director, Public Policy and Regulation; Clare Bousfield, Chief Financial Officer; John Foley, Chief Executive; Irene McDermott Brown, Chief Human Resource Officer; Graham Mason, Chief International Officer

On growth, we are focused on the provision of active high-value and innovative investment solutions for clients, both in the UK and internationally. Our ability to use our balance sheet to smooth investment returns for customers gives us a competitive advantage in this growing market.

In line with this, a priority in 2020 is to begin the distribution of a PruFund-like proposition through our partners in Europe. We are in advanced talks with a number of partners and we hope to see inflows commence during the second half of the year.

To support innovation in savings and investment solutions, we will continue to grow our private assets business. Our £60 billion of private assets play an important part in underpinning the reliability of returns from our diversified set of investment capabilities. More local origination of private assets in international markets is a priority for us.

The uniqueness of our business mix and the diversity of our earnings, which come through clearly in this set of results, position us well to grow in a changing market and deliver attractive and sustainable total returns for shareholders.

John Foley
Chief Executive

1. After an assumed recalculation of transitional measures on technical provisions.

A positive set of financial results in a challenging market

A review of our business and financial performance in 2019

I am very pleased with our first set of results as a listed entity. Our adjusted operating profit before tax of £1,149 million and total capital generation of £1,509 million for the year demonstrates the strength and resilience of the business and were in line with our expectation for 2019. Being an asset owner and asset manager enables us to produce consistent underlying returns even in tough market conditions.

Total assets under management and administration grew over the year, primarily driven by strong investment returns. We experienced net client outflows driven by global political and macro-economic uncertainty, particularly across Europe.

2019 was a transitional year as we optimised the balance sheet for demerger. Total capital generation of £1,509 million reflected a strong underlying capital generation as well as benefitting from management actions, assumption changes and model improvements of £455 million and favourable market impacts of £538 million. In September we announced a cumulative total capital generation target of £2.2 billion over the three-year period from 2020 to 2022. We believe this is a realistic and achievable, yet stretching, target.

Our shareholder Solvency II coverage ratio increased from 170% to 176% over the year, a comfortable level and well within our risk appetite.

Our With-Profits Fund has a strong Solvency II coverage ratio at 31 December 2019 of 267%, up from 231% as at 31 December 2018. We plan to pay out £1 billion of the excess surplus in the fund to our with-profits policyholders over the coming years. During 2020, we are reviewing the overall strategy of the fund recognising this strength and the opportunity to develop our broader proposition and ultimately drive strong long-term returns for our customers.

2019 was a significant year for us as a business. We continued to make progress on our five-year transformation programme, while completing the demerger from Prudential plc and listing on the London Stock Exchange. We are on track to deliver the £145 million of annual run-rate shareholder cost savings by end of 2022. The priorities of this programme are to improve customer outcomes, strengthen the control environment, improve the efficiency and structure of our cost base, and to create a platform for scalable growth.

The following pages provide further information on our financial performance.

Clare Bousfield
Chief Financial Officer

Performance summary

Financial measures from continuing operations used to manage Group performance

Adjusted operating profit before tax KPM APM

£1,149 million

2018: £1,621 million

Adjusted operating profit before tax demonstrates the strength and resilience of our business and was in line with our expectations. A reduction in our Heritage business was due to an insurance recovery in 2018 relating to the remediation costs arising from the Financial Conduct Authority (FCA) review of past annuity sales and a reduced benefit from longevity assumption changes.

£bn	2019	2018
Savings and Asset Management	474	468
Heritage	752	1,165
Corporate centre	(77)	(12)

IFRS profit after tax KPM

£1,065 million

2018: £811 million

IFRS profit after tax attributable to equity holders increased by 31% year on year, reflecting the fall in adjusted operating profit which was offset by a profit from non-recurring items. The profit was mainly attributable to gains from short-term fluctuations in investment returns and a £53m rebate in relation to the reinsurance of a part of the annuity portfolio to Rothesay Life offsetting a portion of the loss on the original reinsurance transaction in 2018.

For further information on adjusting items see the segmental analysis, note 3 of the notes to the consolidated financial statements.

£m	2019	2018
Adjusted operating profit before tax	1,149	1,621
Short-term fluctuations in investment returns	298	(3)
Profit/(loss) on disposal of business & corporate transactions	53	(508)
Restructuring and other costs	(198)	(109)
IFRS profit attributable to non-controlling interests	3	2
Profit before tax attributable to equity holders	1,305	1,003
Tax charge attributable to equity holders	(240)	(192)
Profit after tax attributable to equity holders	1,065	811

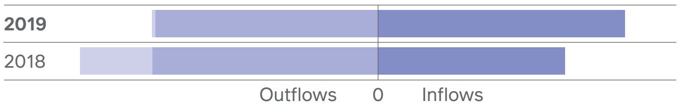
Savings and Asset Management net client outflows KPM

£1.3 billion

2018: £1.7 billion

Net client flows were challenged, driven by retail investor sentiment, primarily reflecting macro-economic and political uncertainty.

We continued to see strong net client flows into our PruFund proposition, despite the contraction in defined benefit pension transfers across the industry.



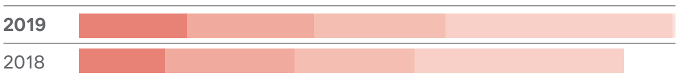
Savings and Asset Management (£bn)	2019	2018
Retail Savings	6.2	8.2
Retail Asset Management	(7.4)	(7.5)
Institutional Asset Management	(0.1)	(2.4)

Assets under management and administration KPM

£352 billion

2018: £321 billion

AUMA was up 9%, mainly a function of positive market developments, with the FTSE All Share up 14% over the year, and the inclusion of the reinsurance assets with Rothesay Life, which were previously held for sale and excluded from AUMA. These were offset by net client outflows during the year.



Savings and Asset Management (£bn)	2019	2018
Retail Savings	63.5	50.6
Retail Asset Management	74.9	76.4
Institutional Asset Management	76.8	70.5
Other	0.7	0.2
Heritage	134.0	123.5
Corporate	1.6	–

KPM Key performance measure   APM Alternative performance measure

For further information on the Group's key performance measures and alternative performance measures, see the supplementary information on pages 239 to 250.

Operating capital generation before tax KPM

£1,276 million

2018: £1,842 million

Underlying capital generation decreased to £821m (2018: £900m), primarily due to the costs associated with the planned build-out of the corporate centre and interest costs on debt transferred from Prudential plc in October 2019. Other operating capital generation was lower due to a reduced contribution from management actions, assumption changes and model improvements in 2019.

£bn	2019	2018
Savings and Asset Management underlying	**442**	389
Heritage underlying	**459**	523
Corporate centre underlying	**(80)**	(12)
Other operating capital generation	**455**	942

Total capital generation KPM

£1,509 million

2018: £2,369 million

Total capital generation was strong in 2019; while operating capital generation decreased there was a £538m contribution from favourable market movements. The 2018 result included a one-off £923m gain arising from the reinsurance of part of the annuity portfolio to Rothesay Life.

£m	2019	2018
Operating capital generation	**1,276**	1,842
Market movements	**538**	12
Restructuring and other movements	**(133)**	814
Tax	**(172)**	(299)
Total capital generation	**1,509**	2,369

Capital position

Surplus[1]

£4.5bn

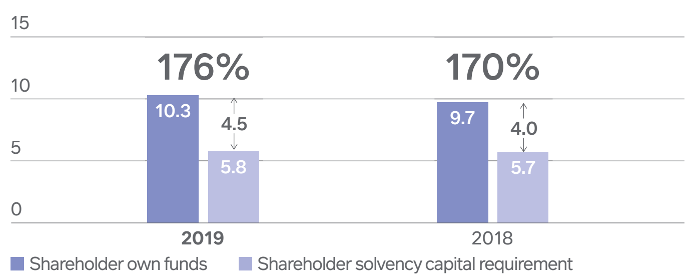
2018: £4.0bn

Shareholder coverage ratio[1] KPM APM

176%

2018: 170%

The Group's Solvency II surplus increased, in line with total capital generated partially offset by dividends and capital movements during the period.



Dividend per share to be paid in May 2020 KPM

Ordinary:

11.92p

Special:

3.85p

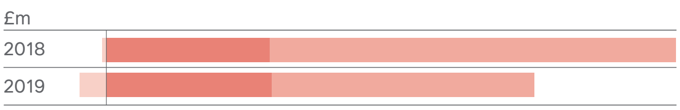
The Board has agreed to pay an ordinary and special dividend. This will be paid on 29 May 2020.

1. Unaudited.

Overview

Adjusted operating profit before tax

The following chart shows adjusted operating profit before tax split by operating segment:



£m	2019	2018
Savings and Asset Management	**474**	468
Heritage	**752**	1,165
Corporate Centre	**(77)**	(12)
Adjusted operating profit before tax	**1,149**	1,621

Adjusted operating profit before tax was lower than the prior year, primarily reflecting a reduction in shareholder annuity margin compared to 2018, which benefitted from a significant longevity assumption change of £441 million and a £166 million insurance recovery from our professional indemnity insurers in respect of the remediation costs arising from the FCA's review of past annuity sales.

Savings and Asset Management adjusted operating profit before tax benefitted from the strong investment returns in the year on our seed capital investments. In 2018, there was a one-off business development cost of £56 million related to our business in Poland. Asset Management earnings were lower than 2018, driven by the net client outflows of our Retail Asset Management clients.

Corporate Centre included operating costs of £75 million, in line with the planned build-out of the head office, and finance costs of £29 million, relating to the subordinated debt transferred to M&G plc from Prudential plc in October 2019, immediately prior to demerger. These were partially offset by investment and other income of £27 million.

The table below shows an analysis of adjusted operating profit before tax:

£m	2019	2018
Asset Management fee based revenues	**1,033**	1,113
Other fee based revenues	**254**	241
Total fee based revenues	**1,287**	1,354
Annuity margin	**458**	1,129
With-profits shareholder transfer net of hedging gains/(losses)	**242**	255
Adjusted operating income	**1,987**	2,738
Asset Management adjusted operating expenses	**(652)**	(640)
Other adjusted operating expenses	**(311)**	(277)
Adjusted operating expenses	**(963)**	(917)
Other shareholder profit/(loss)	**110**	(216)
Share of profit from joint ventures and associates	**15**	16
Adjusted operating profit before tax	**1,149**	1,621

Fee based revenues were impacted by lower average AUMA of £267 billion (2018: £278 billion) in Asset Management and a lower average fee margin in Retail Asset Management.

Adjusted operating expenses were higher, reflecting increased Corporate Centre costs, required for the Group to operate as an independent publicly listed company, and increased staff costs predominantly relating to investment management teams. A focus on costs will remain a key priority. Our five-year transformation programme will deliver greater efficiency and an improved cost structure, enabling future scalable growth.

Other shareholder profit/(loss) primarily related to releases of insurance reserves, as we complete the reviews of a number of legacy remediation programmes, and investment income on our seed capital investments. The prior year included the £56 million one-off cost relating to Poland, the cost of the reserves in respect of equalising guaranteed minimum pensions of £55 million, and a £34 million one-off shareholder contribution to the with-profits corporate pension business.

IFRS profit after tax

IFRS profit after tax attributable to equity holders from continuing operations increased to £1,065 million compared to £811 million for 2018 reflecting the fall in adjusted operating profit before tax, profit from non-recurring items of £153 million compared to a loss in 2018 of £620 million and an increase in the equity holders tax charge to £240 million from £192 million in 2018.

Profit from non-recurring items included short-term fluctuations in investment return and a rebate in relation to the reinsurance of the annuity portfolio to Rothesay Life plc offset by an increase in merger, transformation, re-branding and other change in control costs. In 2018 the loss from non-recurring items was predominantly due to the loss on the reinsurance transaction with Rothesay Life plc and merger and transformation costs.

Equity holders effective tax rate for 2019 was 18.4% compared to 19.1% for 2018. Excluding non-recurring items, the equity holders effective tax rate was 20.2% (2018: 20.2%). This was higher than the UK statutory rate of 19% (2018: 19%), primarily due to expenses that are non-deductible for UK corporation tax purposes. The Group's approach to tax is to act responsibly and transparently in all of our tax affairs. We understand the importance to governments and societies of paying the right amount of tax at the right time in the right place. The Group complies with statutory obligations in all the jurisdictions in which we operate and seeks to have an open and effective relationship with tax authorities.

Capital generation

The following table shows an analysis of total capital generation:

£m	2019	2018
Savings and Asset Management underlying	**442**	389
Heritage underlying	**459**	523
Corporate Centre underlying	**(80)**	(12)
Underlying capital generation	**821**	900
Other operating capital generation	**455**	942
Operating capital generation	**1,276**	1,842
Market movements	**538**	12
Restructuring and other	**(133)**	814
Tax	**(172)**	(299)
Total capital generation	**1,509**	2,369

Total capital generation is the change in the Group's Solvency II surplus before dividend payments, capital movements and capital generated from discontinued operations. It is the keystone of our financial plans and underpins our dividend policy. We analyse total capital generation by the following components:

- Underlying capital generation, which includes the expected surplus capital from the life insurance business, the adjusted operating profit before tax and associated capital movements from Asset Management, and other items including head office expenses and debt interest costs.
- Operating capital generation, which is composed of underlying capital generation and other operating items, such as the impact of management actions, assumption changes and model improvements.
- Total capital generation, which includes operating capital generation, the impact of market movements relative to those expected under long-term assumptions, other non-recurring items such as shareholder restructuring and other costs, and the impact of tax.

Total capital generation was strong in the year at £1,509 million (2018: £2,369 million). Underlying capital generation decreased to £821 million (2018: £900 million), primarily due to the costs associated with the planned build-out of the Corporate Centre and interest costs on debt transferred from Prudential plc in October 2019. Other operating capital generation was lower due to a series of substantial positive items within the 2018 results, such as longevity assumption changes and an insurance recovery in respect of the remediation costs arising from the FCA's review of past annuity sales. In 2019, however, there were still significant contributions, including £171 million from continued asset optimisation, £98 million from model improvements, and £214 million from assumption changes, including further updates to longevity. In addition there was a benefit arising from favourable market movements during 2019 of £538 million (2018: £12 million). The 2018 results included a one-off £923 million gain on the reinsurance of part of our annuity portfolio to Rothesay Life plc, included within 'Restructuring and other'.

Capital position

The Group's Solvency II surplus increased to £4.5 billion as at 31 December 2019 (2018: £4.0 billion), equivalent to a shareholder Solvency II coverage ratio of 176% (2018: 170%), reflecting the total capital generation of £1,509 million and capital generated from discontinued operations of £158 million, offset by £1,211 million of dividends and capital movements during the year. The Group's shareholder Solvency II coverage ratio is the key metric we use to manage our capital.

Our With-Profits Fund is a key part of our proposition and our ongoing development. It delivers long-term smoothed returns to our customers and is the foundation of the highly successful PruFund. The capitalisation of the fund has continued to strengthen, and as at 31 December 2019, the ring-fenced With-Profits Fund's Solvency II surplus was £7.6 billion (2018: £5.5 billion), equivalent to a Solvency II coverage ratio of 267% (2018: 231%).

The regulatory Solvency II coverage ratio of the Group as at 31 December 2019, which takes into account all Group exposures, including that of the With-Profits Fund, was 143% (2018: 141%).

Financing and liquidity

The following table shows key financing and liquidity information:

£m	At 31 December 2019	At 31 December 2018
Parent Company cash and liquid assets	**1,274**	18
Nominal value of debt	**3,227**	–
Leverage ratio	**31%**	n/a

The key metric we use to manage our debt is the leverage ratio, defined as nominal value of debt as a percentage of total Group own funds.

The increase in the nominal value of debt reflects the transfer of £3.2 billion of subordinated debt from Prudential plc to M&G plc in the period immediately before demerger. Our leverage ratio at 31 December 2019 was 31%.

The following table shows the movement in cash and liquid assets held by the Parent Company during the year:

£m	2019
Opening cash and liquid assets at 1 January	18
Cash remittances from subsidiaries	477
Special dividends from subsidiaries	1,177
Substitution of subordinated liabilities	3,241
Corporate costs	(37)
Interest paid on core structural borrowings	(22)
Cash dividends paid to equity holders	(543)
Final dividend paid to equity holders prior to demerger	(2,968)
Acquisition of subsidiaries	(86)
Other shareholder income	17
Closing cash and liquid assets at 31 December[1]	**1,274**

1. Closing cash and liquid assets at 31 December 2019, included a £1,200 million inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function.

Cash received by the Parent Company included remittances of £477 million from our subsidiaries in the normal course of business and special dividends of £1,177 million, of which £1,083 million was received from The Prudential Assurance Company Limited. In addition a £3,241 million consideration was paid by Prudential plc to M&G plc in respect of the pre-demerger debt substitution. Cash received was used to meet head office costs, to acquire two subsidiaries from Prudential plc, and to pay dividends to Prudential plc during the year, including a pre-demerger dividend of £2,968 million.

Dividends

As announced at the time of demerger an Ordinary Dividend of 11.92 pence per share will be paid on 29 May 2020. Consistent with our dividend policy the expected 2019 Ordinary Dividend is broadly two thirds of the amount that the Board would have anticipated paying in respect of the full year 2019 as a standalone business.

The Board is also recommending paying a one-off demerger-related special dividend of 3.85 pence per share. This is in recognition that for the majority of the 2019 financial year, the Company was operating without incurring certain costs, eg debt interest costs, which it would expect to bear in future and which have been allowed for in determining the initial level of ordinary dividend. This will also be paid on 29 May 2020.

M&G plc Investor and Analyst Conference, 27 September 2019

Savings and Asset Management

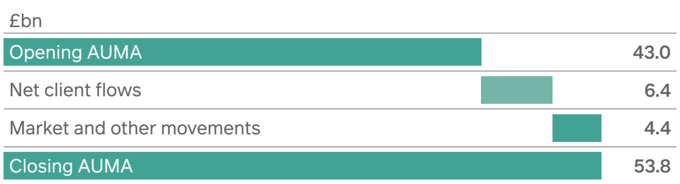
In Savings and Asset Management, Retail Savings has continued to perform strongly, reflecting the continued success of our PruFund proposition. Institutional Asset Management has shown a resilient performance, with broadly neutral net client flows. The performance of Retail Asset Management was muted by the challenging environment, which is impacting the industry.

Assets under management and administration and net client flows

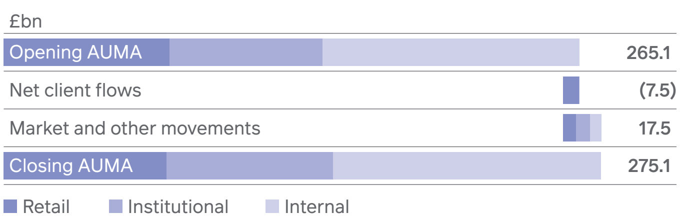
Total Retail Savings net client flows were £6.2 billion (2018: £8.2 billion), mainly reflecting continued strong net client inflows into our PruFund proposition. Despite the contraction in the defined benefit pension transfers across the industry, net client inflows into our pension proposition were £4.1 billion (2018: £6.1 billion). Net client inflows into our Bond and ISA products were £1.4 billion (2018: £1.5 billion) and £0.9 billion (2018: £1.1 billion) respectively.

The strong net client inflows of £6.4 billion into PruFund combined with the strong investment performance of £4.4 billion increased PruFund AUMA by 25% from £43.0 billion to £53.8 billion as at 31 December 2019.

The following chart shows an analysis of PruFund AUMA:



The following chart shows an analysis of Asset Management AUMA:



In the Retail Asset Management business AUMA decreased 2% to £74.9 billion over the year, with favourable market movements more than offset by net client outflows during the year. Average AUMA was 12% lower than 2018, including internally managed assets, impacting fee based revenues. The business saw net client outflows of £7.4 billion (2018: £7.5 billion outflow), driven by investor confidence, which was weakened by macro-economic and political uncertainty. Overall investment performance was strong, particularly over the medium term. However, there were a small number of funds where performance was weaker than we would like. Improving investment performance is a management priority and we are implementing a series of actions, including independent fund assessment and capability build. We are also working on a number of initiatives in the Retail Asset Management business to diversify and increase client flows, including developing outcome-focused investment solutions and continuing to expand our sub-advisory capability.

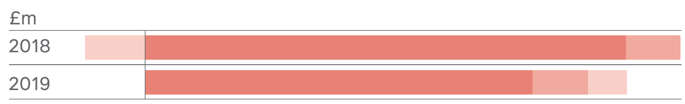
In the Institutional Asset Management business AUMA increased 9% to £76.8 billion over the year, reflecting favourable market movements. On average AUMA was 2% higher than 2018, including internally managed assets. Institutional Asset Management saw net client outflows of £0.1 billion, which included a large low-margin outflow of £1.6 billion in the first half of the year. Net client flows in the second half of the year were positive.

An important component of our investment capability is our expertise in private assets, which range from real estate and private debt into infrastructure, and represent a resilient, high-margin source of revenues. Our private assets under management increased 7% to £60.3 billion of AUMA as at 31 December 2019.

Adjusted operating profit before tax

The main sources of adjusted operating profit before tax in the Savings and Asset Management segment are the earnings from Asset Management and the shareholders' share of the returns from the PruFund range.

The following chart shows adjusted operating profit before tax split by source of earnings:



£m	2019	2018
Asset management	**381**	473
With-Profits	**55**	54
Other	**38**	(59)
Adjusted operating profit before tax	**474**	468

The following table shows an analysis of adjusted operating profit before tax:

£m	2019	2018
Asset Management fee based revenues	**1,033**	1,113
Other fee based revenues	**158**	145
Total fee based revenues	**1,191**	1,258
With-profits shareholder transfer net of hedging gains/(losses)	**55**	54
Adjusted operating income	**1,246**	1,312
Asset Management adjusted operating expenses	**(652)**	(640)
Other adjusted operating expenses	**(165)**	(139)
Adjusted operating expenses	**(817)**	(779)
Other shareholder profit/(loss)	**30**	(81)
Share of profit from joint ventures and associates	**15**	16
Adjusted operating profit before tax	**474**	468

The with-profits shareholder transfer, which was driven by PruFund, increased by 9% to £73 million (2018: £67 million), before taking account of the fair value losses on the derivative instruments, used to mitigate the equity risk to the shareholder of £18 million (2018: £13 million loss). This strong growth reflects the rapid increase in the size of the book and the economics of with-profits business where the shareholder earns its return when customers access their savings and related returns.

Adjusted operating profit before tax from our Asset Management activities decreased to £381 million (2018: £473 million). The lower year-on-year average AUMA in Retail Asset Management resulted in lower Asset Management fees of £1,033 million (2018: £1,113 million). Adjusted operating expenses from Asset Management were £652 million (2018: £640 million), with the increase mainly resulting from higher staff costs, primarily related to our investment management activities, and increased premises costs, partly offset by a £35 million past service credit following changes to the M&G defined benefit pension scheme. Consequently the cost/income ratio in the Asset Management business was higher at 63% (2018: 59%). Higher other adjusted operating expenses were mainly a result of increased expenses in our financial advice business, Prudential Financial Planning, reflecting its strong growth in the year.

Other shareholder profit/(loss) in 2019 primarily related to investment income of £25 million (2018: £17 million loss) mainly in respect of our seed capital investments. Other shareholder profit/(loss) in 2018 also included a one-off cost of £56 million related to the development of our business in Poland.

The Asset Management fee margin was 2 basis points (bps) lower compared to the prior year at 38bps. This reflected the industry wide pressure on fees in Retail Asset Management because of the popularity of passives and changes in the distribution landscape. Revenue margins in the Institutional Asset Management business were higher than the prior year, reflecting our focus on the provision of high-value, innovative investment solutions for clients, which has changed our product mix, with net client flows out of our lower margin products and into these more specialised, higher margin solutions.

Asset Management cost/income ratio

63% **(2018: 59%)**

Asset Management average fee margin

38bps **(2018: 40bps)**

Capital generation

The following table shows an analysis of operating capital generation:

£m	2019	2018
Asset management	**379**	397
With-profits	**–**	(25)
of which: in-force	**61**	27
of which: new business	**(61)**	(52)
Other underlying	**63**	17
Underlying capital generation	**442**	389
Other operating capital generation	**17**	56
Operating capital generation	**459**	445

Underlying capital generation increased to £442 million (2018: £389 million). Underlying capital generated in the Asset Management business was broadly equivalent to adjusted operating profit before tax. The underlying capital generation from the with-profits in-force business of £61 million, which included a negative impact of £38 million due to the run-off of equity hedges, was offset by the capital strain from new business of £61 million.

We enhanced the methodology for allocating the underlying capital generation between PruFund and traditional with-profits business to better reflect the drivers of expected return on this business. This methodology change has resulted in an increase in the underlying capital generation being recognised in Savings and Asset Management, with a corresponding reduction in Heritage underlying capital generation. The improvement in other underlying capital generation was driven by strong investment income on seed capital in the year.

Other operating capital generation included a £38 million positive impact from new hedges, corresponding with the negative impact of the run-off of equity hedges included in underlying capital generation.

Heritage

In the Heritage segment, the main sources of earnings are the shareholders' share of returns from traditional with-profits business and profit from shareholder annuities. Both of these books are closed to new customers, but have long run-off profiles and are expected to provide a stable and predictable source of earnings for a number of years in normal financial market conditions.

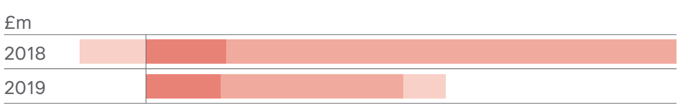
Assets under management and administration and net client flows

AUMA in the traditional Heritage with-profits business was broadly flat at £84.8 billion (2018: £84.6 billion), reflecting the strong investment performance of the With-Profits Fund, offset by net client outflows of £5.1 billion (2018: £5.3 billion net outflow) as customers accessed their savings and investments.

AUMA in the annuity book grew to £35.5 billion (2018: £24.9 billion), primarily reflecting the inclusion of the reinsurance assets from Rothesay Life plc. These assets were 'held for sale' prior to the High Court's decision not to sanction the Part VII transfer of the policyholder liabilities to Rothesay Life plc, and so were excluded from AUMA in 2018. Net client outflows in the shareholder annuity business were £2.1 billion (2018: £1.3 billion net outflow).

Adjusted operating profit before tax

The following chart shows adjusted operating profit before tax split by source of earnings:



£m	2019	2018
With-profits	187	201
Shareholder annuities	458	1,129
Other	107	(165)
Adjusted operating profit before tax	752	1,165

The following table shows an analysis of adjusted operating profit before tax:

£m	2019	2018
Fee based revenues	**96**	96
Annuity margin	**458**	1,129
With-profits shareholder transfer net of hedging gains/(losses)	**187**	201
Adjusted operating income	**741**	1,426
Adjusted operating expenses	**(87)**	(125)
Other shareholder profit/(loss)	**98**	(136)
Adjusted operating profit before tax	**752**	1,165

The earnings generated from the shareholder transfer remained broadly stable at £251 million (2018: £253 million), before taking account of the fair value losses on the derivative instruments used to mitigate the equity risk to shareholders of £64 million (2018: £52 million loss).

The following table provides further analysis of the annuity margin:

£m	2019	2018
Return on excess assets and margin release	**216**	251
Asset trading and other optimisation	**110**	113
Longevity assumption changes	**126**	441
Amounts related to the thematic review of annuity sales practices	**(24)**	166
Other	**30**	158
Annuity margin	**458**	1,129

Recurring sources of earnings from the annuity book, primarily the return on assets held to back capital requirements and the release of the margins in respect of credit risk, mortality and expenses, decreased by 14% to £216 million (2018: £251 million). The decrease was mainly due to lower excess assets of the annuity portfolio following the special dividend from The Prudential Assurance Company (PAC), and decreasing bond yields during the year.

The incremental contribution from management actions, assumption changes, and other impacts for this business was lower than 2018. In 2019 we delivered £110 million of adjusted operating profit before tax from annuity asset trading, and a £126 million positive impact from updating the longevity assumptions from CMI16 to CMI17. The 'other' category included a beneficial impact due to the release of short-term credit default reserves during the year.

In September 2019, we were fined £24 million by the FCA in respect of the thematic review of annuity sales practices. This review is now largely complete. In 2018 we had a £166 million recovery from our insurers in relation to the thematic review.

Adjusted operating expenses included a £29 million one-off benefit resulting from agreed changes to the Scottish Amicable Staff defined benefit pension scheme. Other shareholder profit/(loss) in 2019 primarily related to insurance reserve releases, as we complete the reviews of a number of legacy remediation programmes. The prior year included the cost of the provision in respect of equalising guaranteed minimum pensions of £55 million, and £34 million in respect of a one-off shareholder contribution to the with-profits corporate pension business.

Capital generation

The following table shows an analysis of operating capital generation:

£m	2019	2018
With-profits underlying	**71**	152
Shareholder annuity and other underlying	**388**	371
Underlying capital generation	**459**	523
Model improvements	**142**	207
Assumption changes	**207**	511
Management actions	**167**	330
Other incl. experience variances	**1**	(153)
Other operating capital generation	**517**	895
Operating capital generation	**976**	1,418

Heritage with-profits generated underlying capital of £71 million (2018: £152 million), driven by the expected growth under real-world return assumptions. This amount included the negative impact from the run-off of the equity hedge of £42 million, which was offset by a capital benefit of the same amount from new equity hedges, included in other operating capital generation. Underlying capital generation also benefitted from the enhancement of the methodology for with-profits capital generation explained in the Savings and Asset Management section of this report.

Similarly, there continued to be significant capital generation from the shareholder annuity and other business, with underlying capital generation of £388 million (2018: £371 million). Underlying capital generation of annuities is driven by the expected returns on assets backing the capital requirements, and the release of credit reserves and Solvency Capital Requirements. These provide a stable source of capital generation as the business runs off.

Other operating capital generation was lower at £517 million (2018: £895 million), mainly due to the impact of management actions and assumption changes, which were higher in 2018 than 2019. There were still significant benefits arising in 2019, including reserve releases emerging from longevity assumption changes of £105 million, expense assumption changes of £88 million, model improvements of £142 million, and annuity asset trading of £171 million. These benefits were offset by the £24 million fine from the FCA relating to its review of past annuity sales practices, and a £44 million increase in the Solvency Capital Requirement, due to increased equity exposures within the With-Profits Fund.

Viability statement

Assessment of prospects

Context of the assessment

The Group has been a leading company in savings and investments for more than 170 years and our business model is focused on helping people to manage and grow their savings so that they can live the life they want. Our strategy and business model are central in gaining an understanding of our prospects, and these are described in detail on pages 8 to 9 and 10 to 11. As a newly listed company we see a unique opportunity to grow our business, both in the UK and internationally, drawing on our diversified range of investment and capital management capabilities to provide customers and clients with solutions to their long-term financial needs.

Our strategy is underpinned by the Group's Risk Management Framework, which is designed to manage risk within agreed appetite levels, delivering for our customers and shareholders. This is described on pages 38 to 43, along with the principal risks and uncertainties faced by the Group.

Our approach to maintaining strong relationships with wider stakeholders in areas such environmental, social and governance could impact the Group's potential in the future is detailed on pages 27 to 37.

Together these elements support the sustainability of our business over the longer term.

The assessment process and key assumptions

The primary method of assessing the Group's prospects is through the strategic planning process. This includes an annual review of the business plan, led by management, incorporating input from across the business with the Board playing a key part. The focus in the current year was linked to demerger and the establishment of M&G plc as an independent listed company. A robust assessment has been performed for a period of three years to 31 December 2022, as this represents the period covered by the ongoing strategic planning process. Projected performance is considered with regards to profitability, capital generation and liquidity over the three-year period. The plan and projections are based on a number of assumptions including financial variables such as interest rates, economic growth, demographic assumptions, revenues and expenses.

Assessment of viability

The strategic plan represents the Directors' best assessment of the future prospects of the business, however, they have also tested the potential impact of a number of differing scenarios on the plan which represent severe but plausible conditions, reflective of the principal risks identified such as economic scenarios covering market, credit and longevity changes in customer behaviour and the impact on the business from Brexit. These included individual scenarios over key economic and insurance risks, as well as a combined scenario calibrated to a circa 1-in-10 year severity. Each scenario was also considered in the context of actions that could be available to the Group to mitigate or reduce the impact.

In addition, reverse stress tests have been conducted, flexing assumptions to highlight scenarios which could lead to the failure of the business model. The stresses identified are, with the combinations of events required, remote such that they are not considered to affect the Directors' expectations of the Group's longer-term viability over the three-year period.

Viability statement

Based on the assessment of prospects and viability detailed above, in the context of the principal risks and uncertainties identified facing the Group, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2022.

Going concern

The Directors also considered it appropriate to prepare the financial statements on a going concern basis, as detailed in the Directors' Report and Note 1 of the consolidated financial statements.

A long-term responsible business

Investing for the future, acting responsibly

Non-Financial Reporting Statement

The information contained in the Sustainability section of this report, together with the description of our business model on pages 8 and 9, and our principal risks on pages 38 to 43 form our Non-Financial Reporting Statement.

For details on our social impact, please see pages 36 to 37; for our policies on human rights and anti-corruption and anti-bribery, see page 35.

As we have only recently demerged and listed as an independent company, we are in the process of developing new policies or enhancing existing ones to reflect matters such as our approach to: ESG, employees, social matters, respect for human rights, and anti-corruption and anti-bribery. We expect to report in more detail on these matters in next year's annual report and accounts.

We are considering appropriate non-financial KPIs for future reporting, but are working towards the ESG aims listed across the following pages.

This Sustainability section contains an extended disclosure on our ESG policies and activities over the past year – we plan to publish a separate ESG report in 2020.

Guided by care and integrity

Guided by our core values of care and integrity, a responsible mindset drives what we do across the whole of our business: as a corporate entity, asset owner, asset manager, and through our relationships with our stakeholders including our communities.

We look to embody the behaviours and practices that enable our business to operate sustainably over the long term. As long-term investors, we believe that ESG factors should be considered in addition to and alongside more traditional financial metrics. If a company has embedded into its strategy how it looks to capture ESG opportunities and mitigate ESG risks, it is much more likely to be successful into the future. We believe that this equally applies to us as a company.

Reflecting these values, our sustainability report comprises our approach to ESG across our business, our approach to the environment, our people and our social impact.

Working to build a cleaner, greener and better world

Our property investment business aims to create and manage places that not only have the potential to deliver long-term returns for our customers, but also benefit society and the environment.

One example is M&G Real Estate's acquisition of Centropolis Towers – a 26-floor office building in the heart of Seoul's central business district in South Korea. The complex stands out for its renewable and energy-efficient features, including on-site solar panels and geothermal heat pumps. To enhance the wellbeing and experience of occupiers, amenities include wellness areas, access to roof space and a nursing room. And from a socio-economic perspective, Centropolis is unique in preserving the remains of 16th and 17th century houses that were uncovered by the building's developer and are now on public display in the building's basement.

ESG in our business

As a savings and investment business

We manage assets that have been entrusted to us by our customers and clients, and we invest assets to meet the promises we have made to our policyholders. We are long-term stewards of these assets, and we take the responsibilities that come with this role seriously. It is our job to ensure our customers' money is invested in the right way, supporting their financial goals, while considering how their investments affect wider society and the environment.

Our conviction in active long-term investing means that we can focus on responsible and sustainable asset management, and think about more than just the numbers. We believe that ESG factors should be systematically integrated into our investment decision-making process to identify related risks and opportunities. These factors include:

- A company's sustainability ethos
- How it is impacted by climate change
- Its corporate governance
- How it motivates and manages its employees
- How it engages with communities to meet its current business needs without compromising the future needs of those communities

These factors are often critical to its long-term chances of success. We are currently working towards the full integration of ESG considerations across our investment portfolio. As active investment managers we also believe success is supported by effective stewardship and governance oversight. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change.

As a corporate entity

We aim to manage our businesses by the same principles of acting responsibly that we hold our investee companies to account on. This covers:

- Our approach to improving our environmental performance, including active steps to manage climate-related financial risk across our business.
- Embedding a strong culture and inclusive working environment, where we continually develop our talent, reward great performance, protect our people and value our differences.
- Ensuring that integrity and responsible, ethical behaviour are core to our business and governance structures, with suppliers held to the same standards.
- Driving impact in our communities to help tackle social challenges through funding and engagement.

Although the importance of different ESG factors varies across sectors and geographies, we have identified two ESG priorities which we have chosen to focus on given their importance for the long-term sustainability of all businesses and society as a whole.

Climate change

Climate change will require the combined effort of businesses, governments and each and every one of us to address the challenge, to adapt and mitigate the risks and to take advantages of the opportunities from transitioning to a low carbon economy. As a savings and investments business, we can influence change through active engagement with company management, as well as allocating our capital towards lower emission sectors of the economy and towards technological solutions that mitigate the impact of climate risk.

Further detail on our approach to climate change can be found on page 30 to 31.

Diversity and inclusion

A diverse and inclusive workforce is better placed to access the ideas and capabilities of its people, understand the needs of its customers, operate responsibly and innovate solutions to meet these needs in a rapidly changing world. Reflecting this, we believe that diverse organisations perform better financially, are better at managing risks, and are more representative of society. We will support and encourage diversity and inclusion as an employer, in how we run our business, and as part of our investment strategy through active engagement with investee company management.

Further detail on our approach to diversity and inclusion can be found on page 34 to 35.

To emphasise our commitment to effecting change in both of these areas, we have announced a number of targets across our business.

- We aim to be carbon net zero as a corporate entity by 2030.[1]
- We aim to achieve carbon net zero investment portfolios by 2050, across our total assets under management, to align with the Paris Agreement.
- We commit to year-on-year improvement in the representation of gender and ethnicity/nationality in our senior leadership (Executive Committee and their direct reports) with the goal of achieving 40% and 20%, respectively, by 2025.
- We will aim to evaluate the diversity policy of investment managers that manage assets on our behalf, including how an investment manager challenges its investee companies to improve and maintain diversity in their business models.
- In 2020, we aim to achieve external benchmarks from the National Equality Index, Stonewall's Top 100 Employers and progressing to become a Department of Work and Pensions Level 3: Disability Confident Leader.

1. Includes Greenhouse Gas Protocol Scope 1 and 2 emissions and a minimum of 66% of upstream Scope 3 emissions (categories 1 to 8).

Governance of ESG

ESG matters are governed by a subcommittee of the Executive Committee (ESG SubCo). The ESG SubCo is chaired by the Chief Investment Officer and its members are drawn from the Executive Committee and the senior leadership team.

The ESG SubCo will oversee the delivery of a climate risk management plan with appropriate risk and internal audit oversight over the anticipated implementation by the end of 2021.

We recognise that climate change has the potential to materially impact our business, and therefore we have allocated responsibility for identifying and managing the financial risks from climate change to two first-line Senior Management Functions: the Chief Financial Officer and the Chief Investment Officer. The Chief Financial Officer is also the Board member responsible for climate-related matters.

Stewardship

As active stewards of our customers' assets, we undertake constructive engagement with company management on the responsible allocation of capital and relevant ESG issues. Climate change is now a dominant theme within our engagements, but equally we pose in-depth questions on plastics, diversity, board composition and cyber security to name just a few areas of focus. We believe it is vital that as investors we fully understand these issues and that companies effectively deal with these challenges, and feel it is our duty to hold the boards of our investee companies to account.

The highlights included:

- **Environmental:** an international oil and gas company, where we co-filed a shareholder resolution, recommended by its board, requiring the company to report how its capital expenditure plans will meet the goals of the Paris Agreement.
- **Social:** two global banks, where we pushed and succeeded in getting executive pension contributions put in line with the general workforce.
- **Governance:** a major methanol producer, where we successfully sought to improve corporate governance and capital allocation decision-making by proposing shareholder resolutions.

We also consider active and informed voting as an integral part of our responsibility to our clients. By exercising our votes, we seek both to add value and protect the interests of our clients as shareholders.

You can find further details on our approach to responsible investment on our website at: www.mandg.com

Expanding our sustainable fund offering

As our retail customers increasingly want attractive returns while aligning their investments more closely to their social and environmental values, we've been expanding our range of investment funds with an ESG focus.

We launched our M&G Positive Impact equity strategy, which involves making long-term investments in companies that aim to generate a positive contribution to society, while producing attractive financial returns. It screens for companies that rank equally high on their investment credentials and their ability to deliver impact, and invests in companies focused on six key social or environmental impact areas, mapped against the United Nations' Sustainable Development Goals.

Another example is M&G's Sustainable Multi Asset strategy. In addition to investing in assets issued by governments or companies that uphold high standards of ESG behaviour, it maintains a core holding of assets that are considered to have a positive societal impact. One such asset is our investment in the Octopus Renewables Infrastructure Trust, which invests in renewable energy such as on-shore wind and solar.

Our approach to the environment

The risks posed by climate change are multi-faceted and far-reaching

Environment

The impact of climate change is already apparent, through climate and weather extremes and environmental events that are increasing in frequency and intensity. The current trajectory of greenhouse gas emissions implies global average temperatures could rise in excess of 4°C from pre-industrial levels by the end of this century, which would have catastrophic implications for population health, geopolitical security and economic development.[1] We recognise that there is no safe level of global heating, but to limit the global average temperature rise to well below 2°C, in line with the Paris Agreement, will require no further greenhouse gas emissions, ie net zero greenhouse gas emissions, from 2050. Achieving this will only be possible with material changes in behaviour and investment to transition to a low-carbon economy.

Strategy

Our climate change strategy is a key component of our wider ESG strategy. We recognise the role we have to play in minimising the impact of climate change, as an investor and corporate entity, and will work to develop our own capabilities and engage collaboratively with our peers and investee companies.

Investments

Within our investment portfolios, we have been analysing the carbon exposure of our equity and fixed income holdings, in order that we are able to assess the financial risks and opportunities from climate change. We measure the carbon emissions of our portfolios using MSCI's carbon analytics tool and the transition plans of the companies in which we invest. This work will enable us to establish a baseline for the carbon footprint of our investment portfolio and identify gaps in the analysis of certain asset classes, following which we will aim to develop a long-term and impactful strategy to reduce the carbon intensity of our assets.

Our stewardship and investment teams routinely raise the issue of climate change in meetings with investee companies, and in the 2020 reporting season will be reviewing company Task Force on Climate-related Financial Disclosures (TCFD) reporting, with a view to engaging further with those companies that do not meet our expectations of progress. If we are not satisfied that these investee companies are doing enough, both in terms of transition planning and reporting, then this will be reflected in our 2021 voting decisions. Over the past 12 months we have developed an ESG question databank of over 600 questions (of which around 250 relate specifically to climate change) that can be used by all investment teams. The areas we will consider in our engagement activities include: climate governance; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; supply chain management; and exposure to climate-stressed regions. We will use our position as an investor to encourage greater climate-related disclosures, and to act as an effective lever to encourage decarbonisation and transition.

1. Source: Climate Action Tracker

At an industry level, investment companies in the sector are still working to define the shape of a potential Paris-aligned asset portfolio and the changes that would need to be made. We will look to continue our participation in industry-led collective engagement groups and climate change initiatives to help accelerate progress in investment approach and wider policy direction, such as our involvement in Climate Action 100+, ClimateWise, the Institutional Investors Group on Climate Change and its Paris Aligned Investment Initiative, the Climate Bonds Initiative and the Better Buildings Partnership.

Corporate

As a corporate entity, our Group Governance Framework underpins our activities, including minimising the direct impacts of our operations on the environment. In addition, our Environment Policy applies to our operational properties worldwide, guiding our approach to the management of the direct impacts of our business units, including compliance with environmental regulations, energy consumption, water use, waste disposal, environmental supply chain management and the adoption of risk management principles for all property-related matters.

Business area performance is monitored against the targets set by our Workplace Solutions team, as well as sharing best practice and implementing projects to further reduce our operational estate's environmental impact and providing updates to the Board. We continue to adopt environmental accreditation, where appropriate, to help us minimise the environmental impacts of our operations, validate good performance and drive continual improvement. As part of our ongoing environmental management system (ISO 14001:2015) in the UK, we achieved zero non-conformities in 2019, and focused on reusing items as we transitioned to our new estate in London, improving recycling rates and removing single-use plastics from our offices where possible.

In 2019 we joined more than 150 other corporates in signing up to RE100, committing to the use of 100 per cent renewable energy. In 2019 we also offset our Scope 3 carbon emissions associated with business air travel, partnering with external organisations to deliver offsetting projects which support the UN's Sustainable Development Goals.

To emphasise our commitment to effecting change, we have announced the following climate-related targets across our business:

- We aim to be carbon net zero as a corporate entity by 2030.[1]
- We aim to achieve carbon net zero investment portfolios by 2050, across our total assets under management, to align with the Paris Agreement.

1. Includes Greenhouse Gas Protocol Scope 1 and 2 emissions and a minimum of 66% of upstream Scope 3 emissions (categories 1 to 8).

Managing climate-related financial risk

We support the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. We have prepared an initial plan to enable us to meet our regulatory requirements and implement the TCFD recommendations. This roadmap comprises the following multi-disciplinary workstreams:

- **Philosophy and strategy:** defining a climate change philosophy and strategy, covering our role as asset owner, asset manager and corporate entity.
- **Governance:** embedding consideration of the opportunities and risks from climate change in our governance arrangements.
- **Investment integration:** implementing climate change philosophy and principles across our investment process;
- **Scenario analysis and risk modelling:** using scenario analysis and risk modelling to inform strategy, risk assessment and identification.
- **Risk management:** incorporating the risks from climate change into existing risk management practice.
- **Disclosure:** developing a holistic approach to disclosure on the opportunities and risks from climate change.

Risk management

We are in the early stages of building our understanding of the physical and transition risks, as well as the mitigation and adaptation opportunities associated with climate change, so that they will be fully embedded across our organisation. Our work to understand these risks has been led by our Asset Management business, where we have carried out work using tools from a number of data providers to assess the potential impact of different climate scenarios on listed equities, corporate bonds and real estate asset portfolios.

Our actuaries include consideration of climate change risk (eg air pollution and extreme weather scenarios) within our longevity risk modelling. We are working on the development of internal qualitative scenario analysis to understand, at a high level, the impact of climate change scenarios on various asset classes.

We are members of the PRA and FCA industry-wide working groups on Risk Management and Disclosure, and are supporting the development of guidance for the industry in these areas to manage the financial risks from climate change.

Helping to spark growth in the solar sector

On behalf of Prudential policyholders and some of M&G's pension fund clients, we invested money in a portfolio of 33 solar parks across southern England, run by leading global solar developer, Lightsource BP. Deals of this kind play an important role in enabling companies within the renewable energy industry to expand and develop – helping to meet rising energy demands while supporting the global transition to a low-carbon economy. Local communities benefit too – with businesses welcoming the income from having solar panels on their land, and the increased security this brings. "It allows us to be even more positive about the future," says Jo Simpson, a member of the family that runs Cleave Farm Partnership – a dairy farm that also grazes sheep in the same field as the panels, providing two sources of revenue from one plot of land. These characteristics demonstrate how our investments aim to make a difference, as well as delivering potentially steady long-term returns for our customers.

Our 2019 environmental performance

The year in review

As a newly independent business with a revised operational estate, the data collected in 2019 will be used as a baseline to monitor progress against future years.

Our global carbon emissions for Greenhouse Gas Protocol Scope 1 and 2 (market-based) in 2019 for our occupied estate was 3,650 tCO_2e. When normalised against net lettable floor area our Scope 1 and 2 was 40 kg CO_2e/m^2. In 2019, M&G plc became signatories to RE100, with an objective to achieve 100% renewable electricity by 2025 across our occupied estate, with an ambition to achieve this sooner. In 2019, 85% per cent of our global electricity consumption was directly procured from 100% certified renewable energy sources.

In 2019, our reported Scope 3 emissions were 11,472 tCO_2e. This includes carbon emissions associated with business travel, water use and waste.

Business travel accounts for a significant proportion of our overall carbon emissions (75% in 2019). While some travel is considered essential in a global business, we are continuously seeking to reduce this need via the provision of technological solutions and promotion of lower-carbon travel options where appropriate. In addition, in 2019 we established our first air travel off-setting programme which will cover all of our air travel emissions, supporting VSC and Gold Standard certified off-setting projects globally in regions which we occupy.

In the UK we reported 951 tonnes of total waste in 2019. This figure includes waste materials arising from significant office relocations in the UK. During the relocation, we avoided use of landfill as much as possible by maximising the reuse of surplus office equipment in other sites and well as offering it to third-party groups. Stationery supplies that were not required, as we move towards paper-light operations, were donated to seven local London schools. In the UK we operate a zero waste-to-landfill policy where we have operational control, and encourage other offices to adopt this where local infrastructure allows. Our Scope 3 carbon emissions associated with our waste are calculated at 21 tCO_2e, a minor contribution to our overall corporate footprint in comparison to our building's energy use and air travel.

Absolute use of water across the global occupied estate was 39,610m^3. When normalised against headcount this was 7.3m^3/employee. While we did not complete any specific water reduction programmes during the reporting year, we continue to encourage efficient water use.

During 2019, as part of Prudential plc, we participated in external benchmarks on our management of climate change risks and opportunities. In 2020 M&G plc will make its own submissions under CDP and ClimateWise. Our CDP score remained static at B (Management) despite the demerger, however our ClimateWise score fell to 51 as a result of the new ClimateWise TCFD focused reporting framework.

2020 and beyond

We are creating a new sustainability strategy, built on our current practices. This will focus on three areas:

- Reducing the environmental impact of the buildings which we occupy and any travel associated with business activities.
- Greater collaboration with the wider business, our supply chain, and industry peers to further embed and integrate sustainability best practice into all areas of the business.
- Engaging with colleagues and customers to share our sustainable vision, and supporting our local communities to become more sustainable.

Governance

Our Group Governance Framework underpins all our activities, including minimising the direct impacts of our operations on the environment. In addition, our Environment Policy (part of our UK certified ISO14001 accreditation) applies to our operational properties worldwide, guiding our approach to the management of the direct impacts of our business units, including compliance with environmental regulations, energy consumption, water use, waste disposal, environmental supply chain management and the adoption of risk management principles for all property-related matters.

Business area performance is monitored against the Environmental Policy and environmental targets set by our Workplace Solutions team, as well as sharing best practice and implementing projects to further reduce our operational estates' environmental impact and providing updates to the Board.

Enforcement actions

No fines or regulatory actions occurred during the year for environmental incidents.

M&G plc – Greenhouse gas emissions statement

We have compiled our global Greenhouse Gas (GHG) emissions in accordance with the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 and 2, and selected Scope 3 reporting as best practice.

Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes UK booked business travel, global water consumption and UK waste generated from our occupied properties with operational control. We continue to review the extent of our Scope 3 reporting and increase coverage where practicable.

Please refer to our Basis of Reporting for further detail on our methodology, which can be found on our website at: www.mandg.com.

For further information on our environmental performance please refer to our Responsible Business Framework report

Emissions source (tCO_2e)

Emissions source (tCO_2e)	2019
Scope 1	2,041
Scope 2 – Location-based	5,247
Scope 2 – Market-based (supplier and residual mix)	1,608
Scope 3 (tonnes CO_2e)	11,472
Scope 1 and Scope 2 *	3,650
Total Scope 1, 2and 3 (tonnes CO_2e) *	**15,121**
Tonnes CO_2e per employee – Scopes 1 and 2 only	**0.67**

* Note that when reporting totals, the market-based emission are used.

Data notes:

Reporting period:	1 October 2018 to 30 September 2019
Baseline year:	Our baseline year moving forward will be 1 October 2018 to 30 September 2019
Independent assurance:	Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard.
Consolidation (boundary) approach:	Operational Control
Consistency with financial statements:	The reporting period does not correspond with the Directors' Report period (1 January 2019 to 31 December 2019), as it was brought forward by three months to improve the availability of invoice data and reduce reliance on estimated data. M&G plc owns assets, which are held on its balance sheet in the financial statements. These are excluded from the data.
Emission factor:	Scope 1 and 3 reporting uses the UK DEFRA 2019 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2019 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available.
Accounting methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard
Materiality threshold:	5%

Our people

Creating the right environment so that our colleagues can thrive and deliver exceptional results for customers and shareholders

An inclusive environment enabling colleagues to balance their life

We know that people can only perform at their best and deliver high-quality outcomes for our customers and shareholders when they feel supported and able to be their true selves. We take pride in our people and do all we can to make M&G plc an inclusive, diverse and welcoming place that helps colleagues to balance work effectively. We recognise that a diverse workforce drives better decision-making and better results.

For colleagues based in the UK, we transformed our people policies to take a more modern and flexible approach which empowers managers and leaders to use their discretion and support the diverse range of interests and circumstances within their teams. This includes gender-agnostic family leave, faith leave, carer's leave, and grandparent's leave policies.

Bringing together individuals from diverse backgrounds allows us to engage colleagues, uncover new ways of thinking and better serve the needs of our customers and clients. To ensure we remain focused, the Board of Directors and Executive Committee have approved our global enterprise diversity and inclusion strategy and goals.

Demonstrating our commitment to this, we have established a strategic framework to deliver full implementation by 2025. The strategy outlines the leadership commitments we are making across our five strategic pillars, Gender, LGBT+, Disability, Ethnicity/Nationality and Life stages, and puts in place the governance structure to track, measure and report our progress.

Workforce headcount at end of 2019

Year-end 2019 headcount	Female	Male
Board	4 (57%)	3 (43%)
Executive Committee (excluding Chief Executive and Chief Financial Officer)	1 (20%)	7 (80%)
Other senior managers	19 (30%)	44 (70%)
Group overall	2,397 (45%)	2,960 (55%)

A key part of our focus is on the continued development of gender balance and greater diversity in senior leadership roles, defined as Executive Committee members and direct reports.

M&G plc is committed to achieving year-on-year improvement in the representation of gender and ethnicity/nationality in senior leadership with goals of 40% women and 20% ethnicity by 2025. These goals define our commitments to the Hampton Alexander Review, HM Treasury Women in Finance Charter, 30% Club and the Race at Work Charter, and will be underpinned by a range of initiatives that fundamentally shift the way we recruit, retain and progress our colleagues through their careers.

We recognise it will take some time to reduce our gender pay gap. Improving the gender balance in senior leadership roles, including in senior investment professional roles, will be key to our goal of positive year-on-year improvement in the gender pay gap.

Further information on our gender pay gap can be found on pages 99.

To promote a culture of inclusion, the M&G plc colleague-led Diversity Networks are helping to improve the diversity of graduate hiring and reduce the stigma of mental health and wellness in the workplace. These networks represent the broad diversity of our colleagues and include:

- **Elevate** which focuses on gender
- **Pride** which supports the LGBT+ community
- **Enable** which empowers those with differing abilities and carers
- **Mind Matters** which promotes mental health and well being;
- **Cultural Awareness Network** which celebrates diverse cultural backgrounds
- **Future of Work** which brings together our multi-generational workforce

Challenging limits

To get the best from colleagues, it is important to create a stimulating environment that pushes people to be exceptional every day through meaningful work and an engaging, flexible work environment.

The business has experienced a lot of change over the last 12 months, and we understand that colleagues require additional support in times of change. We embarked on a programme of communications and engagement to ensure colleagues are briefed in advance of important change. This involved establishing a network of Change Champions to support people to challenge boundaries and embrace new ways of working, town hall meetings with senior management, regular updates and briefing leaders to support the cascade of important messages.

A new community called Connected Leaders was launched in September to enable our most senior leaders across the organisation to work more closely together. This is important at times of change, and the group is comprised of around 90 leaders who support the Executive team to make the strategy, vision and purpose come alive for their teams.

Supporting development

Exceptional people are eager to keep learning and improving, and investing in our colleagues, to ensure they are equipped with the skills to perform effectively in their roles, makes good business sense.

We launched a new mobile-enabled, online learning platform this year to ensure colleagues can access hundreds of learning tools anytime, anywhere.

We also provide focused development support for managers and leaders. This covers everyone from those stepping into their first management role through to the most senior leaders in our organisation. We also developed a bespoke programme for leaders in the technology function this year, to support them at a time of significant change.

Each programme is tailored to the specific needs of that group to ensure we equip them with the skills and experience required to be successful and to get the best from their teams. Over 450 colleagues have benefitted from such programmes this year.

Engaging and listening to colleagues

We involve colleagues in decisions that impact working life and are focused on creating a collaborative, two-way culture where we listen and recognise the important contribution people make. Engaged colleagues drive better business performance which benefits all of our stakeholders.

We have an Employee Forum in the UK to support and hear feedback from our colleagues. The forum empowers people to contribute and share their perspective and acts as a collective negotiating body for colleagues based in the UK.

It is important that we listen to feedback from all colleagues and the annual employee opinion survey, One Voice, enables us to do this. The most recent all-colleague survey ran in September 2019 and 69% of colleagues responded. It has provided a rich source of information for management teams to work with. The sustainable engagement index was 68% and the survey included free text comments where colleagues could share specific feedback about the work environment. Action plans have been agreed and progress against these is tracked by the Executive team through the year.

An important part of engaging colleagues is ensuring they can have a stake in the sustainable success of the business. We offer a Sharesave Plan and a Share Incentive Plan which incentivise people to benefit from the Group's success. In October, eligible colleagues received a £2,000 free share award to celebrate the demerger and our listing on the London Stock Exchange.

Focus for 2020

The focus for 2019 was to put the infrastructure in place to support working in a new way. In 2020 we will focus on ensuring new ways of working are embedded effectively.

Anti-corruption and anti-bribery

M&G plc is committed to the highest levels of business conduct. We actively support the global fight against financial crime and have a no-tolerance approach to bribery and corruption.

Our employees adhere to anti-bribery and anti-corruption policies. Regular training ensures that employees are aware that failure to comply with anti-bribery and anti-corruption policies and standards could lead to criminal prosecution, fines or reprimands and cause significant damage to M&G plc's reputation.

M&G plc has an established Financial Crime Compliance team that is responsible for implementing a framework to enable the organisation and its employees to manage the legal and reputational risks associated with bribery and corruption. The team is overseen by our Director of Financial Crime who also acts as the Anti-Bribery and Corruption Officer and Money Laundering Reporting Officer for all UK regulated entities.

Human rights

We believe in supporting human rights and acting responsibly and with integrity in everything we do.

Our policies are guided by the principles of the Universal Declaration of Human Rights and the International Labour Organization's core labour standards.

The M&G plc employee relations policy contains minimum requirements that apply in all geographies in which we operate to ensure the prevention of slavery, human trafficking, and child and forced labour.

Our procurement teams across our UK businesses have further embedded a co-ordinated response to the requirements of the Modern Slavery Act, with a focus on our external supply chain, as follows:

- Within all tender activity the procurement team highlights the Group's expectations around Modern Slavery. This is undertaken regardless of the supplier statutory position (therefore suppliers under the £36 million threshold are not exempted from our requirements).
- During 2019, M&G plc developed a transformation programme to review suppliers where there is a heightened exposure to Modern Slavery (for example, uniform provision) to ensure that we have up-to-date due diligence and can evidence full compliance is being properly maintained.

Every year, our employees are required to complete training reflecting our regulatory and legal obligations as a financial services provider. Additionally, M&G plc has invested in upskilling our procurement staff in Modern Slavery Awareness Training in 2019 and will continue to roll out further enhanced training going forward.

Our Modern Slavery Act 2019 Statement (to be published in May 2020) identifies the steps our business has taken to mitigate Modern Slavery and Human Rights violations within our business and how we have managed and will continue to proactively monitor those risks.

Social impact

How we help people to secure their financial futures through our work with community and charity groups

Our work with communities

Our goal is to help empower a million people to build better futures for themselves, their families and their communities over the next three years.

We establish long-term relationships with our charity partners to improve lives and build communities and provide support not only through funding, but also with the experience and expertise of our colleagues. We ensure that the projects we support are sustainable, and we work closely with our partners to ensure that our programmes continuously improve.

We have three principal themes:

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

Governance

We have established an operating model for Corporate Responsibility (CR) across M&G plc which provides guidance to support each office and market to manage charitable activities within the framework of a consistent, business-wide approach.

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

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

Urban regeneration

Rebuilding communities one village at a time

Colleagues in our Mumbai office are working with Habitat for Humanity India to support the holistic development of the tribal village of Shilonda, Palghar by repairing and refurbishing the existing school and community infrastructure to ensure they have access to safe and durable buildings.

One of the first projects sponsored by the business was the introduction of a solar energy system. The aim was to provide sustainable renewable energy to the hostel where over a hundred school-age children live. The village is prone to frequent power cuts throughout the day and installation of the solar power system will ensure uninterrupted electricity supply.

In South Africa, our colleagues have focused on supporting the South African Education and Environment Project, a non-profit organisation based in Cape Town. Our partnership is supporting the refurbishment of informal day-care centres in the Philippi Township; and will provide the staff of each centre with the essential training to promote a safe and stimulating learning environment for the children entrusted to their care.

Greening Great Britain

This is M&G's tenth year as title sponsor of the RHS Chelsea Flower Show, and since 2018 we have also sponsored the RHS's Greening Great Britain programme supporting communities who want to build or transform gardens or green spaces. With M&G's support, the Greening Great Britain programme has transformed over 2,200 square metres of land, completed 92 projects and benefitted over 8,500 individuals.

Economic empowerment

Apprentice programmes

Youth unemployment is a huge social challenge and M&G plc is helping to shape future job prospects for young people through its apprenticeship programmes. Based at our London, Reading or Stirling offices, apprentices gain important paid work and life skills, as well as achieving recognised vocational and professional qualifications. Over the past six years, Prudential UK has recruited over 260 young people.

Our traineeship programme aims to recruit school leavers and young people aged 16 to 24 without prior work experience. In autumn 2019, 23 new apprentices started with the business as our first combined M&G plc cohort. We have also achieved our highest ranking within the 'Top 100 UK Apprenticeships Employers' table by RateMyApprenticeship, being ranked fourth.

KickStart Money

With our support, KickStart Money, a primary financial education programme, has reached 18,300 primary school children across 150 schools. The initial three-year programme focuses on saving, budgeting, careers and borrowing and runs until August 2020. Evaluation into the first year of the programme showed that 87% of pupils now know financial decisions have consequences.

Skills and education

Skills for Life

Skills for Life is a bespoke employability programme for sixth form students from low-income households and our colleagues provide mentoring support. Designed by the Transformation Trust in partnership with M&G plc, the sessions are fully facilitated with professional, experienced leads who engage the students and draw on our colleagues' experience to the benefit of the students.

The programme supports students in how to develop employability skills such as communication, networking, interview preparation, as well as managing budgets and finance. Colleagues in London have been volunteering on the programme for the last five years. In 2019 the programme was delivered in Edinburgh and London and is being rolled out to other locations in 2020.

Bring People Together

Royal Voluntary Service and Prudential research in 2017 found nearly half (45%) of 50 to 65-year olds are interested in volunteering and spearheading their own groups and activities to boost support for people in their community.

In response to this, from December 2017 to May 2019 we delivered our 'Bring People Together' programme which resulted in the recruitment of almost 300 volunteers. Specifically, its aim was to inspire them to start their own activities or clubs for older people with the backing of Royal Voluntary Service; from social activities and hobby classes to running a lunch club or providing companionship to older people in their homes. The programme delivered 63 new regular social groups, supporting 2,205 participants per month with over 70,000 participant interactions each year.

When Bring People Together participants were asked how they felt about their club or group, 94% of participants stated that they strongly agreed or agreed that they had more social contact and spent more time with other people since joining the group.

Responding to major emergencies

M&G plc continues to work with the Disasters Emergency Committee in response to international disasters, working with 14 leading UK aid charities to provide humanitarian relief during a period of crisis and provide an instant, effective fundraising mechanism for colleagues when needed.

In the UK, M&G plc is one of the first corporate sponsors of the National Emergencies Trust. Launched in November 2019 by the Duke and Duchess of Cambridge, the National Emergencies Trust (NET) provides a single focused point from which funds can be raised and distributed rapidly in response to disasters and emergencies in the UK.

The charity was formed in response to the terrorist attacks in Manchester and London and the Grenfell Tower fire in 2017. The Trust ensures that the voluntary and community sector is co-ordinated, and able to harness public support in the most effective manner. The NET has been developing ground-breaking technology to maximise efficiencies and ensure an accessible and supportive experience for survivors.

Risk management

Our framework for managing risks within agreed appetite levels

As part of our business operations, we take on risks on behalf of our shareholders and customers. We generate shareholder value by selectively taking exposure to risks where such risks are adequately rewarded, and can be appropriately quantified and managed to safeguard our ability to meet commitments to customers, comply with regulations, and protect our reputation.

The Board has ultimate responsibility for these risks across M&G plc (the Group).

To assist the Board in discharging its responsibilities, we have a comprehensive approach to identifying, measuring, managing, monitoring and reporting current and emerging risks ('the Risk Management Cycle'), supported by an embedded risk culture and strong risk governance. This is set out in the Group Risk Management Framework, key elements of which are described below.

M&G plc's Risk Management Framework is designed to manage risk within agreed appetite levels which are aligned to delivering our strategy for customers and shareholders.

Risk culture and governance

The responsibility for instilling an appropriate corporate risk culture within the Group lies with the Board. The Board works together with our senior management to promote a responsible culture of risk management by emphasising and embedding the importance of balancing risk with profitability and growth in decision-making, whilst also ensuring compliance with regulatory requirements and internal policies.

To help embed the culture, the Board sets and approves:

- Risk appetite and associated risk mandates and limits, determining how these are then delegated or cascaded to our businesses and/or individuals to execute.
- The Risk Management Framework and supporting risk policies.
- Assignment of responsibilities for controls and reporting.

The Risk Committee supports the Board in these activities, providing leadership, direction and oversight, and the Audit Committee assists the Board in meeting its responsibilities for the integrity of our financial reporting, including obligations for the effectiveness of our internal control and risk management systems. The Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

The system of internal control, including risk management, which supports the Board, and the Risk and Audit Committees, is based on the principles of 'Three Lines of Defence': 1) risk taking and management, 2) risk oversight, and 3) independent assurance (see Figure 1):

- Business areas take and manage risks within the limits proposed by the Risk function and approved by the Board.
- The Risk and Compliance functions are structurally independent of the first line, providing risk oversight and challenge, and compliance guidance and monitoring.
- Internal Audit is delegated authority by the Audit Committee to audit the design and effectiveness of internal controls, including the risk management system.

Three lines of defence

Figure 1

Board of Directors

↑

Risk Committee

↑

Three lines of defence

First line
Risk taking and management
- Identify, own, manage and report risks
- Execute business plan and strategy
- Establish and maintain controls
- Stress/scenario modelling
- Operate within systems and controls
- Ongoing self-assessment of control environment effectiveness

Second line
Risk oversight and challenge
- Owner of Risk Framework
- Stress/scenario setting and oversight
- Regulatory liaison
- Advice and guidance
- Risk and compliance monitoring and assurance activities
- Risk and compliance reporting

Third line
Independent Assurance
- Independent assurance of first Line of defence and second Line of defence
- Independent thematic reviews and risk and controls assessment

Risk categorisation and policies

The Risk Management Framework is structured around a set of defined risks, which serve as a reference point for the Group-wide application of the Risk Management Cycle – in terms of risk policies, standards, risk appetite statements, limits and controls. Risk categories are set considering our principal risks, emerging risks and business strategy. They are prescribed at a minimum of two levels across the risk universe, and are aligned with the set of model inputs ("risk drivers") used in the Solvency II Internal Model. Risk policies are in place for all material risks.

Risk appetite and limits

Our risk appetite and tolerance to take on risk is specified through risk appetite statements and limits that are aligned to, and reviewed with respect to, our business model and strategy. Risk appetite is the amount and type of risk we are willing to accept in pursuit of our business objectives.

We have established aggregate risk appetite statements and limits for capital (regulatory and economic), liquidity and dividend volatility. The capital risk appetite is supported by a solvency intervention ladder which sets out management actions for implementation or consideration at different levels of regulatory solvency. Our expected ability to stay within appetite is assessed during the annual business planning process, with the actual position monitored and managed regularly throughout the year.

Risk appetite statements and accompanying financial limits are also in place for significant individual risks, including a comprehensive Group Approved Limits Framework. In combination, the individual appetite statements and limits are set such that we operate in line with the aggregate approved risk appetite statements even when the individual limits are fully utilised.

Prescribed indicators are used to inform whether a risk may move out of appetite and, together with limit utilisation, is a core element of risk reporting to Board and Executive Risk Committees with appropriate management actions. An imminent or actual breach of a limit is escalated within 24 hours of identification.

Looking ahead

While the key elements of the Group Risk Management Framework are in force, the risk management approach will necessarily evolve to reflect the fast-changing business environment and our needs as a standalone company. Resilience will continue to be a key theme, with plans in place to enhance frameworks governing operational resilience (covering areas like cyber security, change management and third-party supply) along with organisational resilience, including reputational risk management. Furthermore, work is already in train to evolve and embed the Group-wide Integrated Control Framework, which will provide renewed focus on risk culture and management across the Group.

We will also continue to build our understanding of the physical and transition risks related to climate change, as well as mitigation and adaptation opportunities. These risks and broader ESG issues are now being built into our regular risk assessment processes.

Speaking out

At M&G plc, we value a culture of openness, honesty and accountability – setting ourselves high standards of professional and ethical conduct. Nevertheless, we recognise that all organisations face the risk of unknowingly harbouring malpractice. Everyone who works at M&G plc is encouraged to be vigilant, and to report any potential misconduct.

To enable colleagues and third parties to voice concerns without discrimination, we have a confidential and externally hosted reporting platform in place. Issues raised via this 'Speak Out' whistleblowing service are responded to and investigated appropriately, by trained investigators.

In the UK and most countries where M&G plc operates, the law provides legal protection for people who make a "qualifying disclosure" to their employer. This means a disclosure of information, which, in the reasonable belief of the person making the disclosure, is made in the public interest. Under our policy, the reporter is protected whether the concern raised is a qualifying disclosure or not.

It's important that colleagues know about the 'Speak Out' platform and how to use it. Which is why we've highlighted it at senior management cultural updates, and we will continue to raise awareness through computer screensavers, posters, periodic internal articles and employee training.

Principal risks

Principal risk	Management and mitigation	Outlook
Business environment, environmental and market forces		
Changing customer preferences and economic, political and environmental conditions could adversely impact our ability to deliver our strategy and have implications for the profitability of our business model. The markets in which we operate are highly competitive while customer needs and expectations are changing rapidly. At the same time, economic factors (including GDP growth and savings rates) may impact the demand for our products and our ability to generate an appropriate return. In addition, the risk of a hard Brexit at the end of the Brexit transition period persists, potentially acting as a drag on growth. Our key savings proposition, PruFund, accounts for a high proportion of our total sales, and we are also heavily reliant on the intermediated channel for savings solutions sales. This heightens our exposure to changing economic conditions and customer preferences. Increased geopolitical and environmental risks and policy uncertainty may also impact our products, investments and operating model. Our success depends upon our capacity to anticipate and respond appropriately to such external influences.	We conduct an annual strategic planning process, which is subject to oversight by the Risk and Resilience function and the Board, and results in an approved strategy. The process considers the potential impact of the wider business environment and, throughout the year, we monitor and report on the delivery of the plan. We continue to diversify our savings and investments business to respond to developing customer needs in terms of products, distribution and servicing, and a significant digital transformation programme is being undertaken to deliver a more diversified distribution strategy. Prior to and since the UK's decision to leave the EU, we have run a Brexit programme to identify and mitigate the risks to our business, and ensure that we can continue to serve our customers and access markets. This has included preparations for a hard Brexit and the expansion of our presence in Luxembourg. We are building our capability to understand the implications of climate change and climate-related financial risks and opportunities.	We believe competition will intensify in response to consumer demand, technological advances, the need for economies of scale, regulatory actions and new market entrants. We have launched a number of new products, including the PruFolio range of funds, to broaden our offering to customers, and work is ongoing to develop new propositions and expand into international markets. Given that our investment horizons are long term, we are potentially more exposed to the long-term implications of climate change risks. In the shorter term, our stakeholders increasingly require responsible investment principles to be adopted to demonstrate that ESG considerations (including climate change) are effectively integrated into investment decisions, fiduciary and stewardship duties and corporate values. We continue to focus on minimising the impact of Brexit on the service we provide to our customers. We are working with regulators and industry bodies to prepare for the end of the transition period.
Investment performance and risk		
The investment objectives and risk profiles of our funds and segregated mandates are agreed with our customers. A failure to deliver against these objectives (including sustained underperformance of funds), maintain risk profiles that are consistent with our customers' expectations, or ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for our larger funds or a range of funds, our profitability, reputation and plans for growth may be impacted.	Our fund managers are accountable for the performance of the funds they manage and the management of the risks to the funds. An independent Investment Risk and Performance team monitors and oversees fund performance, liquidity and risks, reporting to the Chief Risk and Resilience Officer. Such activities feed into established oversight and escalation forums to identify, measure and oversee investment performance, investment risk and fund liquidity risks.	Fund liquidity will be a key theme in the near term, with the Financial Conduct Authority considering changes to rules in how funds invest in unquoted and hard-to-trade assets. Ensuring our customers understand the risks to which they are exposed, including liquidity risk, and delivering strong fund performance will be key to our success.

Principal risk	Management and mitigation	Outlook
Financial risks		
Credit		
M&G plc is exposed to the risk that a party to a financial instrument, banking transaction or reinsurance contract causes a financial loss to us by failing to discharge an obligation. In the case of invested assets, this relates to the risk of an issuer being unable to meet their obligations, whilst for trading or banking activities this relates to the risk that the counterparty to any contract the business enters into is unable to meet their obligations. Our solvency is also exposed to changes in the value of invested credit assets arising from credit spread widening and/or credit rating downgrades.	Our Credit Risk Framework sets standards for the assessment, measurement and management of credit risk, which are monitored by a dedicated, independent team. We set and regularly review limits for individual counterparties, issuers and ratings, and monitor exposures against these limits. Our policy is to undertake transactions with counterparties and invest in instruments of high quality. Collateral arrangements are in place for derivative, secured lending, reverse repurchase and reinsurance transactions.	Our credit risk exposure is expected to reduce over time as our annuity business runs off. However, we do not expect the nature of our exposure to credit risk, nor our framework and processes for managing and measuring the risk will materially change in the short term.
Market		
M&G plc's profitability and solvency are sensitive to market fluctuations. Significant changes in the level or volatility of prices in equity, property or bond markets could have material adverse effects on our revenues and returns from our savings and investment management businesses, and exchange rate movements could impact fee and investment income denominated in foreign currencies. Furthermore, material falls in interest rates may increase the amount that we need to set aside in order to be able to meet our future obligations.	Market risk appetite is set and monitored to limit our exposure to key market risks, and we have prescribed limits on the seed capital provided for new funds. Where appropriate, and subject to risk limits and procedures, we use derivatives for risk reduction, for example, to hedge equities, interest rates and currency risks, and we carry out regular reviews of hedging and investment strategies, including asset-liability matching, informed by stress testing.	Our market risk exposure is expected to increase, as the increase expected from the growth of the PruFund business outweighs the reduction in market risk that occurs from the run-off of the Heritage book. However, the risks are well understood, and closely managed and monitored. As such, we do not expect our market risk exposure, net of risk reduction activity, to be materially impacted in the short term.
Corporate liquidity		
Even as a profitable, financially resilient business, we must carefully manage the risk that we have insufficient cash resources to meet our obligations to policyholders and creditors as they fall due. This includes ensuring each part of our business and M&G plc as a whole has sufficient resources to cover outgoing cash flows, under a range of extreme scenarios.	Risk appetite is set such that we maintain adequate liquid resources and our liquidity position is regularly monitored and stressed. Detailed liquidity contingency funding plans are in place to manage a liquidity crisis. Liquidity, cash and collateral is managed for the Group by Prudential Capital, which holds liquid, high grade assets and has access to external funding.	We expect the nature of our exposure to liquidity risk, and our approach to managing the risk, will remain materially unchanged in the short term.
Longevity		
We make assumptions regarding the life expectancy (longevity) of our customers when determining the amount that should be set aside to pay future benefits and expenses. Unexpected changes in the life expectancy of our customers could have a material adverse impact on both profitability and solvency. This risk mainly arises from our large annuity book and, although we no longer write new annuity business in the open market, the size of the back-book remains significant.	We conduct annual reviews of longevity assumptions, supported by detailed assessments of actual mortality experience, and have a team of specialists undertaking longevity research. Regular stress and scenario testing is performed to understand the size of the longevity risk exposure. We have undertaken longevity risk transfer transactions, where attractive financial terms are available from suitable market participants.	The pace of longevity improvements among the annuitant population has slowed in recent years. Additionally, our existing business will continue to run off, reducing our longevity exposure over the longer term. However, the pace of run-off is relatively slow and therefore we expect no material change in our exposure in the short term.

Principal risk	Management and mitigation	Outlook
Operational		
A material failure in the processes and controls supporting our activities, that of our third-party suppliers or of our technology could result in poor customer outcomes, reputational damage, increased costs and regulatory censure. We have a high dependency on technology, and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact our ability to operate effectively. Additionally, serious failings in the delivery and/or persistent underperformance of third-party supplier arrangements could impact the delivery of services to our customers.	We have put in place an Operational Risk Framework in order to identify, assess, manage and report on the operational risks and associated controls across the business, including IT, data and outsourcing arrangements. We have established a programme of activity to ensure that the Group remains resilient as a result of material operational incidents or business disruption. We continue to maintain, test and upgrade our IT environment, processes and controls to maintain IT performance and resilience and prevent, detect and recover from security incidents, including cyber attacks. We have undertaken a programme of work to standardise and enhance our oversight and risk management of third parties across the Group, including our approach to selection, contracting and on-boarding, management and monitoring, and termination and exiting.	Attempts by external parties to disrupt our operations and inappropriately access and obtain customer data and funds will remain an ongoing threat. At the same time, regulatory scrutiny of, and reputational damage from issues arising from the processing of customer data, and the security and resilience of our technology and processes, will remain high. Like many of our peers, our increasing dependency on third parties for critical activities such as customer engagement, investment management, fund administration and technology will increase the importance of managing third-party risks, including having contingency planning in case of outage or failure. Our operational resilience programme has been designed to respond to material business disruption issues including those from third-party suppliers, IT incidents or other causes (eg pandemic).
Change		
We have a number of significant transformation programmes underway to deliver our strategy for growth, improve customer experiences and outcomes, strengthen our resilience and control environment and support scalable growth. A failure to deliver these programmes within timelines, scope and cost may impact our business model and ability to deliver our strategy.	Strong project governance is in place for all aspects of the transformation programme (including oversight), with reporting and escalation of risks to management and the Board. We employ a suite of metrics to monitor and report on the delivery, costs and benefits of our transformation programmes. We conduct regular deep-dive assessments of transformation programmes, individually and collectively.	Our exposure to change risk will remain material through 2020 and beyond. A significant volume of activity and benefits are due to be delivered in the year, whilst further transformation delivery is planned for subsequent years, in addition to those change programmes that are always required to meet ongoing business and regulatory developments.
People		
The success of our operations is highly dependent on the ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support our business strategy and culture. As a large and newly listed public company, and as we continue to implement our change programme, our people risk and associated reputational impact is heightened in a number of areas including our pay practices, staff workloads and morale, the conduct of individuals or groups of individuals and industrial relations (our own and that of key third-party providers).	Our HR Framework includes policies for Diversity and Inclusion, Employee Relations, Talent and Resourcing, Remuneration, and Performance and Learning. The framework is designed to align staff objectives and remuneration to our business strategy and culture. Our management and Board receive regular reporting on people issues and developments, for example, the succession plans for critical talent, the management of industrial relations, pay, culture and diversity. We conduct regular surveys to better understand colleagues' views on our business and culture, the findings of which drive actions to improve the experience of our staff. The Risk and Resilience team has begun monitoring and reporting a series of indicators of behavioural risk.	Competition for top talent is expected to remain intense. We continue to increase our investment in leadership and manager development in order to be successful and drive the right culture, behaviour and norms in today's fast-changing world. Our growth strategy (including international expansion), significant change agenda and a challenging cost environment mean that people risk is expected to remain elevated, requiring close management and monitoring.

Principal risk	Management and mitigation	Outlook
Regulatory compliance		
We operate in highly regulated markets and interact with a number of regulators across the globe, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of national and international regulatory initiatives in progress, with a continuing focus on solvency and capital standards, conduct of business and systemic risks. The consequences of non-compliance can be wide-ranging and include customer detriment, reputational damage, fines and restrictions on operations or products.	Our dedicated Compliance function co-ordinates regulatory activities, including interactions with our regulators, recognising the obligation of our regulated subsidiaries to meet their distinct regulatory requirements and to take decisions independently in the interests of their customers. The function provides guidance to, and oversight of, the business in relation to regulatory compliance and conflicts of interest, and carries out routine monitoring and deep-dive activities to assess compliance with regulations and legislation. National and global regulatory developments are monitored and form part of our engagement with government policy teams and regulators, which includes updates on our responses to the changes.	Significant progress has been made in addressing historic regulatory issues, including those identified through the Legacy Review and the Thematic Review of Annuity Sales Practices. However, the legacy book will remain an area of considerable management and regulatory focus. Furthermore, as we continue to expand our international presence, our engagement and compliance with regulatory regimes beyond the United Kingdom will become more material.
Reputational		
Our reputation is the sum of our stakeholders' perceptions, which are shaped by the nature of their expectations and our ability to meet them. Consequently, there is a risk that through our activities, behaviours or communications we fail to meet stakeholder expectations in ways which adversely impact trust and reputation. Failure to effectively manage reputational risk could therefore have an adverse impact on our revenues and cost base, which could also result in regulatory intervention or action.	We view reputational risk not as a secondary risk that arises from the crystallisation of primary risk events (eg a process failure), but instead as a standalone risk in its own right that can also arise from people's behaviours and an inability to communicate effectively. We have developed a bespoke Reputational Risk Management Framework and established a dedicated Reputational Risk team, reporting directly to the Chief Risk and Resilience Officer.	We could face an increasing range and severity of reputational events as the business and its social media presence evolve. A number of factors mean that such pressures will increase, including the greater focus of customers, regulators and investors on ESG issues and social media providing the means for opinions to be stated and shared instantaneously.

Basis of preparation

The Strategic Report presented in our Annual Report for the year ended 31 December 2019 has been prepared in accordance with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. In accordance with section 414C of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business, including key performance indicators to the extent necessary, and a description of the principal risks and uncertainties facing the Group. The risk management section of the Strategic Report describes the principal risks and uncertainties on page 40.

In preparing this Strategic Report, we have considered the Guidance on the Strategic Report as issued by the Financial Reporting Council in July 2018.

In addition, the Board has also considered the guidelines with respect to alternative performance measures ('APMs') as issued by the European Securities and Markets Authority (ESMA) in October 2015. Our Board believes that the APMs identified within the Strategic Report are useful for management and investors in assessing the performance of the business during the year, in conjunction with the relevant IFRS results included within the consolidated financial statements.

John Foley
Chief Executive

9 March 2020

A helping hand for colleagues with families

Families come in all shapes and sizes and we believe all parents deserve the same opportunity to spend time with their new arrival. In June 2019 we introduced our market-leading gender-agnostic Inspiring Families policy that offers an equal amount of paid parental leave for fathers and mothers, including those becoming parents through surrogacy or adoption.

Our colleague Pete has worked in Human Resources at M&G plc since 2017 and recently went through the process of adopting a child. When Pete and his husband were placed with their child, Pete was able to take 26 weeks of paid paternity leave allowing him to be at home full-time with his new family. During his first four weeks back in the office Pete will only be required to work 80% of his contracted hours to help him adjust to returning to the business. He will also be invited to consider a flexible working pattern that might work for him in the long-term.

A win-win for customers, advisers and the environment

Wealth customers are no longer having to store reams of paperwork about their policies, thanks to a new digital hub. Since the start of the year, our Wealth business customers are now able to receive and read information from their Prudential Financial Planning (PFP) adviser through a new, secure online client hub. It's a win-win for customers, advisers and the environment.

This is a fantastic example of business transformation that meets multiple strategic objectives. It improves outcomes for our customers by giving PFP advisers more time to focus on understanding the needs of their clients and makes life easier for customers by creating a single online store for information. It's estimated that this also has the potential to reduce our paper printing by 15 million sheets every year – meaning that it's great for the environment too.

Governance

Chair’s introduction to governance

I am delighted to be opening M&G plc’s first Governance Report with some introductory statements on our focus areas for governance during 2019

Building the Board

As Chair, one of my primary roles in 2019 was building the Board in readiness for the demerger. This needed to be done well in advance of the October effective date, and the process began as early as 2018. Assessing the skills and expertise that would be required for the listed Board beyond demerger and then a careful search and recruitment process were both supported by Group Human Resources (HR). We looked at the Committee Chair roles in particular, considering the experience that would be required for these. We looked broadly across sectors and backgrounds to bring in new perspectives and knowledge, and were also pleased to be able to make one appointment of an Independent Non-Executive Director of the PAC Board, Clive Adamson, to allow for continuity across the business in times of change.

I would like to thank Mark FitzPatrick, who served on the Board up to September 2019, for his contributions in his capacity as a representative of Prudential plc, our former Parent Company.

Decision-making around the demerger

Once the Board was formed, it was critical that we worked together effectively in order to ensure the Group delivered the demerger on the planned timeline. My role in this was ensuring that constructive Board relations and effective contributions from all Non-Executive Directors could be fostered quickly.

We also needed to ensure that, in the context of a major and complex transaction, for which multiple Board decisions were needed, the Board received accurate, timely and clear information.

You can read more about our decision-making on page 61 in our Section 172 Statement.

First steps as a listed company

As investors would expect, a large proportion of Board time prior to October was taken up with the demerger transaction.

However, alongside that, we were implementing robust governance frameworks in readiness for listed company life. We spent time building Committee compositions, making the best use of Non-Executive expertise. We focused on the UK Corporate Governance Code requirements for the Board to have procedures in place to manage risk; to oversee effectively internal controls; and operate a rigorous and transparent remuneration structure.

We considered frequency of meetings and the items most appropriate to bring to Committees or the Board, set out in terms of reference and forward agendas. While these items may appear administrative, they are a critical part of ensuring the Board has sufficient time to fulfil its duties and is provided with the right information.

Stakeholders

The Board spent time considering, at each key decision milestone, our stakeholders and this was particularly true in how our relationships with them changed at the point of demerger: our employees and regulators stayed the same, but we had a different ownership of those relationships as the listed company Board. We had to establish a new relationship with our public shareholders at both the retail and institutional level. Our customers needed to know that while the corporate brand and publicly traded status of the M&G plc Group changed, the service and products they expected from us remained the same as ever.

Looking forward

The issues of most focus to the Board, as we look forward to our first full reporting year as a listed entity, are the firm’s culture, values and purpose. The demerger presented a real opportunity of a new start for the Group, and the Board feels its responsibility to behave in the manner we expect from our colleagues: being customer-centric; respecting others across the business; driving accountability and responsibility at all levels; speaking up and challenging; and embracing diversity and inclusivity.

I hope the following report gives you an insight into how our Board looks and feels; the work we have carried out to date and the types of issues and debates that keep us busy.

Finally, I would like to thank Caroline Silver for her service at M&G plc, as she steps down from the Board at our AGM in May 2020. She provided invaluable guidance to the Board as we prepared for our listing on the London Stock Exchange last October. I wish her all the best for the future.

Mike Evans
Chair

How we comply with the UK Corporate Governance Code 2018

Our Group's governance has been designed around the UK Corporate Governance Code 2018 ("Code").

The Code is published by the Financial Reporting Council and further information can be found on its website: www.frc.org.uk

The Code itself states that it is not a rigid set of rules, but a collection of principles, provisions and guidance, and the Board looks first and foremost to uphold the spirit of the Code.

The Board has applied all of the Code's principles and provisions in 2019 and aims to continue to comply throughout the coming year. For more detailed information please see the pages cross referenced to the right.

Board leadership and Company purpose

- See pages 52 to 56 on Board composition
- See pages 4 to 5 and 12 to 13 on our strategy and purpose
- See pages 58 to 59 on stakeholder and shareholder engagement

The Board has not yet had a full year of activity as a listed entity to carry out its planned range of employee engagement activities or to assess and monitor culture. While the governance structure for this is in place, more activity is expected across 2020.

The Board is mindful of its role to oversee corrective action being taken where the Company's practices or behaviours do not meet its purpose or values.

As the Company has not yet held a General Meeting, there are no disclosures to be made in relation to votes cast against resolutions recommended by the Board.

Division of responsibilities

- See Governance framework explanation at pages 48 to 49
- See explanation of Committee duties at pages 51
- See Committee Reports at pages 63 to 75

Composition, succession and evaluation

- See Directors' biographies at pages 54 to 55
- See succession planning considerations in the Nomination Committee Report at page 63. As a very newly formed Board, the focus of our Nomination Committee has to date been more on the shorter-term goals of identifying the right skills and recruitment. Succession for the future has also been planned, with a medium and long-term horizon, given all Non-Executives were appointed in 2018 or 2019.
- See our evaluation explanations at page 62. As a newly listed company looking back at 2019, our evaluation has covered both pre and post-demerger, taking into account that pre-demerger the Company could not carry out all the activities of a listed entity.

Audit, risk and internal control

- See Governance framework explanation at pages 48 to 51
- See explanation of Committee duties at pages 51
- See Committee Reports at pages 63 to 75
- See Risk Management Framework on page 38 to 39

Remuneration

- See our Remuneration Report and Policy at pages 72 to 102

Governance structure

M&G plc is firmly committed to high standards of corporate governance and maintaining a sound framework for the control and management of the Group's business

This part of the report sets out the Board's corporate governance structures. In anticipation of its listing, the Board appointed new Directors and adopted a number of measures with regard to its governance arrangements in order to be in a position to comply with the principles and provisions of the UK Corporate Governance Code 2018 (the Code) from the point of its admission to the London Stock Exchange.

Roles and responsibilities of the Board

The Board has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of the Group, and is responsible to shareholders for creating and delivering sustainable shareholder value. The Board is also responsible for:

- Setting the Group's business strategy as well as its purpose, values, standards and culture and ensuring that these are aligned.
- Oversight of effective Group risk management and internal control processes, including a robust assessment of the Group's emerging and principal risks.
- The approval of any changes relating to the Group's capital, corporate and/or management structure.

In discharging its responsibilities, the Board is supported by its management and ensures a clear division of responsibilities between the Chair, the Chief Executive, the Senior Independent Director and the Non-Executive Directors. The Board has delegated certain responsibilities to a number of Committees and, in compliance with the Code, the Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee. A separate Risk Committee has also been established. The Terms of Reference for each of the Board's Committees were approved on 22 July 2019 and are available to view on the Company's website at: www.mandg.com

The Board retains overall accountability and the Committee Chairs are responsible for reporting to the Board on the Committees' activities. In addition, all Non-Executives are invited to attend all Committee meetings, and papers of those meetings are made available.

Board composition

The Board consists of seven Directors: a Non-Executive Chair, two Executive Directors, a Senior Independent Director (also designated Non-Executive Director for workforce engagement) and three Non-Executive Directors each of whom takes on a Committee Chair role. The Board considers all its Non-Executive Directors to be independent and that it has complied with the requirements of the Code in relation to the balance of Executive and Independent Non-Executives on the Board and the composition of the Audit Committee, Remuneration Committee and Nomination Committee.

Schedule of Matters Reserved for the Board and Delegations

Matters and decisions that require Board approval are set out in a formal Schedule of Matters Reserved for the Board (approved on 20 September 2019) and include approval of the Group's strategic aims, objectives and purpose and the annual Group financial budgets.

Other specific responsibilities are delegated to Board Committees which operate within clearly defined terms of reference approved by the Board. Day-to-day management of the business of the Group is delegated to the Chief Executive. Full details of the Schedule of Matters Reserved for the Board and the responsibilities delegated to the Board Committees can be found under the Corporate Governance section of the Group's website.

The roles of the Chair and the Chief Executive

The roles of the Chair and the Chief Executive are clearly segregated. The division of responsibilities between them is set out in writing and was approved by the Board on 20 September 2019. The Chair leads the Board, facilitating engagement at meetings by drawing on members' skills, experience and knowledge, and is responsible for the Board's overall effectiveness and oversight of the management of the Group. The Chief Executive is responsible for the proposal and delivery of strategy, the day-to-day management of the Group and for ensuring information is presented to the Board to enable it to make decisions effectively.

Directors' inductions, training and development

As a newly formed Board, all members were provided with a structured induction programme on appointment which included an overview of business areas within the Group:

- Customers, competitive advantages and relevant business metrics
- The changes being made to the business structure through merger and demerger and rationale for those changes
- Key drivers of profitability and an overview of the transformation programme

Board members are also required to keep up to date on matters potentially affecting the business. Regular updates on Group projects and activities, and legal and regulatory changes are given at each Board meeting. Presentations on key business operations are held on a rolling basis, with each business presenting two sessions per year – the Treasury and Investment Office and the Customer and Distribution business were covered since listing and the Board's schedule for 2020 includes the investment business, operations, customer and distribution, as well as its regular Chief Executive and Chief Financial Officer reporting.

The Board will hold an annual strategy offsite scheduled for June 2020.

In 2019, dedicated Directors' training sessions included briefings on:

- Directors' duties
- The Market Abuse Regulation
- The Takeover Code

For 2020, the Board has planned training on:

- Information technology
- Internal controls processes
- The Group's Solvency II Internal Model
- Tax history of the Group

These topics will remain under review and be added to as requested by the Board.

Board members receive formal papers a week ahead of each Board or Committee meeting, which enables them to make informed decisions on the issues under consideration. In addition to formal Board meetings, the Chair maintains regular contact throughout the year with the Chief Executive, Chief Financial Officer and senior executive management to discuss specific issues.

The Company Secretary acts as an adviser to the Board on matters concerning governance and ensures compliance with Board procedures. All Directors had access to the Company Secretary's advice during 2019. Directors may also take independent professional advice at the Company's expense if required. In the event that any Director has concerns about the running of the Company, or a proposed action that cannot be resolved within the Board forum, these may be reflected in the Board minutes. The Company Secretary circulates minutes of each Board meeting following the meeting for comment and approval to ensure an accurate record is captured.

Tenure, election and re-appointment of Directors

All Non-Executive Directors have been appointed for initial terms of three years from 22 March 2019 (Clive Adamson, Robin Lawther, Caroline Silver) and 7 May 2019 (Clare Thompson) and may be terminated by either party upon six months' written notice or by shareholder vote at the AGM. The Non-Executive Directors do not have any entitlement to compensation if their office is terminated. Full details of the remuneration of the Non-Executive Directors can be found on page 98 of this document in the Directors' Remuneration Report. Caroline Silver, Senior Independent Non-Executive Director, will be standing down at our AGM in May 2020.

Group Governance Framework and Subsidiary Governance

The Group has established a Group Governance Framework (GGF) which defines the Group's approach to governance and internal controls to ensure the business meets internal and external requirements and standards. The GGF includes information and policies to ensure a consistent approach to the way colleagues work and make decisions across the entire business below Board level. The Group's governance is designed to support a clear understanding and delivery of its strategy.

Independent Non-Executive Directors are appointed to the Boards of M&G plc's material subsidiaries: M&G Group Limited (MGG) and The Prudential Assurance Company Limited (PAC). Each of these entities has a Board of Directors led by an Independent Chair and an Audit Committee and Risk Committee, composed entirely of Independent Non-Executives. The PAC Board also has a With-Profits Committee and an Independent Governance Committee, as required by regulation, which are also comprised of independent non-executives. Dialogue between the Board, Audit and Risk Chairs at Group level occurs on an ongoing basis with their counterparts in the material subsidiaries, to ensure an effective information flow and escalation of issues. The Boards and Committees of the material subsidiaries are also committed to excellent governance and follow the Group's internal policies, set out in a dedicated manual, around appointment of directors, annual evaluation, standards and delivery of board materials. The governance arrangements for the material subsidiaries are overseen by the Nomination Committee.

Financial Management Framework

The Group also has a Financial Management Framework (FMF) which defines target ranges for a set of financial metrics, providing management with a means of assessing the financial position of the business, and the implications of any management actions. It facilitates decision-making by determining an appropriate balance between financial strength, financial stability and financial flexibility. The financial metrics provide a holistic view of the overall financial health of the business, covering capital, debt, liquidity and earnings.

The primary focus of the Group's capital management is financial strength and financial stability. This is achieved through managing the Group's solvency position and managing the quality of the capital held. Our metric for capital management is the Group shareholder Solvency II coverage ratio, being the ratio of own funds to SCR excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profit Fund.

The primary focus of the Group's liquidity management is to ensure it can meet its financial obligations as they fall due and at reasonable cost. The main sources of liquidity are cash generated by the operating segments, corporate assets and cash raised through external financing. The other key focus of our liquidity management is financial flexibility, in particular investing excess liquidity back into the business to support the overall business strategy. Our metric for liquidity management is parent company net cash movement in the year.

Debt financing may be used to increase working capital, improve solvency or to fund investment in the business. The Group defines debt as any loans, bonds or notes issued that are reflected on the balance sheet or any amounts drawn down from external liquidity facilities. Our metric for debt management is Group Solvency II leverage ratio, being the nominal value of debt as a percentage of total own funds.

Governance structure: roles and responsibilities

The diagram below sets out the roles and responsibilities of the Board members and the Company Secretary

Chair

- Leads the Board and is responsible for its overall effectiveness in oversight of the management of the Company.
- Sets the Board agenda which is primarily focused on delivering the Company's strategic objectives and any changes or further developments to its strategy.
- Draws out knowledge and experience from Non-Executive Directors.
- Shapes the culture in the boardroom.
- Ensures that adequate time is available for discussion of these issues and that all Directors contribute effectively.

Senior Independent Director

- Works closely with the Chair, acting as a sounding board and providing support.
- Acts as an intermediary for other Directors as and when necessary.
- Is available to shareholders and other Non-Executive Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication.
- Meets at least annually with the Non-Executive Directors to review the Chair's performance and carry out succession planning for the Chair's role.
- Attends sufficient meetings with major shareholders to obtain a balanced understanding of their issues and concerns.

Non-Executive Directors

- Provide constructive challenge, strategic guidance and specialist advice to hold management to account.
- Scrutinise and hold to account the performance of management and individual Executive Directors against performance objectives.
- Sit on various Committees to provide challenge, guidance and direction on specific areas, and report back to the Board on these.

Chief Executive

- Leads the business, implements strategy and chairs the Executive Committee.
- All operational and strategic management of the Group.
- Ensures management fulfils its obligations to the Board to provide information in an accurate and timely manner.
- Manages the Group's risk profile.
- Keeps the Chair informed of all material issues.
- Sets the vision for the Group's culture, values and purpose.

Chief Financial Officer

- Reports directly to the Chief Executive.
- Has responsibility for the Finance function and its operations.
- Supports the Chief Executive in all aspects of financial reporting, investor engagement and business planning.
- Is a member of the Group Executive Committee.

Company Secretary

- Supports the Chair and Chief Executive in fulfilling their duties.
- Provides regular corporate governance updates on topics which may affect the Company or the Board.
- Available to all Directors for advice and support.
- Manages the Group's Secretariat function which provides all administrative and governance support to the Board and its Committees.

Board Committees and Group Executive Committee

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Committee. These committees form a key element of the Group Governance Framework, providing effective and independent oversight of the Group's activities by the Non-Executive Directors. The terms of reference for each of the Board's Committees are documented formally, approved by the Board and updated as necessary. Each Committee Chair provides regular reports to the Board on the matters covered at each Committee meeting. Full details of each Committee's activities throughout the year are detailed on pages 63 to 75 in the Committee Reports. The Group Executive Committee (GEC) is established by the Chief Executive and reports to him.

Nomination Committee

- Overseeing the composition of the Board and its Committees.
- Assisted by HR, recruitment of new Board members.
- Succession planning for the Board and its Committees.
- Taking an active role, together with HR and other management, with respect to the Group's diversity and inclusion strategy and associated objectives, including monitoring of their effectiveness.

Please see page 63 and 64

Audit Committee

- Reviewing the effectiveness of the Group's system of internal financial controls and internal control systems.
- Reviewing the financial statements of the Group and Company.
- Monitoring and reviewing internal audit activities, reports and findings.
- Receiving and reviewing reports from the Company's external auditors.
- Monitoring the effectiveness and independence of the external auditors and making recommendations to the Board in respect of their remuneration, appointment and dismissal.

Please see page 65 to 69

Risk Committee

- Advising the Board on the Group's emerging risks, risk strategy, risk policies, risk appetite and current risk exposures.
- Overseeing the implementation and maintenance of the overall risk management framework and systems.
- Overseeing the Group's procedures for detecting fraud, preventing bribery and non-compliance.
- Reviewing the Group's risk-assessment processes and capability to identify and manage new risks.

Please see page 70 and 71

Remuneration Committee

- Establishing, approving and maintaining the principles and framework of the remuneration policies of the Group and ensuring compliance with those policies.
- Determining the design, implementation and operation of remuneration arrangements for the Chair, the Executive Directors, members of senior management, individuals identified as Solvency II staff and material risk takers and others.

Please see page 72 to 75

Group Executive Committee

The members of the Group Executive Committee are the Chief Executive, Chief Financial Officer, Chief Risk and Resilience Officer, Chief Investment Officer, Chief Operating Officer, Chief Customer and Distribution Officer, Chief International Officer, Chief Human Resource Officer, Group General Counsel and Company Secretary and Director, Public Policy and Regulation.

This Committee is led by the Chief Executive and has responsibility for the operational management of the business on a day-to-day basis.

The Committee leads on the development and implementation of strategy, operational plans, policies, procedures and budgets; prioritisation and allocation of resources; and promotion of the Group's culture and values.

The Committee reviews all material or strategic matters being proposed to the Board and approves certain levels of expenditure under the Group's delegated authority framework.

Board of directors

Board members have a wide range of relevant skills and experience across the financial services sector, including general and life insurance, and wealth and asset management in the UK, Europe and internationally. Other sector experience includes platform/technology, FMCG (fast-moving consumer goods) and professional services. Members come from a range of professional backgrounds, including banking, audit, actuarial, regulation and risk.

Pictured below, from left to right
John Foley; Robin Lawther; Mike Evans; Clare Thompson; Caroline Silver; Clive Adamson; Clare Bousfield

Directors and officers: skills and experience

Mike Evans

Chair of the Board, Chair of Nomination Committee

Appointment: 1 October 2018

Age: 58

Relevant skills and experience

Mike Evans is a qualified actuary and has over 37 years of savings and investments experience, including 11 years on the Board of Hargreaves Lansdown plc, eight of which as Chair.

Prior to being appointed Chair of M&G plc, he was Chair of ZPG plc until July 2018, and served as Senior Independent Director of Chesnara plc and a Non-Executive Director of esure plc and CBRE Global Investors UK. Mike spent 20 years at Skandia UK earlier in his career, rising to become Chief Operating Officer.

Other appointments

- Just Eat Ltd (Chair)

Mike Evans was the chair of Just Eat plc from March 2018 to March 2020 when it was delisted following the combination of Just Eat plc with Takeaway.com. In compliance with the "hold separate" order from the CMA, Mike will continue to chair Just Eat Ltd until the conclusion of the CMA review.

Mike and the Board keep actual and anticipated time commitment under ongoing review to ensure Mike continues to have sufficient time to meet the expectations of his Chair roles.

John Foley

Chief Executive

Appointment: 2 July 2018

Age: 62

Relevant skills and experience

John Foley was appointed to the Board of M&G Plc on 2 July 2018, following his appointment as Chief Executive of M&G Prudential in August 2017. Prior to this, John had spent 17 years within the Prudential plc Group in a number of senior roles, including Chief Executive Officer of Prudential Capital and Group Chief Risk Officer, Group Investment Director and, most recently, Chief Executive Officer of Prudential UK & Europe. In January 2016, he re-joined the Prudential Board, having already served a previous term while Group Chief Risk Officer.

Prior to joining the Prudential Group, John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury for the combined TSB and Hill Samuel Bank. Before joining Prudential, John spent three years as general manager, global capital markets at National Australia Bank.

Other appointments

None

Clare Bousfield

Chief Financial Officer

Appointment: 23 January 2019

Age: 51

Relevant skills and experience

Clare Bousfield was appointed Chief Financial Officer in August 2018. Clare brings to the Board significant financial services experience.

Clare joined Prudential UK and Europe in November 2016 as Chief Executive Officer of The Prudential Assurance Company Limited (PAC), a wholly-owned subsidiary of M&G plc. She was previously Chief Financial Officer at Aegon UK. Clare also worked as CFO in various businesses within Swiss Re.

Other appointments (all non-executive)

- Pacific Life Re Holdings Limited (resigned effective 1 April 2020)
- Pacific Life Re Limited (resigned effective 1 April 2020)
- Pacific Life Re Services Limited (resigned effective 1 April 2020)
- RSA Insurance Group plc (effective 1 April 2020 as announced to the market on 22 November 2019. It is also anticipated that, subject to regulatory approval, Clare will be appointed as Chair of the RSA Audit Committee with effect from October 2020 as announced to the market on 27 February 2020)

Caroline Silver

Senior Independent Non-Executive Director

Member of Risk, Audit, Remuneration and Nomination Committees

Appointment: 22 March 2019

Age: 57

Relevant skills and experience

Caroline Silver was appointed as the Senior Independent Non-Executive Director in March 2019. An investment banker with an executive career spanning over 30 years, most recently as a Managing Director at Moelis & Company, Caroline has extensive experience of advising global financial institutions and regulators across Europe.

She is currently acting Executive Chair of PZ Cussons plc, a Non-Executive Director of Bupa and Meggitt plc and a Trustee of the Victoria and Albert Museum. She started her career as a chartered accountant at PwC and holds a B.A. in English with Spanish from Durham University

Other appointments

- PZ Cussons plc (Executive Chair)
- Bupa
- Meggitt plc
- Victoria and Albert Museum (Trustee)

Clive Adamson

Independent Non-Executive Director
Chair of Risk Committee and member of Audit Committee
Appointment: 22 March 2019

Age: 63

Relevant skills and experience

Clive Adamson has considerable experience of UK and global economic, banking and regulatory matters gained from an extensive career in banking and financial services regulation, including senior executive and advisory positions with the FCA and its predecessor, the Financial Services Authority.

Clive holds a Non-Executive Director role on the PAC Board and is Chair of the PAC Risk Committee.

He is also a Non-Executive Director of J.P. Morgan Securities plc and Ashmore Group plc and a Senior Advisor at McKinsey & Company. Clive served as a Non-Executive Director and Risk Committee Chair of CYBG plc from January 2017 to November 2019.

Other appointments

- J.P. Morgan Securities plc
- Ashmore Group plc
- McKinsey & Company (Senior Advisor)

Robin Lawther

Independent Non-Executive Director
Chair of Remuneration Committee and member of Risk and Nomination Committees
Appointment: 22 March 2019

Age: 58

Relevant skills and experience

Robin Lawther is an international investment banker with extensive experience of global markets and financial institutions, having previously worked at J.P. Morgan for over 20 years, specialising in mergers and acquisitions and capital raising.

She is currently Non-Executive Director of Nordea Bank (Chair of the Remuneration Committee), UK Government Investments, Ashurst LLP (Chair of the Audit and Finance Committee) and Oras Invest.

Other appointments

- Nordea Bank ABP
- UK Government Investments Limited
- Ashurst LLP
- Oras Invest

Clare Thompson

Independent Non-Executive Director
Chair of Audit Committee and member of Risk and Remuneration Committees
Appointment: 7 May 2019

Age: 65

Relevant skills and experience

Clare Thompson is an experienced Non-Executive Director with a deep understanding of the insurance sector. With extensive financial services and audit experience, Clare spent 23 years as lead audit partner on major financial services groups at PwC, predominantly in the insurance and investment sectors.

Since stepping down from her executive career, Clare has developed a portfolio of Non-Executive directorships: as well as a previous Non-Executive Director role at Direct Line Group plc, she currently serves on the Board of Bupa Group. Clare holds a B.A. in Mathematics from the University of York and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other appointments

- Bupa

Alan Porter

General Counsel and Company Secretary
Appointment: 22 July 2019

Age: 56

Relevant skills and experience

Alan Porter was appointed General Counsel and Company Secretary in July 2019, having held the same role at Prudential plc since September 2012. Prior to that, he was the Group General Counsel of Tesco plc for four years and held various senior legal positions at British American Tobacco plc and Farmers Insurance Group. He began his career at Simmons & Simmons. Alan was Chairman of the GC100 – the association of General Counsels and Company Secretaries of the FTSE 100 – from January 2018 to January 2020, and is currently a member of the Takeover Panel. Alan is a solicitor and also a member of the State Bar of California.

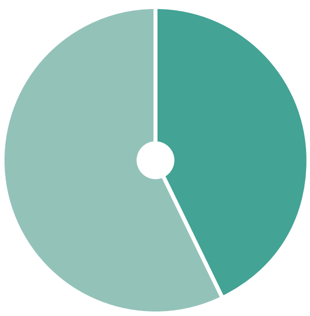
Other appointments

None

At a glance

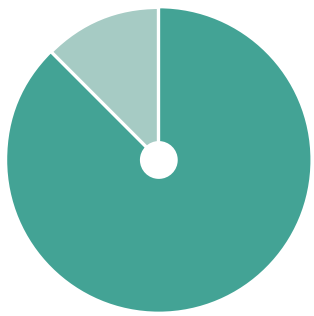
Board and senior management composition and diversity

Board diversity



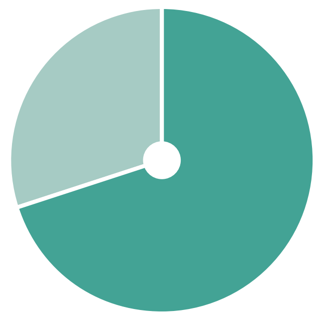
Male (3)	43%
Female (4)	57%

Executive Committee diversity



Male (7)	87.5%
Female (1)	12.5%

Other senior managers diversity



Male (44)	70%
Female (19)	30%

Board nationality and ethnicity

White British	6
White American	1

For more information on the Group's Diversity policy and goals, please see pages 34 to 35.

How the Board spent its time

A balanced agenda

The Board seeks to balance its agendas in order to ensure it covers all its statutory and regulatory duties, as well as allowing time for strategic and governance matters.

This section aims to give an idea of how the agenda is weighted between regular items, and then picks out key focus areas where the Board has spent more time in 2019.

The typical Board agenda allows time for:

- General matters – which cover minutes, matters arising logs and reports from the Chairs of each principal Committee on Committee activities.
- Business updates – which cover regular performance and financial reporting. The Chief Executive and Chief Financial Officer will both typically report in this section and may also cover people and functional updates.
- Strategy – which covers any projects and approvals which the Board is requested to give under the Group's delegated authority framework, as well as updates on Strategy process, for example, planning for the annual strategy offsite.
- Risk, regulatory and governance – which covers regular reporting from the Risk, Regulatory Affairs, Compliance, Legal and Company Secretariat functions, and specific papers on related topics, such as Solvency II.

Full Board meetings	**14**
Telephone calls	**2**
Demerger Committee meetings	**3**
General Meeting (share allotment)	**1**

Areas of focus

Additional papers are added to the appropriate section of the meeting. In 2019, in addition to the regular reporting indicated in the previous section, the Board spent time considering reputational risk management; regulatory relationships and action points arising from regulatory reviews; governance of the Group; transformation; strategy planning and internal models and control frameworks. Significant Board time was spent on a number of aspects of the demerger: reviewing and approving the prospectus; considering and approving the debt substitution; and agreeing brand and transitional arrangements with Prudential plc.

Board and Committee attendance since appointment

For the newly formed Board, the corporate calendar for 2019 needed to be put in place to work around other commitments, and therefore planning was still evolving throughout 2019. Attendance was therefore not as complete as might otherwise be expected.

	Appointment Date	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Clive Adamson	March 2019	11/12	6/6	4/4	–	–
Mark FitzPatrick*	July 2018	11/13	–	–	–	–
Mike Evans	October 2018	16/16	–	–	–	1/1
Robin Lawther	March 2019	10/12	–	4/4	7/7	1/1
John Foley	July 2018	16/16	–	–	–	–
Clare Bousfield	January 2019	15/15	–	–	–	–
Caroline Silver**	March 2019	9/12	5/6	4/4	6/7	1/1
Clare Thompson	May 2019	10/12	6/6	3/4	6/7	–

* Resigned September 2019.
** Resigned with effect from May 2020.

Becoming M&G Plc

2017

August 2017
Prudential plc announces the merger of its Prudential UK and European business and M&G Investments

March 2018
Announcement to demerge M&GPrudential from Prudential plc

July 2018
Incorporation of M&G Prudential Limited

October 2018
Mike Evans appointed as Chair of M&G Prudential Limited

Prudential plc raising of £1.6 billion substitutable debt

March 2019
Board appointments:
Caroline Silver (SID)
Clive Adamson (NED and Chair of Risk Committee)
Robin Lawther (NED and Chair of Remuneration Committee)

April 2019
M&G plc moved to new headquarters at 10 Fenchurch Avenue in London

May 2019
Appointment of Clare Thompson (NED and Chair of Audit Committee)

Prudential plc conversion of debt in preparation for substitution

July 2019
Re-registration from private to public limited company

September 2019
Change of company name from M&G Prudential Limited to M&G plc

Prospectus published

Investor and Analyst Capital Markets Day

October 2019
Debt substitution to M&G plc

M&G plc listed on the London Stock Exchange

Chair's Welcome Letter distributed to shareholders

2020

Governance

How the Board engages with stakeholders

Our key stakeholders

Customers and clients

Colleagues

Communities and charities

Investors

Other stakeholders

Regulators

Business partners

Engagement with our key stakeholder groups helps foster and maintain relationships, and forms an important part of how the Group operates

What engagement means

Not all stakeholder engagement is reported directly to the Board or takes place directly with the Board. However, the output of engagement across the Group informs business-level decisions and proposals, with an overview of developments and relevant feedback being reported to the Board and/or its Committees. The purpose of this is to ensure that the Board can understand and consider the views of relevant stakeholders when making decisions. Some of our relationships with stakeholders are well-established, such as our customer relationships, and others, such as our investor and business supplier relationships are newer, given our recent listing and our transformation work. M&G plc is committed to understanding our stakeholders' key concerns and sharing more in the future on how we seek to address these and what outcomes our engagement mechanisms have led to.

Customers and clients

The customer is at the heart of everything we do. The Board has included in its scheduled meetings regular reports from the Chief Customer and Distribution Officer (CCDO) and determined that its Matters Reserved would cover new forms of business or geographic regions to ensure the Board maintains oversight of who our customers are. As well as qualitative reporting from the CCDO, the Board also receives data on customer satisfaction and complaints.

Colleagues

Engagement with our colleagues includes formal and informal meetings. We also use technology to deliver messages quickly and effectively. Our Chief Executive, Chair and members of the Group Executive Committee have taken part in video messages and interviews which are sent out to colleagues on a dedicated communication channel that has a high profile in the Group. All of the examples below are ways in which we make colleagues aware of factors affecting the performance of the Group and provide them with information on matters of concern to them as employees.

Annual engagement survey

The annual One Voice engagement survey is supplemented by a series of more regular pulse engagement surveys. Results are discussed at Board and Executive Committee level to ascertain outcomes and areas for improvement which are then communicated back to the business. Key for 2019 was the impact of major organisational change on our colleagues.

Town hall events

Directors present interactive updates across business functions and locations. These included "Meet the Board" and "Getting to Know..." senior management presentations.

Site visits

Directors are encouraged, and expected, to visit our operations and engage with our colleagues. This is particularly important for a Board in its infancy. It provides valuable education and learning for members and makes for a more effective Board. To date, Board members have visited our offices in Asia, Madrid, Milan, Stirling and Edinburgh all of which have helped to bring to life information seen in the boardroom.

Free share award

To celebrate the listing of M&G plc, the Board approved the grant of a free share award to align all eligible employees with the Group's ambitions to grow the business and create shareholder value, further detail of which can be found on page 60.

People policies

As part of the preparation for life as an independent business, the Group's people policies were simplified to modernise ways of working and introduce more flexibility.

This approach reflected an increased investment by the business in market-leading policies and benefits creating a supportive, fair and inclusive culture. A 45-day consultation was undertaken in April and May 2019 during which time employees had multiple opportunities to provide feedback in a number of ways including at face-to-face sessions across different locations. Group Executive Committee members also attended these sessions to share thoughts on feedback and help articulate the Group's response to counter proposals put forward by employee representatives. Outside the UK, colleague benefits and people policies vary on a country-by-country basis with consultations having been concluded in Ireland and across Asia, and ongoing in Europe.

Communities and charities

The Group has developed a clearly defined overarching social purpose with flagship programmes (urban regeneration; economic empowerment; and skills and education) to support each pillar of the Group's strategy. An overview of the community investment strategy, including how it is proposed the Group will work with NGOs and charities, has been discussed at Executive Committee level but has yet to be formalised into a Board proposal for approval.

Investors

Institutional shareholders

The Board is kept aware of major shareholder issues and concerns through reports from a variety of sources, including the Chief Executive and Chief Financial Officer reports, a regular report at every Board meeting by the Director of Investor Relations and feedback from the Chair on his governance meetings with major investors. The Chair of the Remuneration Committee also reports to the Board on her discussions with shareholders. The Investor Relations Report covers key issues on investor meetings, analyst reports and engagement. The Board also maintains continued dialogue with shareholders via its Annual General Meeting, investor roadshows and interim/full year results presentations.

Retail shareholders

Retail shareholders have dedicated services in place via the Group Secretariat team and the Company's registrar, Equiniti. The Board also takes time to review materials and prepare for the AGM as a key formal interaction with shareholders. On listing, the Board was cognisant of the retail shareholder needing a clear introduction to the Group. The Group Secretariat team produced a welcome booklet for all shareholders setting out a message from the Chair and helpful information on dividend payments, voting and contacting the Company.

Regulators

Maintaining strong regulatory relationships, communicating openly, working collaboratively and providing the FCA, PRA and all global regulators with timely notification of issues are of vital importance to M&G plc. The business aims to ensure it approaches its relationship with regulators in an open and constructive manner at all times.

In the year and a half prior to demerger, the Group worked extensively with the PRA, FCA and other regulators to develop and maintain this approach, which included significant engagement from the Board and members of the Senior Executive team surrounding the demerged business. This included the Chair and other Board members meeting separately with the supervisory teams at the PRA and FCA to discuss key areas of focus. This proactive approach is a priority and one that the Group will continue to take as an independent business operating internationally.

The Board receives a report on regulatory matters at every Board meeting from the Director of Policy and Regulatory Affairs. All relevant regulatory correspondence is made available to the Board in a timely manner.

Business partners

The Board is conscious of the huge importance of third-party suppliers and our business partners in the operating model of the business. This is something that the Risk and Audit Committees spend time considering, examples being the Audit Committee's time spent in 2019 on audit tender considerations and the Risk Committee's review of operational risks connected to technology partners. The Chief Operating Officer (COO) gives a full report to the Board on all functional matters twice a year and ad hoc reports on projects as necessary. The COO leads the merger and transformation work for the Group, and the Board has had careful oversight of this, both in terms of cost and suppliers.

Engagement in action

Employee engagement mechanism

Caroline Silver, the Senior Independent Director and designated Non-Executive Director for colleague engagement, has primary responsibility for evaluating the impact of Board or Senior Management decisions on the workforce. Following Ms. Silver's announced resignation, this responsibility will be held collectively by the Non-Executive Board members, dividing the duties in the engagement plan described below between them.

An engagement plan of formal and informal activities throughout 2020 has been agreed, which will include quarterly meetings with the Chief Human Resource Officer, and members of her leadership team, where progress against One Voice Employee survey plans will be discussed, as well as sharing and discussing broader People metrics linked to culture. This will be supplemented by annual sessions with lead representatives of the UK Colleague Forum, as well as sessions with our international representative groups.

The Board intends to utilise information gained through this process alongside a culture dashboard being developed by HR, which will assist the Board in its duties to assess and monitor culture.

Caroline Silver
Senior Independent Non-Executive Director

Fostering employee ownership

Ahead of demerger, the Board was keen to reward employees for their hard work in the run-up to independence and to enable as many employees as possible to become shareholders, aligning employees with ambitions to grow the business and create shareholder value. After undertaking a detailed review, it was agreed that £2,000 worth of shares in M&G plc would be offered to every employee under a share incentive plan, that worked across the firm's geographical locations. To achieve this, the Company established two plans: one to deliver shares to UK employees and another to deliver shares to employees based outside the UK. Every eligible employee employed on the date of demerger, was awarded 920 shares. The shares must be held for a period of three years.

Capital Markets Days

We have been engaging closely with investors on our path to becoming a newly independent company. Over the course of 2019, and in preparation for demerger, our Senior Management and Investor Relations team organised two public Capital Markets Days (CMDs) followed by extensive investor roadshows.

Our CMDs took place on 3 July and 27 September 2019, with the aim of providing additional financial, strategic, and operational insights into M&G plc pre and post-demerger. The first event explained how the components of our business work and interact with each other, while the second one focused on M&G plc's strategy and capital management framework. Both days attracted a significant level of attention from the investor community with over 100 guests attending in person and more than 500 watching live via Webex. Guests, who included credit and equity investors, financial analysts and representatives from the credit rating agencies, had the opportunity to interact with senior management thanks to productive Q&A sessions.

The recordings and material from those sessions are available on our corporate website (www.mandg.com) within the Investors section.

Following each CMD, our Executive Directors met with over 130 investors in individual or group meetings. The meetings were organised as part of two separate roadshows that spanned across 14 cities, including major financial centres such as London, New York, Boston, Singapore, Frankfurt, and Paris. This represented an opportunity for both current and prospective institutional shareholders to meet our senior management team face-to-face and further deepen their understanding of M&G plc. In parallel with investor meetings, the Investor Relations team interacted on a regular basis with financial analysts to facilitate their coverage of our business.

The Board was closely involved in all shareholder engagement activities, including the review and challenge of material shared with investors and monitoring roadshow activity. Board members were also kept informed of significant movements in the shareholder register.

Principal decisions

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole

In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- Likely consequences of any decisions in the long term
- Interests of the company's employees
- Need to foster the company's business relationships with suppliers, customers and others
- Impact of the company's operations on the community and environment
- Desirability of the company maintaining a reputation for high standards of business conduct
- Need to act fairly as between members of the company

In discharging Section 172 duties, the Board has regard to the factors set out above, as relevant, and additional factors, which are specific to the matter under consideration. It is understood that the importance of each factor will vary depending on the decision being taken.

Board decisions

Set out below are some examples of how stakeholder implications have been considered when key decisions have been taken by the Board. A number of decisions taken by the Board in 2019 related to the demerger from our former Parent Company Prudential plc, for example, approving the prospectus, debt substitution, and various agreements with Prudential plc on brand sharing. While the Board was mindful of all aspects of Section 172 in making these decisions, the decision to demerge was that of Prudential plc, and accordingly, a number of the Board's decisions that effected demerger had to primarily align with the strategy of our then-shareholders.

Transformation

The Group's five-year transformation plan was initiated in 2018, but over the course of 2019 the Board was asked to endorse or review a number of milestones, particularly around financial expenditure.

The aims of the transformation are to improve the experience of our customers, provide a scalable platform for growth, and create business efficiencies. These aims guide the Board in its decision-making to be mindful of our customers, to consider our business relationships as we work with key third parties, and to think about how change impacts colleagues.

There is more information on our progress on transformation set out in the Strategic Report at page 13.

Dividend Policy

In 2019, the Board set its Dividend Policy as a listed company and announced its intention to pay a special one-off demerger-related dividend. Details of these are given in the Business and financial review on page 22.

In relation to Dividend Policy, the Board was aware of balancing the way returns are made to investors with the longer-term needs of the business. The Group's aim is that a combination of profitable growth and attractive dividends are generated by implementing a business strategy that is not only financially sustainable, but also focused on our vision for customers, employees, and society alike.

You can read more about this integrated strategy on page 22.

Director appointments and employees

As set out in the Nomination Committee Report on page 63 to 64, one of the key items the Board focused on in the first half of 2019 was appointing the right members.

The Board had to ensure that the immediate demands of the business and focus on the longer-term interests of the Group were balanced, to ensure the right skills and experience would be available to support growth opportunities, both in the UK and internationally.

The Board also took account of the needs of the workforce when thinking about Board roles: Caroline Silver, our Senior Independent Director, was designated Non-Executive Director for employee engagement, to represent the workforce voice in the boardroom.

See more details on page 63 and 64

Board skills and Board evaluation

Appointing the Board in readiness for demerger, the Chair's main focus was to appoint Non-Executive Directors with the necessary skills and experience required to oversee the Company once listed

Consideration was given to executive background, investor credibility and Board experience, regulatory, sector and geographical experience, and diversity.

Board skills

The Board considers its current composition to be appropriate for M&G plc as a business. A Board skills matrix is used to support Board succession planning and any future recruitment of Non-Executive Directors, to ensure the overall composition of the Board in terms of skills, experience and background is appropriate. Future appointments to the Board will continue to focus on these key areas:

- Depth of practical savings and asset management experience.
- Ethnicity and social diversity.
- Global experience to support the Group's growth ambitions overseas.
- Depth of experience of technology and technology-led innovation.
- Balance of those with C-suite business leader experience.

Review of Board effectiveness

An evaluation of the Board's effectiveness was undertaken for its first year by means of an internal questionnaire circulated to each Board member. The results of the questionnaire were analysed and collated by the Chair and Company Secretary, with a report being produced and considered by all Board members. The report formed the basis of a 2020 work plan, with action points for the year, summarised below. The Board will review progress against these action points in September 2020, with a view to completing actions by February 2021.

The Chair also evaluated the performance of each Non-Executive Director by holding individual meetings, the outcome of which was reported verbally to the Nomination Committee at its March 2020 meeting to support the re-election of Non-Executive Directors at the AGM.

The Senior Independent Director led the Non-Executive Directors in reviewing the Chair's Performance.

Summary of action points arising from 2019 evaluation process

The review confirmed that the Board had operated effectively during 2019. The following is a summary of the themes the Board focused on for enhancement in 2020, and some of the action points it will be tracking throughout the year.

Theme	Summary actions
Board processes: enhancing Board papers and ensuring subsidiary governance continues to be effective and efficient	– Continuing work on high-quality Board papers. – Clarity for newly listed Group on governance paths for key Boards and Committees at parent and subsidiary level.
Strategy: using Non-Executive skills and expertise	– Building agenda with the right emphasis for Board strategy offsite. – Making the most of Non-Executives as sounding boards and sources of guidance surrounding strategy planning.
Culture: monitoring and oversight	– Supporting the Board in finding the right information flows to oversee and monitor the culture, values, priorities and behaviours that have been set.
Relationships with our regulators	– Continuing to focus on strong, transparent relationships with our regulators.
People: continuing a line of engagement between our Board and the workforce, understanding their voice	– Developing the Board's schedule of offsite meetings at key business locations. – Finding further opportunities for employee engagement for Non-Executive Directors.

Board evaluation in future years

The Board intends to comply with the Code provision to carry out an externally facilitated Board evaluation at least every three years.

Nomination Committee Report

Mike Evans
Committee Chair

Role and responsibilities of the Nomination Committee

The Committee is responsible for the composition of, recruitment to and succession planning for the Board and its Committees, taking into account the Group's strategic priorities and the factors affecting the long-term success and future viability of the Company and the wider Group. The Committee is also responsible for elements of diversity and inclusion leadership. There has been no disagreement between the Nomination Committee and the Board in relation to items considered by the Committee in 2019.

The Nomination Committee's terms of reference can be found on the Company's website at: www.mandg.com

See pages 54 to 56 for membership and meeting attendance

Dear Shareholder

While our Nomination Committee held only one formal meeting in 2019, we have had several important tasks to focus on around Board appointments, succession, and diversity and inclusion. This report gives you an overview of our activities in 2019 and also touches on a number of the items we covered in early 2020 as we prepare the Company for its first AGM.

While our duties, as set out in the terms of reference, centre on Board appointments, the Committee also has a remit to monitor diversity and inclusion and look at succession planning at the Group Executive Committee level. This gives us a real opportunity to influence the pipeline of senior individuals in the business, and we are committed to working with management to make that the best candidate pool it can be.

We see this as particularly supporting the Board's responsibility to set tone from the top and assess and monitor culture.

Areas of focus in 2019

- Non-Executive recruitment and succession planning
- Employee voice
- Executive Director succession
- Executive talent and succession
- Subsidiary governance
- ESG matters and diversity and inclusion
- Terms of reference

Directors' interests and roles

In 2019, the Committee formally approved its terms of reference for recommendation to the Board, assessed and confirmed the independence of each of the Non-Executive Directors ahead of listing, and considered and approved any potential situational and transactional conflicts that might arise in certain circumstances. The Committee was particularly mindful of Mike Evans' position as Non-Executive Director of PAC and as Chair of MGG, and Clive Adamson's position as Non-Executive Director of PAC.

The Committee also spent time considering the requirement under the UK Corporate Governance Code (the Code) for the "employee voice" to be represented at the Board and, having discussed the three options available under the Code and the time commitment required, the Committee proposed that a designated Non-Executive Director be appointed. The Committee then recommended this approach to the Board, which appointed Caroline Silver into the role.

Board composition and succession planning

Prior to admission, the Board engaged external search consultants Spencer Stuart and Russell Reynolds for various Non-Executive appointments. Neither of these firms has any connections with the Company or individual Directors.

The Committee started from a position of newly appointed Non-Executives, and considered the challenges around the tenure milestones of each of the current Non-Executive Directors being the same. Non-Executive Directors are appointed on the basis of one three-year term, with a second three-year term being offered, subject to satisfactory performance. By exception, further one-year terms may be offered, a maximum of three times, after the six-year anniversary. At the nine-year anniversary, a Non-Executive Director is viewed by the Code as no longer being independent. A staggered approach to refreshing the Board is the focus of the Committee going forward.

To support its succession policy, a Board skills matrix has been put in place which the Committee is scheduled to review regularly for Board succession planning and any future recruitment needs. This will be refreshed to ensure that it matches the needs of the business and is aligned with the Group's purpose and strategy. The Committee will also use learnings from the Board Evaluation process described on page 62.

The Board engaged Egon Zehnder to undertake a market mapping exercise for the Executive Directors and the Executive Management team to review succession planning below Board level, the results of which were presented to the March 2020 Committee meeting.

Diversity and Inclusion

The Committee reviewed the design and implementation of the Group's Diversity and Inclusion (D&I) strategy in September 2019 and approved percentage targets for female Executive Committee members, diversity targets for candidate shortlists and improvement plans for gender pay gap metrics. The Committee keeps under review the gender balance of senior management and their direct reports and the Group's progress towards its goals in this area. See further information on page 34.

Further details surrounding the Group's approach to D&I can be found in the Sustainability section of the Strategic Report on pages 34 and 35.

Subsidiary governance

The Committee considered the governance arrangements of its material subsidiaries, PAC and MGG, and approved the adoption of a dedicated governance manual to support the procedures around these Boards.

The Committee also reviewed the composition of the PAC and MGG Boards, and their succession plans, in order to ensure that they continued to comply with regulatory requirements.

ESG

The Committee has informal responsibility for independent oversight of the organisation's ESG strategy. A separate ESG Committee composed of management exists as a sub-committee of the Group Executive Committee.

The Committee reviewed a report in September 2019 on the proposed development of the Group's ESG strategy and how this would be managed across all of the Group's business activities and functions.

AGM

In early 2020, in preparation for the Company's first AGM, the Committee considered the performance, time commitment and skills and experience of each Director relevant to the Board's needs. For Non-Executive Directors, independence was also considered. This work supported recommendations to the Board to put each Director forward for election.

Audit Committee Report

Clare Thompson
Committee Chair

Role and responsibilities of the Audit Committee

The Committee's responsibilities include:

- **Financial reporting:** monitoring the integrity of the Group's consolidated financial statements, related announcements and other financial information provided to shareholders;
- **Framework of internal control and risk management systems:** reviewing and monitoring the adequacy and effectiveness of the Group's Risk Management Framework and internal control systems, in conjunction with the Risk Committee;
- **Internal and external audit processes:** assessing the effectiveness and objectivity of both the internal and external audit process;
- **Whistleblowing procedures:** overseeing the effectiveness of the Group's whistleblowing programme;
- **Ethics and Integrity:** reviewing the effectiveness of processes for compliance with laws, regulations and ethical codes of practice.

The Audit Committee's terms of reference can be found on the Company's website at: www.mandg.com

See pages 54 to 56 for membership and meeting attendance

Dear Shareholder

As Audit Chair, I have focused the Committee in two major areas since it was established in May 2019: the financial control and reporting information required to list on the London Stock Exchange; and all aspects of external reporting for our first year end as a listed company.

We have spent time determining the most appropriate accounting policies for the Group, and as part of that process the Committee focused on our significant judgements and key assumptions. Laying out the groundwork inevitably takes longer in the first year with a new Committee, but the time spent was beneficial to prepare a good foundation for our reporting. As a new Committee, we also directed our attention to understanding how our internal audit processes operated and ensuring internal audit were set up to operate as a standalone function after the demerger from Prudential plc.

I spent time building relationships with the audit committee chairs of our material subsidiaries (PAC and MGG) and established regular reporting from these committees to the Group Audit Committee, to ensure matters are escalated appropriately and reviewed by all the correct governance forums.

Having set terms of reference in September, I guided the Committee to cover the duties set for us by the Board, but also to look more widely at the areas which we felt would be of most importance to regulators and other stakeholders.

It has been a busy year with respect to our external auditors, working closely with KPMG on both the demerger and the first consolidated financial statements for M&G plc. We have decided to run our audit tender process in 2020, since we are required to change auditor under the external auditor rotation rules by 2023. The Committee therefore spent time establishing and agreeing the timeline and actions for this critical change.

Areas of focus in 2019

The Audit Committee met four times prior to demerger and on two occasions since admission to the London Stock Exchange. Areas of focus included:

Initial Group and Committee set up:

- Approval of terms of reference
- Approval of Group accounting policies
- Approval of internal control framework
- Review and approval of segments and key performance indicators, including the methodology for their calculation
- Overview of Group-wide Internal Audit and Internal Audit Charter
- Approval of Auditor Independence Policy, Tax Strategy and Tax Risk Policy
- Approval of Whistleblowing Policy and Framework

Specifically related to the demerger:

- Review of financial information for inclusion in the prospectus
- Review of financial position and prospects procedures

Business as usual activity:

- Review and approval of half year 2019 results
- Approval of H2 2019 internal audit plan
- Review of Solvency II valuation methods and assumptions
- 2020 internal audit planning
- Control environment actions
- Review of external audit strategy and plan
- Discussion on the external audit tender
- Review of proforma consolidated financial statements for the year ended 31 December 2019
- Approval of key actuarial assumptions and methodology to be used in the half year and full year financial reporting
- Technology strategy and risk update

The Committee also receives the following regular reports every meeting:

- Audit Committee reports from PAC and MGG, its two material subsidiaries
- Financial reporting
- Compliance updates
- Internal audit update
- Ad hoc whistleblowing issues

Composition

The Board considers all members of the Committee to be independent, Clare Thompson to have recent and relevant experience of working with financial reporting and accounting matters, and the Committee collectively to have competence relevant to the sector in which M&G operates. Details of members' relevant skills and experience can be found on page 54 and 55.

Financial reporting

The Audit Committee reviewed the consolidated and Company financial statements for the year-ended 31 December 2019. The review included:

Fair, balanced and understandable

In assessing whether the 2019 Annual Report and Accounts was fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position, the Audit Committee had regard to:

- The information contained within the Strategic Report, in particular the Business and financial review, represents a fair reflection of the performance of the Group during the year, and is consistent with the information contained within the financial statements.
- The significant issues identified in this report, including the key areas of judgement and estimation, as well as any other significant issues disclosed within the narrative reporting are consistent with the financial statements.
- The alternative performance measures, adjusted operating profit before tax and shareholder Solvency II coverage ratio, have been given equal prominence to the statutory measures of profit and capital, there is a clear description of their calculation and an explanation of their use and relevance is given.
- The allocation of items to adjusted operating profit was in line with the defined methodology, and was appropriately disclosed.
- The identified key performance indicators reflect those used by management to manage, monitor and assess the results of the business, linking to the Group's strategy.
- The key messages are clear, consistent, and easily understood without the use of excessive jargon.

Going concern and viability statements

The Committee reviewed the Group's assessment of going concern for the purposes of the consolidated financial statements, and the associated assessment of longer-term viability to support the statement included in the Financial Review. The Committee challenged the assumptions underpinning the assessments, including review of the potential impact of stressed scenarios on capital and liquidity, and concluded that the positions were both reasonable and supportable. In making this determination the Committee concluded that three years was the most appropriate period for longer-term viability, considering the Group's planning horizon.

Significant issues and areas of judgement and how they were addressed

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements when preparing financial information. Management provides regular updates to the Committee covering areas of management focus and any significant issues.

This section outlines the significant issues and areas of judgement that have been presented to the Committee for consideration, and how each area was addressed.

Significant issues and areas of judgement	How the Committee addressed the issue
Preparation of the Historical Financial Information (HFI) for the Listing Prospectus	The HFI is the section of the Prospectus that sets out the IFRS results of the demerged business over the historical financial periods. Management shared the approach to preparing the HFI with the Committee, as well as outlining the key matters relating to the preparation of this information. The Committee approved the final HFI and associated notes for inclusion in the Prospectus, and was satisfied with the information prepared by management.
Accounting for the establishment of the Group in our first Group financial statements	Management defined the initial accounting policies required for the establishment of the Group and presented these to the Committee. Judgement was applied as IFRS does not define requirements for transactions of this nature under common control. The Committee considered and reviewed the merger accounting basis applied, in particular the decision to include subsidiary entities acquired to form the Group from 1 January 2018, rather than their date of acquisition. The Committee was satisfied that this was the most appropriate judgement as it best reflected the nature and purpose of the demerger.
Classification as held for sale/discontinued operation	The Committee considered the disclosure in relation to the corporate restructuring activity in both the year to 31 December 2019 and 31 December 2018, and challenged management on the conclusions with respect to identifying some of these transactions as held for sale or as discontinued operations. The Committee concluded following this challenge that the classifications were appropriate.
Actuarial assumption setting	The Committee reviewed the key assumptions and judgements made by management in the estimation and valuation of the Group's insurance contract liabilities and defined benefit pension liability. The key assumptions reviewed by the Committee were: – Policyholder mortality, maintenance expenses and the valuation rate of interest used in the estimation of insurance contract liabilities for annuities. – Allowance for maintenance expenses used in the estimation of insurance contract liabilities for policyholder liabilities other than annuities. – Mortality, inflation rates and discount rates used in the estimation of the Group's defined benefit pension obligations. The Committee was satisfied that the assumptions adopted by management were appropriate. Further information on key assumptions and judgements can be found in Notes 1.3 and 1.4 of the consolidated financial statements.
Investments	The Committee received information on the carrying value of investments held on the Group's balance sheet, and particularly focused on those investments where the determination of their fair value required more subjective estimation. These are classified as level 3 in the fair value hierarchy. Following review and challenge of the assumptions made, as well as the wider assessment of the remainder of the Group's assets, the Committee satisfied itself that the overall investments were valued appropriately.
Provisions	The Committee reviewed the Group's significant provisions, including the level of provisioning for any regulatory and litigation matters. The Committee was satisfied that the level of provisioning adopted by management was appropriate. Further information on provisions can be found in Note 30 of the consolidated Group financial statements.
Valuation of M&G plc Company only investment	The Committee received an assessment from management that considered whether any impairment indicators existed as at 31 December 2019 in relation to the Company's investments in subsidiary undertakings. The Committee acknowledged that as at 31 December 2019 the market capitalisation of the Company was below its net assets. The Committee considered management's assessment of the recoverable amount of the subsidiaries, including results of performance against plan. The Committee also considered external market sentiment and external views on expected target share price of the Company, and concluded that there was sufficient evidence to support that no impairment was required.
Other significant judgements	The Committee reviewed and considered the other significant judgements as disclosed within Note 1.3 and Note 1.4 of the consolidated financial statements, these being: – The judgement with respect to whether contracts issued by the Group contain significant insurance risk. – Consideration over the Group's interest in structured entities and whether control exists which would require their consolidation. – The judgement with respect to whether the modification of share awards issued by the Group meet the criteria as replacement awards. Following review of the basis of the above judgements the Committee was satisfied that these were appropriate.

Internal controls

The Group Risk Management Framework sets out that the Audit Committee is responsible for assisting the Board in meeting its responsibilities for the integrity of our financial reporting, including obligations for the effectiveness of our internal control and for risk management systems.

In July 2019, the Audit and Risk Committees approved the Group's Internal Control Framework comprising a three lines of defence model, an integrated control framework and a harmonisation of report and issue ratings. Further details can be found on page 38 to 39.

Regular reporting is received by the Committee with regards to the status of the control environment, including reviews of the effectiveness of the Risk Management Framework, the status and assessment of any outstanding control deficiencies and results of internal compliance testing of controls over financial reporting.

Risk management and internal controls review process

A formal evaluation of the systems of internal controls and risk management is carried out at least annually. The 2019 risk management and internal control effectiveness review has operated in the same manner as for previous years when M&G plc was part of the Prudential plc group. This has involved:

- Review and attestation of compliance with the policy requirements for the reporting period. Attestations to the policy framework were based on attestations to the Prudential plc Group Governance Manual for the period 1 January 2019 until demerger on 20 October 2019 and attestations to the M&G plc Group Governance Framework policies for the remainder of the year post-demerger.
- Review of the effectiveness of the Risk and Resilience Function and Compliance Function.
- Regular assessment of the control environment, including key MI and assessment of significant control failings or weaknesses.

Effectiveness of risk management and internal controls

The Board confirms that there is an ongoing set of processes for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report.

The Board has considered the outcome of the risk management and internal control effectiveness review for 2019 which covered all material controls, including financial, operational and compliance controls. The review identified a number of actions to further enhance the risk management system and strengthen the overall control environment, with a particular focus on the M&G plc Group's information technology controls and supplier risk management, including the robustness of the end-to-end controls following the outsourcing of our life fund accounting. The Audit Committees at M&G plc Group and subsidiary level collectively monitor outstanding actions in these and other areas, and ensure sufficient resource and focus is in place to resolve such actions within a reasonable timeframe.

Further details of the Group's risk management and internal controls process can be found on pages 38 and 43

Risk management and internal controls review process going forward

A separate approach to future internal control effectiveness reviews has been developed for M&G plc as an independent business from 2020, and will include enhanced management self-assessment of the design and operating effectiveness of enterprise-wide key risks and controls (including those impacting the financial statements), the results of which will be aggregated and presented to both the Audit and Risk Committees.

Whistleblowing Policy and framework

M&G plc is committed to a safe and inclusive workplace where all colleagues can speak out and report inappropriate behaviour. The Board therefore recognises the need for colleagues to raise concerns on any issue in complete confidence and without discrimination. The Group's Whistleblowing Policy is supported by an independent external service provider Speak Out, managed under the Risk Function and owned by the Audit Committee with oversight from the Board. The Financial Crime Compliance team investigates all cases of whistleblowing using specialist advisers as required. The Audit Committee then reviews all information received to ensure the process is working correctly. The Committee is satisfied that the whistleblowing policies and procedures remain robust and adequate.

Internal audit

The primary objective of internal audit is to provide independent assurance to the Board and Executive Management on the adequacy of the design and effectiveness of the organisation's systems of internal control, including risk management, governance and operational processes, thereby helping them protect the assets, reputation and future sustainability of the Group.

The Audit Committee approved the Group's Internal Audit Charter in June 2019, and again in November 2019, following an annual review to assess its validity in light of the demerger and the establishment of a standalone internal audit function for M&G plc.

Ian Robinson joined M&G plc as Chief Audit Officer (CAO) in August 2019, his appointment having been approved prior to the demerger by the Prudential plc Audit Committee. The Chair of Audit Committee is responsible for setting the CAO's objectives and reviewing their performance, taking into account the views of the Chief Executive. The CAO is directly accountable to the Audit Committee and has unfettered access to both the Chairs of the Committee and the Board, as required, as well as Executive Management.

Internal Audit adopts a risk-based audit plan of coverage, based on an assessment and prioritisation of the inherent risk and control environment of the Group and a review of external factors such as emerging industry themes and Executive Management priorities. The 2020 audit plan was approved by the Audit Committee in November 2019 and will be reviewed and updated as required to reflect evolving assurance requirements and priorities.

The Committee received regular briefings from internal audit throughout the year.

External audit

Oversight and engagement of external auditor

KPMG has been the external auditor of M&G plc businesses since 1999 as part of the external audit of Prudential plc, and their appointment has been renewed for the financial year ended 31 December 2019. Daniel Cazeaux was appointed the audit partner for the Group's first year-end in 2019. Daniel was the lead audit partner for some of the Group's subsidiaries, including The Prudential Assurance Company Limited, from 2015, and therefore this will be his final year of involvement in the audit of the Group's financial statements. This is in accordance with the Financial Reporting Council (FRC) standards on lead partner rotation.

The Audit Committee provides clear guidance to KPMG on the Committee's expectations and held meetings with KPMG without management present to give the audit team the opportunity to raise any concerns and remain independent and objective.

The Audit Committee approved the Company's first Auditor Independence Policy (including the provision of non-audit services) in July 2019 and will review the policy at least annually. The policy was updated to reflect the FRC's Revised Ethical Standard 2019 and approved by the Committee in February 2020. The main purpose of the policy is to ensure that the Company does not engage the external auditor in any non-audit services that are not permitted, complies with all other relevant regulation and ethical guidance relating to relationships with the external auditor, and maintains a sufficient choice of appropriately qualified audit firms. The Committee is required to approve certain services in advance of any engagement.

The Committee requested and reviewed the external audit plan, ahead of its approval, to provide an opportunity to challenge the plan and ensure that the External Auditor allocated sufficient resources in order to meet the plan.

Effectiveness of external auditor

In liaison with Executive Management, the Committee will annually assess the scope, fee, objectivity, independence and effectiveness of the external audit process and the performance of the external auditor against agreed criteria at the outset of that year's audit. This will include feedback from senior finance management across the Group and Committee members. For the audit of the 2019 results, the Committee reviewed the scope and fees of the engagement in November 2019 and took comfort from the quality of communications with KPMG in meetings, including regular updates received on independence, audit strategy, and audit status. The next full assessment will be carried out in April 2020 and will consider areas such as the overall quality of service, timeliness of the resolution of issues, the quality of the audit resource and whether the audit plan was followed.

Fees paid to the auditor

During the year ended 31 December 2019, the total fees paid to KPMG amounted to £19.8 million (2018: £6.4 million) of which £11.8 million (2018: £1.5 million) related to non-audit services. The majority of those non-audit services related to activity connected with the demerger, where it would be expected that these would be conducted by the external auditor. The services included being the reporting accountant on the historical financial information included in the Listing Prospectus, providing assurance to the Board on the Group's working capital position, and providing assurance to the Board in respect of compliance with the requirements to have established procedures to assess the Group's financial position and prospects on an ongoing basis. Included in the £11.8 million non-audit fees are fees paid on behalf of the Company by Prudential plc in relation to demerger of £9.9 million. Other non-audit services were in relation to Solvency II audits for the Group's regulated insurance entities, CASS and profit verification audits, and other assurance services which are expected to be performed by the external auditor. The total fee paid also includes £0.3 million (2018: £0.2 million) of fees incurred in relation to the audit of the Group's defined benefit pensions schemes. A detailed breakdown of fees paid to KPMG is given in Note 8 of the consolidated financial statements.

All non-audit services described above were approved by the Committee as required in line with the Auditor Independence Policy discussed above. Non-audit services which were entered into prior to the demerger were approved by Prudential plc Group Audit Committee in line with their Auditor Independence Policy. The Committee satisfied itself, considering the fees paid and services provided under the policy, that the objectivity and independence of KPMG was safeguarded.

External audit tender

Under the EU Audit Regulation and Competition and Markets Authority (CMA) auditor rotation rules, the Company is required to rotate its external audit firm by 2023. The Committee has decided to run the tender process during 2020. However, the Committee is waiting for the IASB to release its amendment to IFRS 17, the new insurance accounting standard, to finalise the effective date for the appointment of the new auditors.

The Committee has agreed a process and timescale for the tender, which will be led by a sub-Committee, with a decision on the new auditor expected to be made by the M&G plc Board in October 2020.

Annual evaluation of Audit Committee performance

An evaluation of the Committee's effectiveness was undertaken for its first year by means of an internal questionnaire circulated to each Committee member. The results of the questionnaire were analysed and collated by the Chair and Company Secretary, with a report being produced and considered by all Committee members in March 2020. Further details are included in the Board evaluation section of the Governance Report on page 62.

Risk Committee Report

Role and responsibilities of the Risk Committee

The Board established a separate Risk Committee chaired by Clive Adamson which first met on 8 May 2019. The Chair of the Audit Committee is a member of the Risk Committee, and vice versa, and the Committees work together to support the Board's responsibility for ensuring that appropriate systems are in place to enable it to identify, assess and manage key risks.

The Committee is responsible for assisting the Board in its oversight of risk, including but not limited to:

- Advising the Board on the Group's overall risk appetite, risk tolerances and risk strategy.
- Reviewing the Group's Risk Management Framework and advising the Board on its overall effectiveness.
- Approving the Group's risk policies and/or recommending to the Board approval of the Group's risk policies.
- In conjunction with the Audit Committee reviewing the effectiveness of financial and non-financial controls across the Group's internal control framework.
- Reviewing the effectiveness of the Group's Internal Model including stress testing.
- Reviewing the Own Risk and Solvency Assessment ("ORSA") and, in conjunction with the Audit Committee, compliance with regulatory requirements.
- Advising the Remuneration Committee on risk and control issues that may impact remuneration strategy in any given year, including adjustments to individual incentives.

The Risk Committee's terms of reference can be found on the Company's website at: www.mandg.com

Dear Shareholder

Joining the M&G plc Board in 2019, I had the privilege of bringing with me the experience of my role as a Non-Executive Director and Chair of the Risk Committee of the PAC Board. I therefore already had a clear idea of some of the areas of focus for the Group Risk Committee, and was ready to build on these with my fellow Committee members.

The Committee first spent time putting in place our risk and control systems: a Risk Management Framework, risk appetite agreed limits, and policies and standards to ensure adherence. We also established Top Risks for the Group. With these foundations in place, the Committee could start to assess and monitor risk in a meaningful way. We quickly established a regular reporting flow from the Risk, Compliance and Regulatory functions.

As a Committee, we want to support the business by monitoring the risks where it matters most. I was pleased to see the Group's focus on culture coming through the Committee as we approved a reputational risk policy and social media use policy.

I would like to thank Keith Davies for all his work as M&G plc's first Chief Risk and Resilience Officer. Keith has spent a number of years in the Prudential and M&G businesses and has made an invaluable contribution to our risk progress.

Review of current and emerging risks

The Committee is responsible for reviewing the Group's Risk Management Framework and internal control process further details of which can be found on pages 38 to 43 together with a list of the Group's principal risks and how those risks are identified, managed and mitigated. The Committee is satisfied that its review, and subsequent reporting to the Board, enabled the Board to carry out a robust assessment of the Group's emerging and principal risks.

See pages 54 to 56 for membership and meeting attendance

Areas of focus in 2019

Group risk appetite, tolerance, profile and strategy	Since its first meeting in May 2019, the Committee has reviewed regular reports from the Chief Risk and Resilience Officer (CRRO), including updates on key risks and issues facing the Group, the Group's capital and liquidity position against appetite, the control environment, and risk profile. During 2019, a key area of focus was the risk associated with the demerger, merger and transformation programmes. During the year the Committee considered updates, risk opinions, guidance and assurance on the key aspects of transformation and demerger activity. As part of the demerger activity the top risks facing the Group were reviewed and approved by the Committee, with regular risk assessments and analysis provided to the Committee against those Top Risks.
Group Risk Management Framework and internal controls	The Committee reviewed a new unified Risk Management Framework (and set of Group Risk policies) for the newly created Group for recommendation to the Board. This included new and enhanced Risk policies to focus on the evolving risk profile of the Group, eg the approval of a new Reputational Risk policy and enhanced Third Party Risk Management policy. As part of the review of the Group Risk Management Framework, the Committee reviewed and approved the Group Risk Appetite Statements, which set aggregate risk limits in respect of capital requirements, earnings volatility and liquidity. These Risk Appetite Statements are in turn supported by a series of consistent sub-limits.
Risk models and measures	The 2019 Solvency II Major Model Change application was overseen by the Committee and the model changes (as well as changes in governance policies) approved as part of the application submission to the regulator. The Committee also approved a number of key documents that were required to be put in place for first time for M&G plc as a standalone business, including the Liquidity Risk Management Plan and Recovery and Resolution Plan. The Committee also approved the Internal Model Validation Plan for 2020.
Regulatory matters	The Committee received regular updates on key regulatory matters throughout 2019, including M&G plc's Interbank Offered Rate (IBOR) Programme and Solvency and Financial Condition Report (SFCR) Statement of Compliance Framework.
Compliance and fraud	The Committee reviewed regular updates on a number of regulatory compliance policies including those relating to fraud, anti-bribery, corruption and tax evasion, and anti-money laundering. In respect of data privacy, the Committee received updates on compliance with the General Data Protection Regulation (GDPR). In addition to the key areas of focus referred to above, the Committee also approved the Group's Operational Risk Appetite Statement, Critical Incidents Procedure and reviewed GDPR compliance, the external assurance approach to Merger and Transformation and the 2020 Internal Model Validation Plan.

In addition to the key areas of focus referred to above, the Committee also approved the Critical Incidents Procedure and reviewed the external assurance approach to Merger and Transformation, as well as GDPR compliance.

Regulatory Affairs

The Director of Public Policy and Regulation, who has responsibility for all regulatory affairs and compliance matters, is an attendee at all meetings, and produces a written report to the Committee.

The report covers both functional programmes to support compliance, such as Personal Account Dealing and Whistleblowing, and issues that have arisen such as breaches of policies, with information as to how these are being addressed. The report also covers a range of regulatory relationship updates, including key issues arising from supervisory meetings, information requests, and reviews or reports that the Group is working on with its regulators. The report gives updates on remediation of regulatory issues, for example, Thematic Review of Annuity Sales Practices (TRASP).

The Director of Public Policy and Regulation is also available for the Committee to consult with on any other agenda items that have a regulatory aspect.

Annual evaluation of Risk Committee performance

An evaluation of the Committee's effectiveness was undertaken for its first year by means of an internal questionnaire circulated to each Committee member. The results of the questionnaire were analysed and collated by the Chair and Company Secretary, with a report being produced and considered by all Committee members in March 2020. Outcomes arising from the report will contribute to the 2020 work plan. The Committee will review progress against these in September 2020 with a view to completing actions by February 2021.

Directors' Remuneration Report

Robin Lawther
Committee Chair

Role and responsibilities of the Remuneration Committee

- **Framework of the remuneration policies:** establishing, approving and maintaining the principles and framework of the Group's remuneration policies and for ensuring compliance; and
- **Remuneration:** determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, members of Senior Management, individuals identified as Solvency II Staff and Material Risk Takers under remuneration regulations that apply to the Group and individuals whose total remuneration exceeds an amount determined by the Remuneration Committee from time to time.

The Remuneration Committee's terms of reference can be found on the Company's website at: www.mandg.com

See pages 54 to 56 for membership and meeting attendance

Dear Shareholder

On behalf of the Board and its Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019. This is our first Directors' Remuneration Policy submission for approval by shareholders since successfully listing on the London Stock Exchange as a FTSE 100 company on 21 October 2019.

Since the Remuneration Committee formed in May 2019 we have had much to do. This included managing the transition arrangements at the point of demerger, determining the outcomes for 2019, establishing a new Remuneration Policy for the listed entity and the implementation of the policy for 2020 which included incentive measures and targets.

I have summarised our approach on these below and further details can be found in the Remuneration Report. I hope you find this report and our Remuneration Policy clear and that you will give your support to the binding vote on the proposed Directors' Remuneration Policy at our AGM in May 2020.

Our Remuneration Policy

When the Remuneration Committee convened in May 2019, our immediate focus was to establish the fundamental principles and design of a new Remuneration Policy to be used for the standalone business at the point of demerger. This was built on the following core principles:

- Simplicity and transparency, with clear links between our objectives, performance and remuneration outcomes.
- Alignment of the long-term interests of the company and shareholders through payment in and the requirement to hold company shares.
- Focus on risk management, conduct and positive customer outcomes.
- Promote a respectful, open and diverse culture which improves each year.

In establishing the new 2020 remuneration policy, these principles continue to be core to the design. Alongside this, the remuneration policy we have developed is aligned with both the strategy of the newly listed business and associated corporate governance best practice. Specifically, the Remuneration Policy comprises:

- A base salary of £980,000 for the Chief Executive and £558,200 for the Chief Financial Officer (an increase of 0% and 1.49% respectively).
- A pension contribution of 13% of salary (which can be taken as a cash payment in lieu) which is aligned with the wider workforce.
- Benefits in accordance with our Directors' Remuneration Policy.
- Short-term incentive (STI) with 50% deferral over three years Chief Executive: unchanged at 250% of salary at maximum, Chief Financial Officer: unchanged at 225% of salary at maximum.
- Long-term incentive plan (LTIP) with a three year performance period and two year holding period Chief Executive: unchanged at 250% of salary, Chief Financial Officer: unchanged at 225% of salary.

As part of the Remuneration Policy review, we carried out a consultation exercise with our largest shareholders and advisory agencies. The process captured views on the proposals from close to 50% of our shareholder base. I would like to thank shareholders for their time; the Remuneration Committee welcomed their input during this process. We found the feedback very helpful on both our approach to the design of the new Remuneration Policy and the subsequent explanation in the Remuneration Report, which highlights the principles behind our approach. We have endeavoured to react to this feedback and hope the enclosed Remuneration Report provides a clear account of both our proposals and our rationale.

Overall, shareholders were supportive of the structure of our proposed Remuneration Policy and welcomed our alignment with best practice. The key areas of discussion from our shareholder engagement are summarised below.

Chief Executive level of pay

During the consultation process, shareholders particularly wanted to understand how we had determined the quantum of pay for the M&G plc Chief Executive and its comparison to his previous arrangements under the Prudential plc remuneration policy.

Setting the package at the right level was a key area of focus for the Remuneration Committee in developing the Remuneration Policy. In determining the approach and levels of compensation taking independent advice, we carefully considered a number of factors, primarily:

- The increasing scope and complexity of the role due to the merger of the insurance and asset management businesses.
- The subsequent demerger and the additional responsibilities of the listed company (when compared to the previous subsidiary responsibilities).
- The target remuneration opportunity and package structure under the previous Prudential plc remuneration policy.
- Benchmarking information based on some of our closest financial services peers comprising Aviva, L&G, Standard Life Aberdeen, Hargreaves Lansdown, Schroders, RSA, St James Place and Direct Line.

These factors supported the Remuneration Committee in determining the arrangements as set out in this Remuneration Policy, including determination of a market competitive level of pay for our Executive Directors relative to the above peer group which is appropriate to retain and motivate them and is aligned with the best interests of our shareholders.

In determining the remuneration package for our Chief Executive, two key data points were the previous Prudential plc on-target package (£3.49 million for 2018, his last full year in the role) and market benchmarking against our closest financial services peers. The conclusion was to approve a package with on-target remuneration for our Chief Executive at £3.68 million (including pension but excluding other benefits). This positioned him at a similar target level to his previous on-target package under the Prudential plc remuneration policy, with additional upside that could only be earned for outperformance of our short and medium-term strategic objectives. The different profile of the packages is partly driven by the respective performance scales operated by Prudential plc relative to the proposed M&G plc Remuneration Policy. Shareholders found it helpful to understand that the on-target package was broadly equivalent to what he received in his last two years under the Prudential plc remuneration policy where he had a smaller role and was not operating as the Chief Executive of a standalone listed business.

Further details are set out in the main body of the Annual Report on Remuneration.

Short versus long-term variable pay mix

Shareholders wanted to understand the basis for the split between short and long-term incentives and whether the Remuneration Committee considered a greater weighting towards longer-term incentives.

The Remuneration Committee considered the split between short-term and long-term incentives with the objective that it placed an appropriate balance of focus between:

- Short-term focused objectives in our financial plans and progress against non-financial measures aligned with our commitment to create positive customer experience and outcomes, an inclusive and engaging culture for colleagues and digital enablement of the customer journey, which are closely monitored and reviewed annually.
- Longer-term strategic objectives to grow revenues, manage costs and operate a sustainable business that generates value for shareholders and customers.

Given the importance of both of these, the Remuneration Committee determined that an equal weighting of the STI and LTIP in the packages should apply to ensure that both the short-and long-term objectives are equally prioritised.

I would highlight that in addition to the LTIP, longer-term shareholder alignment is also promoted by the significant deferral of STI (50%) into shares for three years, as well as the prescribed levels of the shareholding requirement for Executive Directors.

Performance metrics

A key consideration in finalising the scorecards was whether to include a capital generation measure in both the STI and LTIP, an area also raised by shareholders. The Remuneration Committee appreciated that this was unusual, however it was mindful that capital generation is one of the main performance indicators for the business and represents a principal investment proposition for investors, specifically:

- From a long-term perspective, capital generation is a measure of value creation, as it allows the Company to pay dividends, aligns Executive Directors with shareholders and our regulatory capital position, and provides for opportunities for future long-term growth; and
- From a short-term perspective the Remuneration Committee viewed that the inclusion of the capital generation metric was essential, particularly to ensure a strong focus on tackling any short-term items which may arise due to the newly demerged status of the Company and on successfully managing the transition.

As such, the Remuneration Committee considered it appropriate to include the capital generation measure in both plans, on an annual and cumulative basis, to ensure there is an equal and connected focus on this key measure on both a short and long-term basis.

More generally, the Remuneration Committee carefully considered the appropriate measures and weightings for the STI and LTIP scorecards and is satisfied that they represent the correct balance of shareholder and policyholder interests, strong strategic alignment and a focus on risk management, customer outcomes and culture.

Other areas

On other key areas we are confident that our Remuneration Policy aligns with leading market practice in complying fully with the updated UK Corporate Governance Code and associated guidance. These include:

- **Calibration** – Target payout levels are set at 50% of the maximum opportunity.
- **Pension** – Contribution is fully aligned to the wider UK workforce.
- **Discretion** – The Remuneration Committee has full power to exercise discretion and override formulaic outcomes where this is deemed appropriate.
- **Malus and clawback** – Can be applied by the Remuneration Committee on all variable remuneration.
- **Post-cessation shareholding requirement** – Introduced for the Chief Executive and Chief Financial Officer which requires them to maintain 300%/200% of base salary (or retain the shares they have accrued up to the point of departure, if lower) for two years following cessation of employment.

Overview of 2019 performance and remuneration outcomes

Performance overview

The STI and LTIP outcomes are determined by reference to business performance and individual performance of the Executive Directors. Full details of the key performance measures used to manage the performance of the business have been set out in the Strategic Report. Some particular highlights relevant to the outcome of the incentives are listed below, demonstrating that the performance of the business met expectations in addition to the successful delivery of demerger and listing.

- Adjusted operating profit before tax of £1,149 million demonstrates the strength and resilience of the business and was in line with expectations for 2019.
- Savings and Asset Management contributed £474 million to adjusted operating profit before tax. Our Heritage business, home to our traditional with-profits policies and annuities which is closed to new customers, contributed £752 million to adjusted operating profit before tax, including a £126 million longevity release.
- Investment performance picked up over the second half of the year, with 59% of our mutual funds delivering above median returns over the three years to the end of 2019.
- From a capital perspective, the business remains strong with a shareholder Solvency II coverage ratio of 176%, up from 170% last year.
- More broadly, the demerger was successfully delivered, and on transformation, we are on track to achieve annual run-rate shareholder cost savings of £145 million by full year 2022.

2019 STI outcome

The STI financial measures for the Executive Directors reflected their roles within the Prudential plc group structure at the start of 2019, with a focus on profit, cashflow and capital, flows and investment performance. The Chief Financial Officer had additional Prudential UK measures aligned to the With-Profit Fund and a customer, risk and people scorecard. As the Chief Executive transitioned to the M&G plc package in June 2019, the calculation of his 2019 STI is partially based on the old and new structure. This is explained in detail in the Annual Report on Remuneration.

The Remuneration Committee was satisfied that the combination of the financial results and personal performance assessments gave an appropriate outcome relative to what had been delivered in 2019, this being 64.3% for the Chief Executive and 60.0% for the Chief Financial Officer. Deferral from the 2019 STI reflects the former Prudential plc remuneration policy of 40% and 20% respectively. This will be 50% from the 2020 STI.

2017 LTIP outcome

The 2017 LTIP award covering the years 2017 to 2019 will vest at 63.5% for the Chief Executive and 90.8% for the Chief Financial Officer. The difference in outcomes is a result of the different performance measures in the LTIP scorecards for the Executive Directors. Specifically, inclusion of a Prudential plc relative Total Shareholder Return (TSR) metric in the Chief Executive LTIP scorecard resulted in a lower outcome.

The LTIP awards vesting at the end of 2019 for both Executives Directors contained a metric linked to conduct/culture/governance issues leading to a material fine. We noted that the current Executive team took over management of the business from December 2015 and led the extensive and robust programme required following the thematic review of annuity sales practices to remediate breaches that took place between 1 July 2008 and 30 September 2017 (but predominantly between 2008 and 2014) leading to a fine by the FCA of £24 million. However, we concluded, based on a strict interpretation of the definition of the metric, that it would be appropriate for the outcome to be zero. This reduced the LTIP outcomes by 6.25% and 5.0% of maximum respectively for the Chief Executive and Chief Financial Officer.

More generally, in making their assessment of variable remuneration, the Remuneration Committee received independent input on risk and controls issues during the performance period. This included a review of the control environment and risk issues by the subsidiary boards for The Prudential Assurance Company (PAC) and M&G Group Ltd (M&GG). The Risk Committee concluded that there had been an appropriate focus to review and improve the culture and effectiveness of the control environment across the business and that robust processes were in place to ensure that where individual accountability resided for specific events linked to risk management, controls or behaviours, such factors were appropriately reflected in remuneration outcomes. As a result of this assessment it was determined that no discretionary downward adjustments to incentive outcomes were required for the Executive Directors.

An overview of the 2019 pay outcomes is provided in Remuneration at a glance on page 76.

Impact of Demerger

At demerger, the Remuneration Committee was required to determine the treatment of unvested deferred STI and LTIP awards over Prudential plc shares for Executive Directors. The first principle was that no value should crystallise to the Executive Directors at demerger, which was the case. This was achieved through a replacement of the awards with equivalently valued awards over M&G plc shares. The replacement awards will continue to their normal vesting dates, subject to the same terms as the original awards.

You will also note from this Remuneration Report that some LTIP measures in awards granted during 2017 to 2019 cannot be measured for the entire period. Where this is the case a corresponding M&G plc measure has been adopted for the remainder of the performance period. The Remuneration Committee is satisfied that the approach used replicates the original terms as closely as possible and that the approach was fair and equitable for both participants and shareholders.

Looking forward to 2020

We are proud of our new Remuneration Policy and what has been achieved in 2019. However, we are not complacent, and the Remuneration Committee is clear on the areas where we would like to make further improvements over the next period.

We are focused on diversity, both gender and non-gender, and improving the gender pay gap. Our latest gender pay gap levels are reported on page 99 and we recognise there is more to do here. A range of initiatives combined with our senior management short and long-term diversity targets underpin our commitment to close this gap.

In addition, in the Strategic Report you will see the extensive ESG initiatives in place across the business, demonstrating our strong commitment to ESG including climate change and diversity. Our incentive scorecard includes a diversity measure and we are committed to including other ESG initiatives to the non-financial element of the incentive scorecards as our plans evolve and robust targets can be established. We are working to gather improved data to allow us to better define and clarify our ESG measures and are rolling out different initiatives to help continue to address these issues in the future.

I trust that you find this Directors' Remuneration Report clear and hope that we will have your support for our Remuneration Policy and Annual Report on Remuneration in May 2020. I plan to continue to engage with our shareholders on the effectiveness of the Remuneration Policy through the three-year period of implementation.

Robin Lawther
Committee Chair

Governance

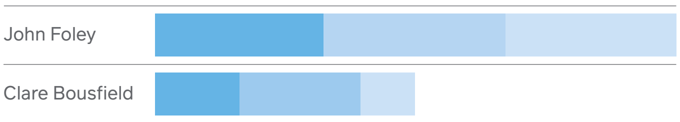
Remuneration at a glance

Remuneration at a glance provides an overview of the remuneration outcomes for our Executive Directors in 2019, our proposed Directors' Remuneration Policy and implementation decisions for 2020.

Remuneration outcomes in 2019

Single figures outcome

Our Executives Directors 2019 single figure earnings are summarised below:



	John Foley (£'000)	Clare Bousfield (£'000)
Fixed Remuneration	£1,210	£606
Short-Term Incentive (STI)	£1,303	£868
LTIP Vesting	£1,224	£389
Total Remuneration	£3,737	£1,863

- Fixed remuneration includes salary, benefits and pension
- STI includes both the cash and deferred elements of the STI awarded for 2019
- LTIP vesting proceeds from awards granted in 2017

Performance scorecard outcomes

The Executive Directors had different performance scorecards for their 2019 STI and 2017 LTIP awards, explained in detail in the Annual Report on Remuneration from page 88. The headline outcomes of the components of the scorecards were as follows:

STI – % of maximum opportunity

	Financial Measures	Personal Objectives	Overall STI Outcome
John Foley	56.9%	93.8%	64.3%
Clare Bousfield	46.7%	80.0%	60.0%

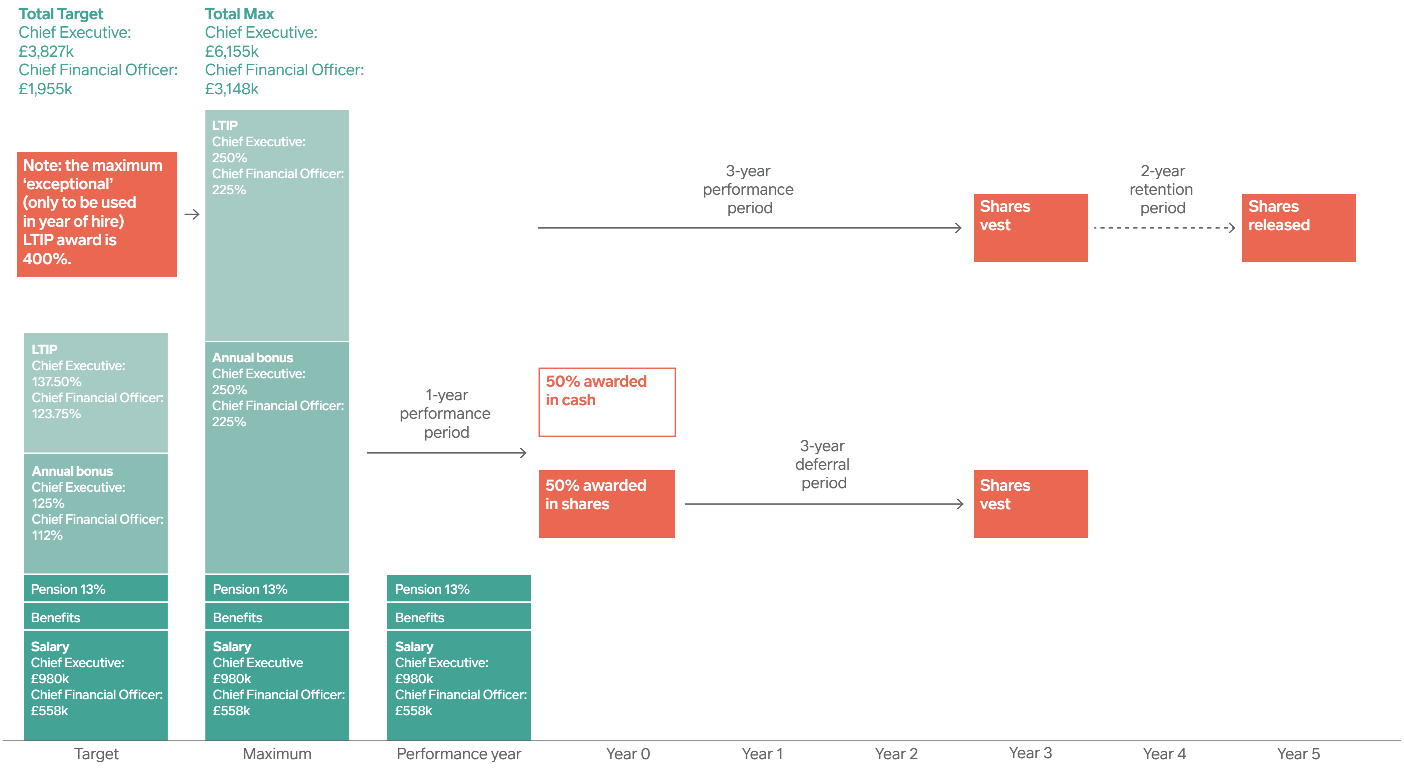
LTIP – % of maximum opportunity

	Financial Measures	TSR	Capital, Conduct & People Measures	Overall LTIP Outcome
John Foley	100%	0%	54.2%	63.5%
Clare Bousfield	100%	n/a	54.2%	90.8%

Full details of the single figure methodology and incentive plan scorecards can be found in the Annual Report on Remuneration from page 88

Overview of proposed Remuneration Policy

The following chart shows the key elements of our proposed Remuneration Policy to apply from 2020, subject to approval at our 2020 AGM. Full details of the proposed Remuneration Policy are provided in the next section:



Governance

Key features

Significant deferral into shares (STI: 50% for 3 years; LTIP: 100% for five years) for long-term alignment with shareholders

Malus: applies to unvested share awards

Clawback: applies for three years from payment of cash STI and over the two-year holding period for LTIPs

Shareholding requirements: Chief Executive/Chief Financial Officer: 300%/200% of salary respectively

Post-cessation shareholding: Maintain shareholding (or retain shares accrued up to point of departure, if lower) for two years following termination

Pension and benefits: Pension of 13% of base salary, aligned to the wider workforce. Benefits aligned to broader company. Exception for the Chief Executive who receives additional benefits as per legacy Prudential remuneration policy

Risk management: Incentive schemes are subject to uncapped downward adjustment (to nil award vesting)

Implementation decisions for 2020

The packages for the Executive Directors were reviewed in 2019 in advance of the listing of the Company. The Remuneration Committee took a number of factors into consideration when determining the packages:

- The increasing scope and complexity of the roles as they expanded to cover the merger of the insurance and asset management businesses and the announcement and successful listing of M&G plc in 2019
- The required skills, knowledge and experience to oversee our unique and complex mix of business operations, including the largest With-Profits Fund in the UK, a significant and diverse asset management business and an expanding international presence
- Calibration of the Chief Executive package under the proposed M&G plc Remuneration Policy to ensure that potential target earnings were commensurate with the previous package under the Prudential plc Remuneration Policy. In particular, the higher target opportunity from incentive schemes
- The Remuneration Committee considered independent advice and benchmarking information for other financial services companies within a reasonable market capitalisation range and with one or more of a combination of insurance, asset and wealth management operations. The Remuneration Committee acknowledged that with so few close peers in the market the benchmarking output could be used as a guide but should not be used in isolation to determine the packages

The Remuneration Committee was satisfied that the packages were appropriate when all these relevant factors were considered. In light of this comprehensive review in 2019, the Remuneration Committee concluded that no salary increase should apply to the Chief Executive and an increase of 1.49% should apply to the Chief Financial Officer in 2020. The next review will take place at the end of 2020 with an effective date of 1 April 2021.

A key objective for the implementation of the Remuneration Policy in 2020 was to ensure close and effective alignment of the STI and LTIP incentive awards to Company strategy, culture, customers and shareholder experience. A summary is provided below with further details provided in the implementation section of the Annual Report on page 100.

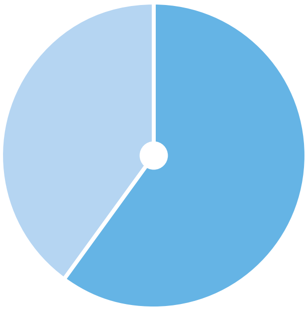
Performance measures

The performance conditions may comprise a combination of financial and non-financial measures, with financial measures comprising at least 50% for STI and at least 75% (including TSR) for the LTIP. The performance conditions for 2020 are shown below.

STI

Financial	**70%**
Capital generation	30%
Adjusted operating profit inc. restructuring costs	20%
With-profit measures	20%
Non-Financial	**30%**
Customer	
Strategic	
People	

LTIP



Cumulative capital generation	60%
Shareholder returns	40%

Rationale for measures and link to strategy

Financial measures

Capital generation

Total capital generation[1] is a key performance measure, integral to the running and monitoring of the business, capital allocation, investment decisions and ultimately our dividend policy. Capital generation for STI excludes market movements relative to those expected under long-term assumptions. The Remuneration Committee felt it was appropriate for STI not to be impacted by short-term volatility in the financial markets.

Cumulative capital generation

Cumulative capital generation is total capital generation[1] over three years. The Remuneration Committee felt it was not appropriate to exclude market movements relative to those expected under long-term assumptions since the Executives are able to take actions to manage market and credit risk over a three-year period.

Adjusted operating profit including restructuring costs

Adjusted operating profit[1] is the alternative performance measure used to manage the performance of the business. Adjusted operating profit is IFRS profit before tax excluding short-term fluctuations from investment returns, profit/loss on disposal of business and corporate transactions, restructuring and other costs and profit/loss before tax from discontinued operations. Given a key strategic objective of the business is transformation the Remuneration Committee felt it was appropriate for restructuring costs to be included for determining STI and LTIP.

With-profits measures

The With-Profits Fund is an integral part of the business to both Savings and Asset Management and Heritage segments. It is included to ensure there is an appropriate balance between the interests of shareholders and policyholders. This is represented by three measures: with-profits renewal expenses per policy, with-profits new business expenses as a percentage of flows and With-Profits Fund investment performance.

Relative Total Shareholder Return

This ensures direct alignment of remuneration outcomes to shareholder experience relative to comparable peers.

Non-Financial measures

Aligned with our commitments to create positive experience and outcomes for our customers as we help them manage and grow savings, and an inclusive and engaging culture for colleagues. For 2020 STI these measures will comprise customer outcomes, digital enablement, diversity and people engagement objectives. All measures will be quantifiable.

For 2020, the Remuneration Committee felt there was sufficient focus on non-financial performance through STI, and therefore it was not necessary to include non-financial measures in 2020 LTIP awards. This will be reviewed on an ongoing basis taking into consideration key strategic objectives of the Company and evolving market practice.

Link to Strategy

	Strategic Objectives			
	Customer and Distribution	**Investment Management**	**Finance and Capital**	**Transformation**
Metric	Develops our propositions and distributes our solutions, providing advice and guidance where needed	Delivers our investment performance and develops our investment capability to create high-value solutions for customers and clients	Allocates resources as efficiently as possible to generate sustainable growing returns over time	Allows us to meet customer and client expectations in a modern, effective and efficient way
Capital generation and cumulative capital generation			✓	✓
Adjusted operating profit including restructuring costs			✓	✓
With-profits measures		✓		✓
Relative shareholder return	✓	✓	✓	✓
Non-financial measures	✓			

1. Refer to the glossary for definitions of Key Performance Measures

Governance

Directors' Remuneration Policy

Remuneration Policy for Executive Directors

Key principles of the Remuneration Policy for Executive Directors

The Remuneration Policy, which is, subject to shareholder approval, intended to take effect from 27 May 2020 has been designed to align with and support our key strategic priorities to create long-term sustainable performance, shareholder value and positive customer outcomes within an inclusive and engaging culture for our employees. Key principles behind the design of the Remuneration Policy were as follows:

- Remuneration packages appropriately positioned relative to the scope and complexity of the roles and relevant market benchmarks to attract, retain and motivate executives with the required skills and experience to deliver our strategic objectives.
- Simple and transparent incentives that provide clear alignment of objectives and performance with our financial and non-financial strategic priorities.
- Strong focus on adherence to our risk management policies and appetite limits to ensure performance is delivered in the long-term interests of the Company, customers and shareholders.
- Balancing the interest of shareholders and customers through the combination of performance measures adopted in the incentive schemes that mitigate the risk of conflicts of interest.
- Strong alignment with the long-term interests of the Company through a significant proportion of executive packages being delivered in shares for three to five years, a shareholding requirement policy and two-year post-employment shareholding requirement policy.
- Key focus on positive customer outcomes and quality of customer engagement.
- Strong alignment with our ambitious diversity targets and objectives to maintain a culture that provides equality of opportunity for all current and prospective employees.
- Promoting a positive culture for employees and customers with demonstrable alignment to remuneration outcomes where our standards for conduct and behaviours are not met, including a robust individual performance assessment process and malus and clawback policy.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Base salary	Base salaries are appropriately positioned to attract and retain executives with the required skills and experience to deliver our strategic objectives. Base salaries are paid in monthly instalments and are normally reviewed annually with increases normally effective from 1 April each year. In reviewing base salaries, the Remuneration Committee takes into account a number of factors, including: – Group and individual performance. – The scope/size of the roles and the skills and experience of the Executive Directors. – Increases amongst the general workforce and affordability. – Benchmarking information for financial services companies with operations consisting of one or a combination of insurance, asset management and wealth management with market capitalisation within a reasonable range of M&G plc.	There are no prescribed maximum salary levels, but any increase will be below or in line with increases for the general workforce in an ordinary year. The Remuneration Committee will retain the discretion to award increases at a level greater than that applied to the general workforce if the Remuneration Committee deems it appropriate to do so. The Remuneration Committee will consider the impact of increasing base salary on other elements of remuneration to ensure total remuneration remains appropriate.	Both individual and Group performance will be taken into consideration when determining base salary increases.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Benefits	Benefits are provided to ensure our remuneration packages are appropriate to attract and retain executives with the required skills and experience to deliver our strategic objectives. Benefits are provided to Executive Directors at a market competitive level, taking into account benefits offered to other employees within M&G plc. Core benefits currently provided to Executive Directors include: – Life assurance. – Disability insurance and critical illness insurance. – Private health insurance (including eligibility for his or her spouse or civil partner and dependent children). – Annual health screening. The Executive Directors are able to participate in self-funded voluntary benefits and discounted M&G plc products in line with other employees. Executive Directors are eligible to participate in UK all-employee share plans, which currently comprises HMRC-approved Sharesave and SIP plans, on the same terms as other employees. The Chief Executive has retained eligibility for certain additional benefits from his previous employment with Prudential plc comprising a car/driver, international medical cover and home security costs. These additional benefits are exceptional to the Remuneration Policy and will not be provided to any other existing or future Executive Directors.	Cover levels are defined within the terms of each benefit with maximum opportunity dependent on the terms of the insurer and individual circumstances. There is no maximum opportunity defined for the Chief Executive's additional benefits. The cost of these benefits is monitored to ensure they align with the intended benefit and are reasonable for the services provided.	There are no performance measures for benefits.
Pension	Pension contributions as a percentage of salary are aligned with the general UK workforce at a level sufficient to ensure our remuneration packages are appropriate to attract and retain executives with the required skills and experience to deliver our strategic objectives. Executive Directors are eligible for employer contributions in respect of the Company's defined contribution pension scheme which may be received in part or in full in cash, unless they have an entitlement to accrue benefits within one of M&G plc's closed defined benefit pension schemes, which they would retain in line with any other employee with the same legacy entitlement. The approach to pension arrangements for the Executive Directors is in line with the wider UK workforce.	13% of base salary per annum, or, if applicable, standard defined benefit accrual rates in line with the pension plan rules.	There are no performance measures for pension contributions.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Short-Term Incentives ("STI")	STI awards are designed to provide clear alignment of objectives and performance with the delivery of our annual financial and non-financial strategic objectives. The deferred share component of STI provides longer-term alignment with the interests of the Company and shareholder value creation. Executive Directors are eligible to participate in an annual STI plan at the discretion of the Remuneration Committee. Performance measures and weightings are determined annually and may vary to ensure alignment with the business plan and strategy. A threshold, target and maximum performance level is set for each measure, with an outcome of 0% for threshold performance or below and 50% of maximum for on-target performance. Performance outcomes are subject to a discretionary downward risk adjustment taking consideration of an annual report from the Board Risk Committee, including an assessment of the control environment and risk and compliance events and the effectiveness of risk management relative to M&G plc's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. 50% of any STI payable to an Executive Director will be deferred for three years into an award of M&G plc shares under the Deferred Incentive Plan. The rate of deferral may be adjusted upwards to meet remuneration regulatory requirements where required. Dividend equivalents may accrue on deferred share awards, based on dividends paid to shareholders during the vesting period. These may accrue either in cash or shares on a reinvestment basis and are subject to the same terms, including vesting date, as the deferred share award. Adjustments may be made to deferred share awards in certain circumstances including rights issues, corporate restructuring and special dividends, if the Remuneration Committee deems it appropriate to do so. Malus and/or clawback provisions apply to both cash and deferred STI awards, as described in further detail on page 83.	STI awards are subject to an annual limit of 250% of base salary for the Executive Directors.	The scorecard of performance measures will comprise a combination of financial and non-financial measures, with financial measures comprising at least 50% of the scorecard. Performance measures and weightings are determined annually to ensure alignment with the business plan and strategy. The Remuneration Committee has discretion to adjust formulaic outcomes if they are not considered to be representative of the overall financial performance of the Group. Any adjustments applied will be explained in the relevant Annual Report on Remuneration. Performance targets and ranges will be disclosed with the performance outcomes of STI awards in the Annual Report on Remuneration published at the end of the performance period for the STI awards.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP)	LTIP awards are designed to provide long-term alignment of executive remuneration to sustained business performance relative to long-term strategic objectives and shareholder value creation. Executive Directors are eligible to participate in an LTIP at the discretion of the Remuneration Committee. Awards are normally granted annually over M&G plc shares. Awards are subject to performance conditions which are measured over a three-year period from 1 January of the year of grant with vesting occurring on the third anniversary of the grant date. Vested awards are subject to an additional holding period of two years. A threshold and maximum performance level is set for each measure, with straight line interpolation for performance between these levels. At threshold performance, 0% will vest for all metrics with the exception of TSR, for which 25% will vest. There is zero vesting for performance below the threshold. Maximum performance will result in 100% vesting. Performance outcomes are subject to a discretionary downward risk adjustment taking consideration of a report from the Board Risk Committee, including an assessment of the control environment and risk and compliance events and the effectiveness of risk management relative to risk appetite during the performance period. Any adjustments applied will be explained in the relevant Annual Report on Remuneration. Dividend equivalents may accrue on LTIP awards, based on dividends paid to shareholders during the vesting period. In line with the plan rules, dividend equivalents may also accrue during any applicable post-vesting holding period. These may accrue either in cash or shares on a reinvestment basis and are subject to the same terms, including vesting date, performance conditions and holding period, as the LTIP share award. Adjustments may be made to deferred share awards in certain circumstances including rights issues, corporate restructuring and special dividends, if the Remuneration Committee deems it appropriate to do so. Malus and clawback provisions apply to LTIP awards during the vesting and holding periods. Further detail can be found below.	LTIP awards are subject to a limit of 250% of base salary in respect of any financial year. An exceptional limit of 400% of base salary may be utilised at the discretion of the Remuneration Committee in respect of the year of recruitment of a new Executive Director only.	The performance conditions may comprise a combination of financial (including TSR) and non-financial measures, with financial measures comprising at least 75% of the scorecard. Performance measures and weightings for the grant of new awards are determined annually to ensure alignment with the business plan and strategy. The Remuneration Committee has discretion to adjust formulaic outcomes if they are not considered to be representative of the overall financial performance of the Company. Any adjustments applied will be explained in the relevant Annual Report on Remuneration. The Remuneration Committee has discretion to amend or replace performance measures where it reasonably considers it appropriate to do so, provided that the amended conditions are not materially less challenging. Performance measures, targets and ranges will be disclosed in the implementation section of the Annual Report on Remuneration for the year prior to the grant of LTIP awards.

Malus and clawback

All STI and LTIPs operated by M&G plc are subject to malus and clawback provisions in the following circumstances:

Application to STI	Cash STI	Clawback for three years from the payment date
	Deferred STI (in shares)	Malus for the three-year vesting period
Application to LTIP	three-year vesting period	Malus for the three-year vesting period
	two-year holding period	Clawback for the two-year holding period

The circumstances in which the Remuneration Committee may consider the application of malus and/or clawback are defined in the plan rules and can be summarised as follows:

- A material misstatement of published accounts;
- An error in the calculation of performance outcomes or such calculation being based on inaccurate information;
- Material risk management failures;
- Gross misconduct;
- Breach of an applicable law, regulation or code of practice;
- Actions leading to reputational harm to the Company; or
- Corporate failure.

Malus can be applied to an alternative unvested award to satisfy a clawback event on a vested/released award.

Legacy arrangements

Executive Directors may be eligible to receive any payments from any remuneration arrangements in effect prior to the approval of this Remuneration Policy (including vesting of share awards granted prior to the listing of M&G plc or prior to the appointment to the Board). Details of any such payments will be set out in the applicable Annual Report on Remuneration as they arise.

Remuneration Committee discretion

The Remuneration Committee retains discretion in the operation and administration of the Directors' Remuneration Policy, noting that no material changes will be made to the advantage of the Executive Directors without obtaining shareholder approval.

This includes (but is not limited to) the following:

- The Executives' participation in the Company's incentive plans.
- The timing of awards including grant, vesting and release dates.
- The size of awards and vesting levels within the limits set out in this Remuneration Policy (including the exceptional LTIP limit of 400% for new appointments).
- The performance measures and weighting for STI and LTIP awards within the terms set out in this Remuneration Policy.
- The adjustment of formulaic outcomes of incentive awards for risk management issues or where the outcomes are not reflective of overall Company performance.
- The settlement of any share awards in cash in exceptional circumstances.
- The determination of good leaver status and treatment of unvested awards in line with this Remuneration Policy and incentive plan rules.
- The extent to which malus and clawback should apply to any award.
- The adjustment of awards in certain circumstances including rights issue, corporate restructuring, change of control and special dividends.
- The amendment or replacement of performance measures where it reasonably considers it appropriate to do so, provided that the amended conditions are not materially less challenging.
- To amend the Remuneration Policy to ensure continued compliance with any applicable remuneration regulations.

Performance measures

Performance measures and targets for the STI and LTIP include a balance of financial and non-financial measures aligned with the Company's key short- and long-term strategic priorities:

- Stretching financial targets to deliver growth and create financial flexibility for investment opportunities to build capabilities in high value-added areas and expand our proposition in the UK and internationally. Financial targets are approved by the Board through a rigorous process taking consideration of market conditions, competitor practices and forecasts.
- Balancing the interest of policyholders and shareholders;
- Creating and maintaining positive experience and outcomes for our customers.
- Creating an inclusive and engaging culture that supports the Company's diversity and inclusion objectives to provide equality of opportunity for all who apply for and perform work for the Company.
- Adhering to a robust risk management policy and risk appetite limits.
- Aligning with the long-term sustainable success of the Group and value creation for shareholders.

Shareholding requirement

Executive Director	Shareholding requirement
Chief Executive	300% of base salary
Chief Financial Officer	200% of base salary

The purpose of the shareholding requirement is to align Executives with the long-term interests of the Company, customers and shareholders through a requirement to hold shares both during and post-employment.

Executive Directors must attain the shareholding requirement and maintain this level of holding within five years of this Remuneration Policy coming into effect or, for new appointments, of becoming an Executive Director.

In addition to personally owned shares, unvested shares not subject to performance conditions (deferred STI awards and LTIP share awards subject to a holding period) will count towards the requirement on a net-of-tax value basis. Executive Directors must hold vested shares until the requirement is met except in exceptional circumstances with the approval of the Chair of the Remuneration Committee.

Shareholding levels will be tested annually following completion of the annual grant and vesting of awards, which will be disclosed in the Annual Report on Remuneration.

A post-employment shareholding requirement will be operated for the Executive Directors requiring them to maintain their shareholding requirement or actual shareholding, if lower, at the point of departure in full for two years post-employment (following the same methodology as set out above).

External appointments

The Executive Directors may take up external directorships and retain the fees for such appointments with the approval of the Board. All external appointments will be disclosed in the annual report.

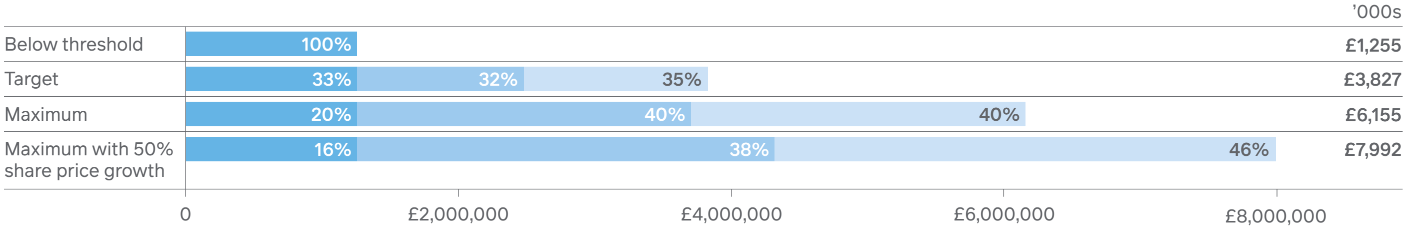
Remuneration regulations

This Remuneration policy has been designed to ensure compliance with all remuneration regulations applicable to the Group. The Remuneration Committee reserves discretion to amend the remuneration policy if it is required to do so in order to maintain compliance with any new or amended regulations.

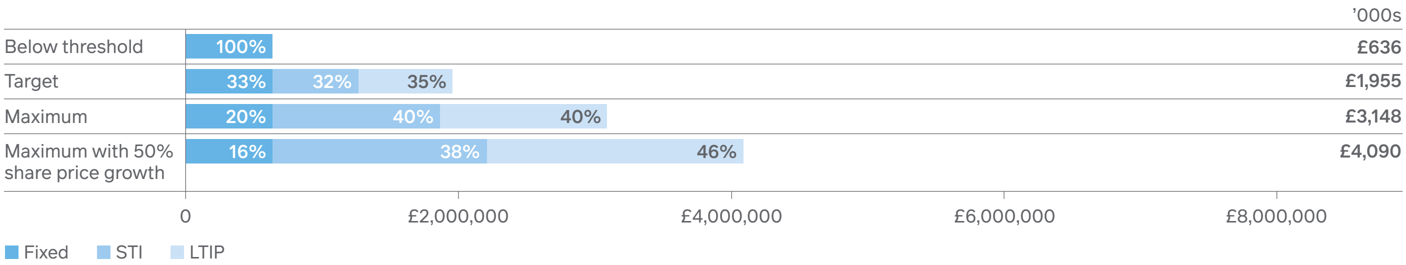
Scenario charts

This Remuneration Policy is designed to ensure that executive remuneration is directly aligned with the delivery of key financial and non-financial performance objectives and the creation of shareholder value, achieved in accordance with the Company's policies and values for risk management, conduct, customer and culture. The majority of the remuneration packages are in the form of incentive awards with the maximum values only achievable with significant outperformance of business plans and objectives. Two-thirds of the incentives are delivered in shares to maintain close alignment with shareholders. The table below illustrates the potential earnings of each Executive Director in four performance scenarios:

Chief Executive



Chief Financial Officer



The performance scenarios incorporate the following assumptions:

Fixed remuneration	Comprising the 2020 base salary, benefits (based on the 2019 single figure total) and a 13% pension contribution
Target remuneration	Fixed remuneration plus the value that would arise from the incentives for achieving on-target performance: – STI with a 50% outcome for on-target performance – LTIP with a 55% outcome for on-target performance (financial measures with a 50% outcome and TSR with a performance scale mid-point of 62.5%)
Maximum remuneration	Fixed remuneration plus the value that would arise from the incentives for achieving maximum performance
Maximum remuneration with 50% share price growth	Maximum remuneration increased for the assumption that the share components of the package (deferred STI and LTIP awards) increase in value by 50% from the share price at grant.

Remuneration Policy for new appointments

Remuneration packages for new Executive Directors (including those promoted internally) will be in line with the requirements of this Remuneration Policy including maximum incentive levels. If required, awards may be granted to replace awards or amounts forfeited by a previous employer (buyout awards). Any buyout awards would be limited to what is considered to be a fair estimate of the value of remuneration forfeited and with equivalent terms (including vesting dates and performance conditions). The grant value of buyout awards are not subject to the maximum limits described in this Remuneration Policy.

The Group may cover reasonable legal costs and certain relocation expenses in accordance with the Group's relocation policy for new appointments.

New Executive Directors may be eligible for an LTIP award up to the exceptional maximum opportunity of 400% of salary in the year of hire, at the discretion of the Remuneration Committee.

Service agreements

All Executive Directors have service agreements of an indefinite duration that can be terminated by either party by serving 12 months' notice. Under this Remuneration Policy this is the maximum notice period that may be applied to Executive Directors. The terms of the service agreements are considered to be in line with current best practice for Executive Directors. The service agreements are available for inspection on request from the Company's offices.

Loss of office

In the event of the termination of an Executive Director, the terms of the termination will be determined by reference to the service agreement, this Remuneration Policy, the rules of relevant incentive plans and the signing of a settlement agreement, as detailed in the table below:

Element	Policy
Notice period	Twelve months from either party. The Group may require that all or an element of the notice period be taken as gardening leave. The Group may elect to pay in lieu of notice for all or a portion of the contractual notice period. In this instance, payment would be restricted to salary only and may be delivered monthly to mitigate loss. Any holiday entitlement will be pro-rated to reflect the proportion of the year employed. Any outstanding holiday entitlement must be used during the notice period. If an Executive Director is dismissed for cause, there will be no notice period or payment made for loss of office.
Termination payments	Consistent with other employees, Executive Directors may receive payments to compensate them for the loss of employment rights on termination, subject to entering into a satisfactory settlement agreement. Payments may include a nominal amount for agreeing to non-solicitation and confidentiality clauses, insurance cover for a specified period following the termination date, outplacement services, legal fees or repatriation assistance. In the event of redundancy a payment may be made in accordance with the Groups' redundancy policy in effect at that time.
STI awards	A good leaver* will be entitled to a pro-rated STI award for the period worked (excluding gardening leave) during the year, determined and paid through the normal process and subject to normal terms, including deferral. There is no entitlement to an STI award in the year of termination for a bad leaver.
Treatment of incentive awards	Unvested deferred STI awards for good leavers continue to their normal vesting date. Unvested awards for bad leavers will lapse. Unvested LTIP awards for good leavers will continue to their normal vesting date, pro-rated for the time worked during the performance period. The Remuneration Committee has discretion to waive the pro-ration of LTIP awards, should they deem this to be appropriate. Unvested awards for bad leavers will lapse. Vested LTIP awards subject to a holding period will remain subject to the holding period until the original release date. All awards continue to be subject to their original terms, including malus, clawback and holding periods. The Remuneration Committee has discretion to accelerate the vesting and release of awards for good leavers in exceptional circumstances.
Change of control	In the event of a change of control of the Company, the Remuneration Committee may determine that: – STI awards for the year during which the change of control occurred may either continue to be determined on the basis of the whole year or may be pro-rated to the date of the change of control – Unvested deferred STI awards are exchanged or replaced with equivalent awards over shares in another company, continuing to their normal vesting date, or that the vesting of the awards is accelerated to the date of the change of control – Unvested LTIP awards are exchanged or replaced with equivalent awards in another company, continuing to their normal vesting date and subject to the same or equivalent performance conditions, or that the vesting of awards is accelerated to the date of the change of control. If the awards are accelerated, they will be subject to pro-ration and an assessment of the extent to which the performance conditions have been achieved. The Remuneration Committee has discretion to waive the pro-ration of LTIP awards if this is deemed appropriate.

* Good leaver applies in the event of death, disability, redundancy and sale of the company/business in which an individual works. Other leavers may be granted good leaver status at the discretion of the Remuneration Committee (which may include retirement).

Remuneration Policy for Non-Executive Directors ("NED")

Fees	Fees take account of the time commitment and responsibilities of the roles and market reference points for comparable FTSE organisations. The Chair receives a base fee which is reviewed annually by the Remuneration Committee. Non-Executive Directors receive a base fee and additional fees for other Board roles such as Chair or membership of a Committee, acting as the Senior Independent Director or subsidiary Board roles. Fees are reviewed annually by non-conflicted members of the Board. Independent advice is considered in all fee reviews.
Benefits	Private medical insurance is provided to the Chair. The Chair and Non-Executive Directors are not eligible to participate in the Company's pension or incentive arrangements. Expenses incurred to undertake the role may be reimbursed by the Company. The Company may pay any tax due on reimbursed expenses.
Recruitment	Fees for a new Non-Executive Director will be aligned with the fee structure applicable to other Non-Executive Directors at the time of appointment.
Notice period	Chair: six months by either party without liability for compensation. Non-Executive Directors: six months by either party without liability for compensation.
Key terms of appointment	The Chair and Non-Executive Directors are subject to annual re-election at the AGM.

Note on changes since the last Remuneration Policy

This is the first Remuneration Policy for M&G plc.

Remuneration arrangements throughout the Company

The Remuneration Committee has taken careful consideration of remuneration arrangements for employees across the Company in determining the Remuneration Policy and its implementation. Although we have not formally consulted our employees while drawing up the Remuneration Policy, given the Company's all-employee share plans, all employees who were employed at the point of the demerger are shareholders in the Company and can therefore vote on the policy in the same manner as any other shareholders to express their views on executive remuneration.

The Remuneration Committee carefully considers the impact of Board or management decisions on the wider employee population. This will be achieved through a combination of management and employee feedback and an engagement plan of formal and informal activities has been agreed for 2020.

A Remuneration Policy is in place for establishing standards for the design and operation of remuneration across the Company, which has consistent principles to the Directors' Remuneration Policy. Pension and benefit programmes are in place for all employees. Pension entitlement is aligned with that for the Executive Directors. The majority of benefits are also aligned. All employees are eligible for STI annually, determined through a combination of Company and personal performance and subject to risk adjustment. LTIP awards are used for senior management roles across the Company. Employees are eligible to participate in all-employee share schemes and discounted products on the same terms as the Executive Directors. The Remuneration Committee will receive information on remuneration across the Company, including average salary increases, the design and outcomes of incentive plans and the Chief Executive pay ratio, when determining the implementation of the Remuneration Policy for Executive Directors.

Consideration of shareholder views

When setting the Remuneration Policy and determining remuneration, best practice guidelines issued by institutional shareholder bodies are taken into account.

The Remuneration Committee has engaged with the largest shareholders and institutional shareholder bodies to understand their views on this Remuneration Policy. The process captured views from close to 50% of the shareholder base. Shareholders particularly wanted to understand the rationale for the Chief Executive quantum of remuneration, the balance of STI and LTIP in the remuneration package structures and the inclusion of capital generation in both of the incentive scorecards. We have endeavoured to respond to this feedback and provide clear rationale for the proposals.

The Remuneration Committee will continue to monitor trends and changes in corporate governance to ensure remuneration at M&G plc remains appropriate and continue to engage with shareholders on the effectiveness of the Remuneration Policy.

Annual Report on Remuneration

Single figure total remuneration table (Audited)

The following table provides the 2019 single figure total remuneration for the Executive Directors. All figures are provided on a full-year basis for transparency and ease of comparison to future years. Incentives vesting at the end of 2019 and certain other policies relevant to this section of the report reflect legacy policies rather than the proposed Remuneration Policy to apply for 2020 remuneration.

Executive Director	Base salary £'000	Benefits £'000	STI £'000	LTIP £'000	Other £'000	Pension £'000	**Total £'000**
2019 John Foley	904	147	1,303	1,224	2	157	**3,737**
2018 John Foley	781	123	1,186	1,511	–	195	**3,796**
2019 Clare Bousfield	530	6	868	389	2	68	**1,863**
2018 Clare Bousfield	–	–	–	–	–	–	**–**

Notes to the single figure table:

- Remuneration is for the full calendar year 2019 and hence part of the remuneration relates to the period pre-admission, rather than solely the three months post-admission which would not be reflective of the Executive Directors' remuneration.
- STI represents the full amount awarded in respect of 2019 including both the cash and deferred shares components, plus two amounts paid to Clare Bousfield in respect of a legacy Prudential plc incentive scheme totalling £125,000 of which 40% was deferred into M&G plc shares.
- LTIP awards vesting in year have been calculated on a combination of Prudential plc and M&G plc measures.
- The price used to calculate the value of the M&G plc shares for the LTIP vesting was £2.2796, an average of the closing price from listing to 31 December 2019. The actual share price will be determined in April 2020 and will be disclosed in the 2021 Annual Report.
- 2018 remuneration for the Chief Executive reflects the single figure remuneration disclosed by Prudential plc in its 2018 Remuneration Report. For consistency this is also reported on a full-year basis. Full details of the components of 2018 remuneration can be found in the Prudential plc Directors' Remuneration report.

Single figure remuneration – Base salary

The packages for the Executive Directors were reviewed in 2019 in advance of the listing of the Company. As a result of this review the base salary for the Chief Executive was increased from £797,000 to £980,000 with effect from 1 June 2019 and the base salary for the Chief Financial Officer was increased from £470,000 to £550,000 with effect from 1 April 2019. Further detail on the rationale and criteria considered in this review can be found in 'Remuneration at a glance' on page 78.

Single figure remuneration – Benefits

Benefits include the total value of all benefits paid in respect of the year ended 31 December 2019. Benefits included for John Foley are life assurance (£5,000), disability insurance (£2,500) and private health insurance (taxable – £2,778). Benefits included for Clare Bousfield are life assurance (£3,000), disability insurance (£1,500) and private health insurance (taxable – £1,136).

John Foley has also retained a number of taxable benefits that he was offered as a Director of Prudential plc. These comprise private international healthcare, including his family (£25,600), home security support (£2,200) and the use of a car/driver for business purposes (£109,400), with values inclusive of tax paid by the Company.

Single figure remuneration – Short-Term Incentive

The maximum STI entitlement for the Chief Executive was increased to 250% of base salary from 180% of base salary with effect from 1 June 2019. The maximum entitlement for the Chief Financial Officer was increased to 225% of base salary from 120% of base salary for the entire 2019 STI performance period.

The total STI amounts reflect the awards to be paid in 2020 based on performance for the year ended 31 December 2019. The value includes both the cash element and the portion deferred into shares. The amount deferred reflects the previous Remuneration Policy operated within the Prudential plc group, 40% for the Chief Executive and 20% for the Chief Financial Officer. Deferral is for three years subject to continued employment, and good leaver and malus as operated under the previous policy. For 2020 STI, deferral for the Executive Directors will align with the proposed Remuneration Policy at 50%.

For the purposes of determining the 2019 STI outcome, the Remuneration Committee assessed the performance of the business and the individuals by reference to their scorecards which include a combination of Prudential plc performance (Chief Executive only), M&G plc and subsidiaries performance and individual performance. Taking consideration of independent input from the Board Risk Committee, the Remuneration Committee concluded that no discretionary downward risk adjustment was necessary to the STI awards for the Executive Directors.

Full details of the scorecard measures, target/performance ranges and outcomes are provided in the tables:

Chief Executive STI scorecard

	Measure	Weighting	Threshold (£m)	Target (£m)	Maximum (£m)	Actual (£m)	Period 1 Outcome	Period 1 Weighted Outcome	Period 2 Outcome	Period 2 Weighted Outcome
Prudential plc	Prudential Group Financial (H1 2019)	10.0%					92.0%	9.2%	80%	8.0%
Prudential UK	Prudential UK operating profit	13.4%	473	511	549	747	100%	13.4%	100%	13.4%
	UK Cashflow	11.2%	507	548	589	548	80.0%	9.0%	50.0%	5.6%
	Operating Free Surplus Generated	15.7%	771	833	895	824	68.4%	10.7%	42.7%	6.7%
	Post Tax EEV – NBP	4.5%	350	378	406	312	0%	0%	0%	0%
M&GG	M&GG operating profit	12.6%	384	415	446	383	0%	0%	0%	0%
	Investment Performance Quartile	12.6%	50.0%	63.0%	70.0%	65.5%	87.1%	11.0%	67.9%	8.6%
Personal Objectives (see personal performance table for details)		20.0%					93.8%	18.8%	93.8%	18.8%
Total								72.1%		61.1%

Notes on the Chief Executive scorecard:

Period 1 – For the period 1 January 2019 to 31 May 2019, the Chief Executive STI entitlement was based on a package aligned with the Prudential plc remuneration policy, comprising a salary of £797,000, maximum STI entitlement of 180% and financial metrics with a target outcome of 80% of maximum (50% for personal objectives). For this period the maximum STI opportunity was £597,750 with an actual outcome of £430,679.

Period 2 – For the period 1 June to 31 December 2019 the Chief Executive STI entitlement was based on a package aligned with the proposed M&G plc Remuneration Policy, comprising a salary of £980,000, maximum STI entitlement of 250% and financial metrics with a target outcome of 50% of maximum (also 50% for personal objectives). For this period the maximum STI opportunity was £1,429,167 with an actual outcome of £872,506.

The Prudential plc financial outcome was provided by the Prudential plc remuneration committee without any additional details.

The same performance measures, weightings and performance ranges were used for both periods, but with target outcome positioned differently within the financial performance ranges, as noted above.

Details of the Chief Executive STI personal objectives and assessment

Personal Performance Measures	Highlights	Weighting	Weighted Outcome (% of Max)
Governance	Strong focus on improving the culture and effectiveness of the control environment across the business. Improvements targeted in 2020 to build on foundational work in 2019. The business remained strong, with a shareholder Solvency II coverage of 176%, up from 170% in 2018.		
Strategic	The Merger and Transformation Programme is on track to achieve annual run rate shareholder cost savings of £145 million by the end of 2022. Successfully demerged from Prudential plc to become an independent company following a comprehensive and effective programme to showcase the investment proposition to investors.	20%	18.8%
Customer and People	Launched improved and modernised customer and adviser platforms for the UK market, while broadening our proposition with the new PruFolio range. Fund performance picked up over the second half of the year, with 59% of mutual funds weighted by assets under management delivering above median returns over the three years to the end of 2019. Implementation of the new operating model with the establishment of a new Group Executive Committee, without the need for any external hires, was completed by mid-2019. Significant focus on culture and values with a new framework of simpler and more flexible HR policies (including diversity, talent and performance and learning). Strong focus on Employee Opinion Survey results and diversity targets and the launch of a new set of guiding behaviours and values. Leading sponsor for the development of the Company's ESG initiatives		

Chief Financial Officer STI scorecard

	Measure	Weighting	Threshold (£m)	Target (£m)	Maximum (£m)	Actual (£m)	Outcome	Weighted Outcome
Prudential UK	Prudential UK operating profit	7.9%	473	511	549	747	100%	7.9%
	UK Cashflow	6.5%	507	548	589	548	50.0%	3.3%
	Operating Free Surplus Generated	9.2%	771	833	895	824	42.7%	3.9%
	Post Tax EEV – NBP	2.6%	350	378	406	312	0%	0%
	With-Profits	2.6%	69.3	63.0	56.7	65.7	28.6%	0.7%
	Balanced Scorecard – Customer and Risk	9.6%	See additional information below				50.6%	4.9%
M&GG	M&GG operating profit	10.8%	384	415	446	383	0%	0%
	Investment Performance Quartile	10.8%	50.0%	63.0%	70.0%	65.5%	67.9%	7.3%
Personal Objectives (see personal performance table for details)		40.0%					80%	32.0%
Total								60.0%

Notes on the Chief Financial Officer scorecard:
The balanced scorecard component comprised metrics aligned with customer outcomes, culture and behaviours, cost management and controls. The Remuneration Committee considered performance against each of the categories to determine an outcome as detailed in the table below:

Measure	Performance
People – Sustainability Index	Below expectations
Customer – NPS	Below expectations
Customer – Digital	Above expectations
Control Environment	In line with expectations
Cost Base	In line with expectations
Overall score (out of 100%)	50.6%

Details of the Chief Financial Officer personal objectives and assessment

Personal Performance Measures	Highlights	Weighting	Weighted Outcome (% of Max)
Governance	Improved quality and timeliness of financial reporting to help drive financial discipline and delivery of business plans. Strong focus on improving the culture and effectiveness of the control environment across the business. Improvements targeted in 2020 to build on foundational work in 2019.	40.0%	32.0%
Strategic	The Merger and Transformation Programme is on track to achieve annual run rate shareholder cost savings of £145 million per annum by 2022. Successfully demerged from Prudential plc to become an independent Company, setting the strategy for dividends and debt and delivering a comprehensive and effective programme to showcase the Company to shareholders through financial reporting, the Prospectus and road shows.		
Customer and People	Progress on the finance operating model, with more to be done in 2020 to complete the transformation of the function. Significant focus on culture, values and behaviours across the function and the business generally and a lead sponsor for the development of the Company's ESG initiatives.		

2019 STI Financial metrics definitions

Prudential UK: This represents Prudential plc segmentation of our business and consisted of the UK and Europe insurance business.

M&G Group: This represents Prudential plc segmentation of our business and the results of the M&G Investments business.

Prudential UK/M&GG operating profit: Reflects operating profit under the Prudential plc segmentation. Prudential plc defines operating profit , applicable to Prudential UK and M&G Group, as IFRS profit after tax excluding short-term fluctuations in investment returns on shareholder-backed business, gains or losses on corporate transactions and the total tax charge for the year.

UK cashflow: This represents the dividends paid to Prudential plc excluding the demerger dividend.

Prudential plc operating free surplus generated: Free surplus represents the excess of net worth over the required capital using European Embedded Value (EEV) Principles for insurance business and IFRS net assets for asset management business excluding goodwill. The free surplus generated comprises the movement in free surplus excluding foreign exchange, capital and other reserves movements. Operating free surplus generated comprises free surplus generated excluding non-operating items such as short-term fluctuations in investment returns, effect of changes in economic assumptions for long-term business operations and the effect of corporate transactions.

Prudential plc post-tax EEV new business profits: The profits after tax, calculated in accordance with EEV Principles, from business sold in the financial reporting period.

Investment performance quartile: Reflects the average proportion of M&G funds that are within the first and second quartiles of their sector on a one- and three-year basis.

With-Profits renewal costs: Represents renewal expenses of the With-Profits Fund, excluding certain merger and transformation costs, divided by the average number of in-force policies.

Single figure remuneration – LTIP vesting in year

LTIP awards vested during the year under the Prudential plc Long-Term Incentive Plan that were granted in 2017. The performance measures and weightings varied for the Executive Directors, reflecting their different roles within the Prudential plc group at the time of grant.

As a result of the demerger and listing of M&G plc in October 2019, it was not possible to complete the performance period for all measures in the scorecards. Performance of the original measures was assessed as closely as practicable to the demerger date and an equivalent M&G plc measure was used to complete the performance period. The Remuneration Committee was satisfied that all adjusted and replacement targets had been derived from the appropriate business plans and that replacement measures were the closest equivalent measures available to complete the performance period. All other terms of the awards were maintained, including the vesting levels at threshold, target and maximum performance.

In addition, the shares under each award were converted from Prudential plc shares to M&G plc shares at demerger. The methodology used to ensure that this was a fair and equivalent value conversion is provided in 'Unvested share awards at the time of demerger'.

Chief Executive LTIP scorecard

	Weighting	Measure	Period	Sub-Weight	Threshold (25%) (£m)	Target (80%) (£m)	Maximum (100%) (£m)	Actual (£m)	Vesting	Weighted Outcome
Profit Measures	50%	Prudential UK operating profit	1/1/17 – 31/12/18	33.33%	1,406	1,562	1,718	1,928	100%	50.0%
		M&G plc adjusted operating profit before tax (inc. restructuring costs)	1/1/19 – 31/12/19	16.67%	788	876	964	1,004	100%	
Prudential plc/ M&G plc TSR	25%	Ranking relative to the peer group	1/1/17 – 31/12/19	25.00%	50th		75th	41st	0%	0%
Balanced Scorecard	25%	See details of individual capital, people and conduct measures below	1/1/17 – 31/12/19	25.00%					54.2%	13.5%
Total										63.5%

Chief Financial Officer LTIP scorecard

	Weighting	Measure	Period	Sub-Weight	Threshold (25%) (£m)	Target (80%) (£m)	Maximum (100%) (£m)	Actual (£m)	Vesting	Weighted Outcome
Profit Measures	80%	Prudential UK operating profit	1/1/17 – 31/12/18	53.33%	1,406	1,562	1,718	1,928	100%	80.0%
		M&G plc adjusted operating profit before tax (inc. restructuring costs)	1/1/19 – 31/12/19	26.67%	788	876	964	1,004	100%	
Balanced Scorecard	20%	See details of individual capital, people and conduct measures below	1/1/17 – 31/12/19	20.00%					54.2%	10.8%
Total										90.8%

LTIP – Profit Measure

The original Prudential UK operating profit measure calculated using Prudential plc methodology was assessed for the period 1 January 2017 to 31 December 2018 against an adjusted target to reflect the shorter period of measurement. For the remaining performance period from the 1 January 2019 to 31 December 2019 M&G plc adjusted operating profit was used as a profit measure and assessed against a one-year target. The measures were weighted in accordance with the proportion of the performance period they covered.

LTIP – Total Shareholder Return

Prudential plc TSR was measured alongside the peer group as disclosed in the 2017 Prudential plc annual remuneration report (see details below) up to and including the first day of trading of M&G plc following demerger. In accordance with the terms of the award, a 90-day average from the last quarter of 2016 was used to create the baseline for the calculations. The TSR for Prudential plc included the value of the demerger dividend of one M&G plc share to ensure the calculation accurately reflected shareholder experience.

M&G plc TSR was subsequently measured from its first day of trading to 31 December 2019 relative to a new peer group defined as the FTSE 100 Financial Services sector, excluding investment trusts (consistent with the TSR measure to be used for new LTIP awards under the M&G plc Remuneration Policy). Due to the short period of measurement, a five-day average based on the last five days of trading in 2019 was used to complete the performance period. The resulting combined TSR performance of Prudential/M&G was ranked relative to the median and upper quartile of the peer groups similarly on a combined basis as shown below:

	Period	Company TSR	Threshold (Peer Group 50th)	Maximum (Peer Group 75th)	Percentile Achieved
Prudential plc TSR	1/1/17 – 21/10/19	17.30%	26.40%	49.20%	
M&G plc TSR	21/10/19 – 31/12/19	9.10%	8.60%	11.60%	
Combined	1/1/17 – 31/12/19	28.00%	37.30%	66.40%	41st

TSR for the Prudential plc peer group was measured from 1/1/17 to 21/10/19 to determine median and upper quartile performance for that period. The peer group being:

- Aegon
- AIA
- AIG
- Allianz
- Aviva
- AXA
- Generali
- Legal & General
- Manulife
- MetLife
- Old Mutual
- Prudential Financial
- Standard Life Aberdeen
- Sun Life Financial
- Zurich Financial Insurance Group

TSR for the M&G plc peer group was measured from 21/10/19 to 31/12/19 to determine median and upper quartile performance for that period. The peer group being:

- FTSE 100 Financial Services Companies (excluding investment trusts)

LTIP – Balanced Scorecard

The balanced scorecard comprised four equally weighted measures linked to capital, people and conduct measures. As with adjusted operating profit, a replacement M&G plc measure was needed to complete the performance period for the capital measures. As M&G plc does not track the Prudential plc ECap measure, an operating capital generation measure was used for both capital measures to complete the performance period. In all cases the metrics have a single performance objective that, if met or exceeded, results in 100% vesting, with vesting at zero for performance below this level:

	Weighting	Measure	Period	Sub-Weight	Maximum (100%) (£m)	Actual (£m)	Vesting	Weighted Outcome
SII Capital	25%	Prudential plc (Group) SII Capital	1/1/17 – 30/6/19	20.83%	5,716	9,398	100%	25.0%
		M&G plc operating capital generated	1/7/19 – 31/12/19	4.17%	423	522	100%	
ECap Group Operating capital generated	25%	Prudential plc (Group) ECap	1/1/17 – 30/6/19	20.83%	5,353	4,024	0%	4.2%
		M&G plc operating capital generated	1/7/19 – 31/12/19	4.17%	423	522	100%	
Diversity Measure	25%	Percentage of the Leadership Team that is female at the end of 2019. The target for this metric will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female at the end of 2021. For this portion of LTIP awards made in 2017 to vest, at least 27 per cent of our Leadership Team must be female at the end of 2019.	1/1/17 – 31/12/19	25%	27%	29%	100%	25%
Conduct Measure	25%	Through appropriate management action, ensure there are no significant conduct/culture/ governance issues which result in significant capital add-ons or material fines. Vesting basis: 100 per cent for achieving the Group's expectations, otherwise 0 per cent vesting.	1/1/17 – 31/12/19	25%	Subjective assessment (see notes on risk assessment)		0%	0%

Consideration of risk management and the application of discretion in the determination of the LTIP award outcomes:

Taking consideration of independent input from the Board Risk Committee, the Remuneration Committee, concluded that as result of the fine related to the thematic review of annuity sales practices, the outcome of the conduct measure should be zero, but that no further discretionary downward risk adjustment was necessary to the LTIP outcomes for the Executive Directors (as explained earlier in this report).

2017 LTIP Financial metrics definitions

All financial metrics are cumulative over the vesting period.

Prudential plc operating profit: Reflects operating profit under the Prudential plc segmentation, including certain restructuring costs. Prudential plc defines operating profit, applicable to Prudential UK and M&G Group, as IFRS profit after tax excluding short-term fluctuations in investment returns on shareholder-backed business, gains or losses on corporate transactions and the total tax charge for the year.

M&G plc adjusted operating profit before tax including restructuring costs: Reflects the adjusted operating profit before tax measure, consistent with the definition given on page 79, including certain restructuring costs related to merger and transformation.

M&G operating capital generation: Reflects operating capital generation, consistent with the definition given in the supplementary information on page 239.

Prudential plc Solvency II operating capital generation: Solvency II capital represents the excess of own funds over the solvency capital requirement. Solvency II capital generation is the change in the Solvency II capital over the reporting period. Solvency II operating capital generation is the capital generation excluding non-operating items such as short-term fluctuations in investment returns, effect of changes in economic assumptions for long-term business operations and the effect of corporate transactions.

Prudential plc ECap operating capital generation: As for Prudential plc Solvency II operating capital generation but using as its basis, Prudential plc's internal Economic Capital (ECap) measure.

Relative Total Shareholder Return (TSR): TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date. Relative TSR compares the performance of the Company with the relevant peer group. Further information on the determination of Relative TSR is set out on page 93.

Single figure remuneration – Other

Comprises a free share award of 920 shares that were granted to all employees over M&G plc shares in recognition of the demerger from Prudential plc and admission on to the London Stock Exchange.

Single figure remuneration – Pension

The Executive Directors receive a 13% employer pension contribution which they may receive in part or in full in cash. The contribution rate and delivery options are in line with other employees who participate in the Company's defined contribution pension plan. For the period 1 January to 31 May 2019 the Chief Executive received a pension contribution of 25% of salary, in line with the Prudential plc remuneration policy in effect at that time. The contribution rate was aligned at 13% from 1 June 2019. For the period 1 January 2019 to 31 March 2019, the Chief Financial Officer received a pension contribution of 12% of salary which increased to 13% from 1 April 2019 in line with other employees. Neither of the Executive Directors is accruing benefits under the Company's legacy defined benefit pension plans.

Unvested share awards at time of demerger (unaudited)

The Executive Directors had unvested deferred STI and LTIP awards over Prudential plc shares at demerger. No value crystallised to the Executive Directors at demerger, and the awards were replaced with awards of equivalent value over M&G plc shares. These awards have the same vesting date and key terms as applied to them under the Prudential plc schemes. In order to achieve equivalent value the following approach was adopted:

- The Prudential plc Share awards were valued using the five-day average closing price of Prudential Shares up to and including the last trading day on which those Prudential Shares were eligible to receive the M&G plc shares as part of the demerger. The average price was £14.814.
- The number of M&G plc shares over which the Replacement Awards were granted was calculated by reference to the five-day average closing price of the first five days of trading of M&G plc's shares. The average price was £2.1737.

The resulting conversion was 6.815 M&G plc shares for each Prudential plc share under award pre-demerger. The Remuneration Committee was satisfied that it had conducted a robust process involving an assessment of market practice, independent advice on alternative approaches and consideration of the associated risks with each approach, in determining the methodology used.

As noted above, it was not possible to complete the performance period for all measures in the unvested LTIP scorecards for awards granted between 2017 and 2019. Performance of the original measures was assessed as closely as practicable to the demerger date and an equivalent M&G plc measure was used to complete the performance period. The Remuneration Committee was satisfied that all adjusted and replacement targets had been derived from the appropriate business plans and that replacement measures were the closest equivalent measures available to complete the performance period. Full details of the measures, targets and outcomes will be provided in the relevant remuneration when the awards vest.

Awards granted in 2019 (Audited)

Scheme interests awarded in 2019

The following table provides the details of scheme interests awarded to the Executive Directors during 2019:

Plan	Participant	Type of award	Basis of award	Face value at grant £'000	Number of shares awarded	% payable for threshold performance
Deferred annual incentive plan	John Foley	Share award	Deferred STI	474	216,679	n/a
Group deferred bonus plan	Clare Bousfield	Share award	Deferred STI	90	41,101	n/a
Restricted Stock Plan	Clare Bousfield	Share award	Restricted Stock	40	18,755	n/a
	Clare Bousfield	Share award	Restricted Stock	10	4,559	n/a
LTIP 1	John Foley	Share award	% of Salary	1,992	910,225	20%
	Clare Bousfield	Share award	% of Salary	1,237	565,320	20%
LTIP 2	John Foley	Share award	% of Salary	457	186,836	20%
	Clare Bousfield	Share award	% of Salary	325	132,717	20%

Notes on the scheme interests table:
All awards in the above table were originally granted over Prudential plc shares before the demerger of M&G plc. As explained in "Unvested share awards at the time of demerger", the awards were converted, inclusive of any dividend equivalents that had accrued on the awards up to that point, on an equal value basis to awards over M&G plc shares. The average prices used to convert the awards resulted in replacement awards of 6.815 M&G plc shares for every Prudential plc share under the original awards, inclusive of dividends accrued. Additional information on how the awards were originally determined is provided below.

Each of the Executive Directors received a deferred STI award of Prudential plc shares in respect of their 2018 STI in 2019. Each of the awards has a grant date of 2 April 2019 and a vesting date of 2 April 2022, three years from the original grant date.

The Chief Financial Officer was granted two awards of Prudential plc shares under the Prudential Restricted Stock Plan during 2019 in respect of a legacy Prudential plc incentive scheme. The awards, which have grant dates of 20 September 2019 and 19 September 2019 respectively and vesting dates on 2 April 2022 and 19 September 2022 respectively, are not subject to further performance conditions.

Each of the Executive Directors received an LTIP award under the Prudential plc Performance Share Plan on 2 April 2019, subject to performance conditions (as described in the tables below), with a vesting date of 2 April 2022 and, in the case of the Chief Executive, a further two-year holding period. At grant the awards were 250% and 225% of base salary respectively for the Chief Executive and Chief Financial Officer. In addition:

- Prudential plc elected to grant an additional LTIP award to the Chief Executive on 26 June 2019 with the same performance conditions as the original LTIP award in 2019, a vesting date of 26 June 2022 and two-year holding period. The award was granted to ensure that total remuneration granted in 2019 was commensurate with the revised package effective from June 2019.
- The Chief Financial Officer received an additional LTIP award on 26 June 2019 as replacement for forfeited rights to unvested incentives under a legacy Prudential plc incentive scheme with the same maximum value of £325,000, the same performance conditions as the original LTIP award in 2019 above and a vesting date of 26 June 2022. The Remuneration Committee determined that the replacement award provided improved and increased longer-term alignment to the strategic objectives of the Company and shareholder interests.

Performance conditions for LTIPs granted in 2019

Chief Executive

	Performance measures	Weighted as % of total LTIP opportunity	Threshold (20%)	Maximum (100%)
LTIP 1 & 2	Relative TSR	75%	50th	75th or above
	Balanced scorecard (see details below)	25%		

Chief Financial Officer

	Performance measures	Weighted as % of total LTIP opportunity	Threshold (£'m)	Maximum (£'m)
LTIP 1 & 2	M&G plc adjusted operating profit before tax (inc. restructuring costs)	80%	2,421	2,959
	Balanced scorecard (see details below)	20%		

Notes on the LTIP performance measures table:
Prudential plc TSR has been measured alongside the peer group as disclosed in the implementation section of the 2018 Prudential plc Annual Report on Remuneration (see details below) up to and including the first day of trading of M&G plc following demerger. In accordance with the terms of the award, a 90-day average from the last quarter of 2018 was used to create the baseline for the calculations. The TSR for Prudential plc includes the value of the demerger dividend of one M&G plc share to ensure the calculation accurately reflects shareholder experience.

M&G plc TSR will subsequently be measured from its first day of trading to 31 December 2021 relative to a new peer group defined as the FTSE 100 Financial Services sector, excluding investment trusts (consistent with the TSR measure to be used for new LTIP awards under the M&G plc Remuneration Policy). In accordance with the terms of the award, a 90-day average from the last quarter of 2021 will be used to complete the performance period. The resulting TSR performance of Prudential/M&G plc will be ranked against the peer groups on a combined basis to determine the outcome (with a straight-line interpolation between threshold outcome of 20% for 50th percentile ranking and maximum outcome of 100% for 75th percentile ranking).

2019 peer group

TSR for the Prudential plc comparator group will be measured from 1 January 2019 to 21 October 2019 to determine median and upper quartile performance for that period. The comparator group being:

- Aegon
- AIA
- AXA Equitable
- China Taiping Insurance
- Great Eastern
- Lincoln National
- Manulife
- MetLife
- Ping An Insurance
- Principal Financial
- Prudential Financial
- Sun Life Financial

TSR for the M&G plc comparator group will be measured from 21 October 2019 to 31 December 2021 to determine median and upper quartile performance for that period. The comparator group being:

- FTSE 100 Financial services companies (excluding investment trusts)

The M&G plc adjusted operating profit measure will be assessed for the entire performance period of 1 January 2019 to 31 December 2021. No adjustments were made to this measure as a result of the demerger.

Balanced Scorecard

The balanced scorecard originally comprised four equally weighted measures linked to capital, people and conduct measures. Due to the short period that had elapsed in the performance period at demerger, the Prudential plc capital measures that originally applied to the award have been replaced for the entire performance period with an equivalent M&G plc capital measure. As M&G plc does not track the Prudential plc ECap measure, an operating capital generation measure has been used to replace both capital measures, weighted 50% of the balanced scorecard:

	Weighting	Measure	Threshold (20%)	Target (80%)	Maximum (100%)
Operating Capital	50%	Operating capital generation	2,305	2,561	2,817
Diversity	25%	Percentage of the Leadership Team that is female at the end of 2021. The target for this metric will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female by the end of 2021.	28%	30%	32%
Conduct	25%	Through appropriate management action, ensure there are no significant conduct/culture/governance issues which result in significant capital add ons or material fines.	Partial achievement		Full achievement

2019 LTIP granted definitions

All financial metrics are cumulative over the vesting period.

M&G plc adjusted operating profit before tax including restructuring costs: Reflects the adjusted operating profit before tax measure, consistent with the definition given on page 79, including certain restructuring costs related to merger and transformation, over the three-year period.

M&G plc operating capital generation: Reflects operating capital generation over the three-year period. The definition of operating capital generation is given in the supplementary information on page 239.

Relative Total Shareholder Return (TSR): TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date. Relative TSR compares the performance of the Company with the relevant peer group. Further information on the determination of Relative TSR is set out above.

Diversity: The target will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female at the end of 2021.

Conduct: Through appropriate management action, ensure there are no significant conduct/culture/governance issues which result in significant capital add-ons or material fines.

Non-Executive Director single figure total remuneration table (Audited)

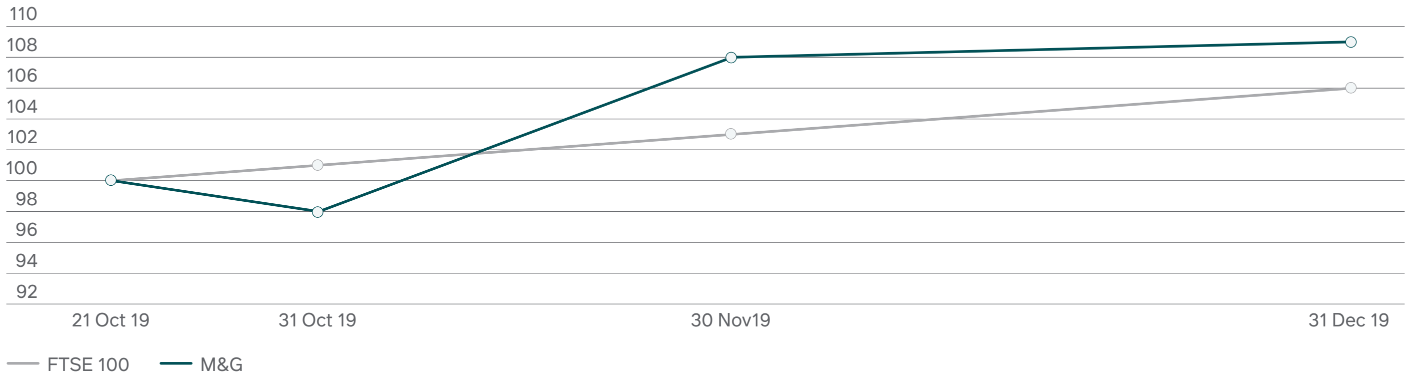
The total remuneration for the full year ended 31 December 2019 for the Chair and Non-Executive Directors 2019 is detailed below:

Name	Fees for 2019 £'000	Taxable Benefits £'000	**2019 Total £'000**	2018 Total £'000
Mike Evans	450.0	0.7	**450.7**	112.5
Caroline Silver	124.4	–	**124.4**	–
Clive Adamson	146.6	–	**146.6**	–
Robin Lawther	101.1	–	**101.1**	–
Clare Thompson	98.5	–	**98.5**	–
Mark FitzPatrick	–	–	**–**	–

Footnotes
- Benefits for 2019 include private medical cover for the Chair and his spouse. The Chair pays the tax due on private medical cover.
- Clive Adamson's fees include £47,500 for his roles on the PAC Board during 2019.
- None of the 2018 single figure remuneration disclosed in the Prudential plc 2018 Remuneration Report for Mark FitzPatrick related to his role as a Director of this Board. Similarly, none of his 2019 remuneration related to this role.
- Mike Evans joined the Board on 1 October 2018 and his fees for the last three months of 2018 are disclosed. All other NEDs joined the Board in 2019.

Total Shareholder Return performance graph

The following graph shows M&G plc's TSR performance versus the FTSE 100 over the period since admission to 31 December 2019.



Total Shareholder Return of M&G plc vs the FTSE100 for the period October 2019 – December 2019.

The FTSE 100 has been chosen for comparison as M&G plc is a member of the FTSE 100 index.

Chief Executive Pay

The following table sets out a breakdown of the Chief Executive remuneration for 2019. No prior-year comparison is included as this is the Company's first disclosure since listing on the London Stock Exchange.

CEO	Total remuneration £'000	STI as % of maximum	LTIP as % of maximum
John Foley	3,737	64.3%	63.5%

Chief Executive pay ratio

The table below sets out the M&G plc Chief Executive pay ratio when compared to pay levels at the 25th, 50th and 75th percentile of M&G's UK employee workforce. We have used option B as our method for calculating the pay ratio for this report, as this is consistent with our approach and methodology for other publicly reported information on the gender pay gap. The basis of the calculation uses individuals identified using the gender pay gap methodology but data on a consistent date as the information used in the calculation of the Chief Executive single figure total.

	Year	Method	25th percentile	Median	75th percentile
Single figure total remuneration	2019	B	80:1	58:1	35:1

The Remuneration Committee is satisfied that using this population and methodology delivers a representative Chief Executive pay ratio relative to the general employee workforce.

For the purpose of comparing 2019 pay levels and determining the pay ratio at each percentile, the 'single figure' methodology was used, as disclosed earlier in this report for the Chief Executive.

The 2019 salary and total remuneration of the representative individuals at each quartile were as follows:

	25th % (£)	50th% (£)	75th % (£)
Salary	39,484	55,750	77,750
Total Remuneration	46,854	64,707	105,542

Chief Executive vs average employee pay increase

As M&G plc only listed in October 2019 there is no comparable increase to disclose for either the Chief Executive or the average employee. A full disclosure will be presented in our next Annual Report on Remuneration for 2020. Under the proposed Remuneration Policy the increases for the Executive Directors in an ordinary year are expected to be in line with or lower than the average increases awarded to employees.

Governance

Gender pay gap

Every organisation reports its data at a snapshot date of 5 April 2019, for each UK employing entity where there are more than 250 people. M&G plc has four separate employing entities that meet this criteria. However, as shown below, we have calculated a combined set of figures for M&G plc that we believe provides a more meaningful view of our organisation's gender pay gap. Individual entity reports are available from our website.

The mean gap is a calculation of the average hourly pay or bonus of a man versus the average hourly pay or bonus of a woman and includes all relevant payments and allowances indicated in the gender pay regulations. The median gap is a calculation of the exact mid-point between the lowest and highest-paid man versus the equivalent woman. Pay quartiles are calculated by ranking the pay for each employee from lowest to highest. This list is then divided into four equal-sized segments and the proportion of men and women in these segments are reported.

	Mean pay gap	Median pay gap	Mean bonus gap	Median bonus gap
2019	25.0%	24.7%	72.1%	53.4%

M&G plc is committed to achieving year-on-year improvement in the representation of gender and ethnicity/nationality in senior leadership roles with goals of 40% women and 20% ethnicity/nationality by 2025. These goals, which define our commitments to the Hampton Alexander Review, HM Treasury Women in Finance Charter, 30% Club and the Race at Work Charter, will be underpinned by a range of initiatives that will fundamentally shift the way M&G plc recruits, retains and progresses colleagues through their careers.

It is recognised that it will take some time to reduce our gender pay gap and, as with greater gender balance in senior leadership, improving the gender balance in senior investment professional roles is key to our goal of positive year-on-year improvement in the pay gap.

Relative importance of spend on pay

As M&G plc only listed in October 2019 there is no comparable year-on-year change to disclose. A full disclosure will be presented in our next Annual Report on Remuneration for 2020.

Directors' share interests and payments (Audited)

Directors' share interests

The following table shows the interests that each Executive Director and their connected persons had in M&G plc shares at 31 December 2019. This comprises personally/legally owned shares, shares purchased and held within the Company's SIP and unvested shares under deferred STI and LTIP awards. No shares were subject to a post-vesting holding period under the LTIP at this date. The value of the shares has been calculated using the average closing M&G plc share price from listing to 31 December 2019, which was £2.27.

Name	Shares owned outright	Subject to SIP	Deferred STI shares	LTIP Subject to performance conditions	Total	Value	Multiple of salary
John Foley	387,549	920	653,322	2,748,879	3,790,670	£8,641,211	882%
Clare Bousfield	14,246	920	107,785	1,079,996	1,202,947	£2,742,238	499%
Mike Evans	32,000	–	–	–	32,000	£72,947	n/a
Robin Lawther	5,000	–	–	–	5,000	£11,398	n/a
Caroline Silver	–	–	–	–	–	–	n/a
Clare Thompson	2,100	–	–	–	2,100	£4,787	n/a
Clive Adamson	4,600	–	–	–	4,600	£10,486	n/a

There were no changes to Executive Directors' or Directors' interest in ordinary shares between 31 December 2019 and 3 March 2020, with the exception of Clare Bousfield who acquired a further 184 shares during the period due to her participation in the monthly Share Incentive Plan.

Shareholding guidelines

The Executive Directors are required to build up and maintain a shareholding in the Company under the proposed Remuneration Policy. The holding requirements, which must be achieved within five years of the introduction of this Remuneration Policy (or recruitment date for new Executive Directors) and current holdings are shown in the table below.

Name	Guidelines	Shares at 31 December 2019 (%)
John Foley	300% of base salary	171%
Clare Bousfield	200% of base salary	30%

For the purpose of the shareholding requirement, unvested shares that are not subject to performance conditions (deferred STI and LTIP awards subject to a holding period) count towards the shareholding requirement on a net-of-tax value basis.

Payments to past Directors

No payments have been made to past directors.

Payments for loss of office

No payments have been made for loss of office.

Statement of implementation of Remuneration Policy in 2020

Salary review

With effect from 1 January 2020 base salaries are as follows:

Name	Salary	Salary increase
John Foley	£980,000	0%
Clare Bousfield	£558,200	1.49%

In light of the comprehensive review of packages undertaken in 2019, there is no increase to the Chief Executive salary in 2020 and an increase of 1.49%, below the general staff budget, for the Chief Financial Officer. The next review will take place in Q1 2021.

Short-term incentive

The maximum STI opportunity in 2020 for our Executive Directors is unchanged from 2019:

- Chief Executive – 250%
- Chief Financial Officer – 225%

The table below shows the 2020 STI scorecard of performance measures and weightings that will apply to both Executive Directors. All measures in the scorecard will have a target and performance range which will be disclosed retrospectively with performance outcomes in the 2020 Annual Report on Remuneration due to the commercial sensitivity of the targets as they indicate the Company's forward plan for the year:

	Metrics	Weighted
Financial metrics	Adjusted operating profit before tax inc. restructuring costs	20%
	Capital generation	30%
	With-profits renewal expense per policy	5%
	With-profits new business expenses as % of flows	5%
	With-Profits Fund investment performance (three-year)	10%
Non-financial metrics	Customer outcomes	10%
	People – Diversity and Engagement	10%
	Strategic – digital enablement	10%

2020 STI metrics definitions

Adjusted operating profit before tax including restructuring costs: Reflects the adjusted operating profit before tax measure, however includes certain restructuring costs related to the merger and transformation. The definition of adjusted operating profit is given on page 144 of the financial statements.

Capital generation: Defined as the presented total capital generation, excluding market movements. The definition of total capital generation is given in the supplementary information on page 239.

With-profits renewal expenses: This represents the renewal expenses on a per-policy basis, and includes restructuring costs related to the merger and transformation.

With-profits new business expenses: The metric represents new business expenses as a proportion of new business flows, and also includes restructuring costs related to the merger and transformation.

With-Profits Fund investment performance: The three-year investment performance of the fund, relative to its benchmark, the ABI Mixed Investment 20-60% Shares fund.

Customer outcomes: performance targets linked to brand preference ranking, Net Promoter Score and complaints information.

People – Diversity and Engagement: Performance targets for the proportion of females within the senior management team by the end of 2020 and for a sustainable engagement index for 2020.

Strategic – digital enablement: performance targets linked to digital enablement and adoption.

Long-term incentive

The maximum LTIP awards for the Executive Directors in 2020 are unchanged from 2019:

- Chief Executive – 250%
- Chief Financial Officer– 225%

The table below shows the 2020 LTIP scorecard of performance measures, weightings, targets and performance ranges that will apply to both Executive Directors:

	Weighted	Threshold	Target	Max
Cumulative capital generation	60%	£1,850m	£2,150m	£2,450
Relative TSR Ranking	40%	50th		75th or above

2020 LTIP metrics definitions

Cumulative capital generation: Defined as the total capital generation over the three-year period. The definition of total capital generation is given in the supplementary information on page 239. For this metric there is 0% vesting for performance at or below threshold, 50% at target and 100% at maximum with straight-line interpolation between these points.

Relative TSR ranking: within a peer group of FTSE 100 Financial Services Companies (excluding Investment Trusts). The starting point for TSR will be based on a 30-calendar day average of M&G plc and the peer group companies preceding the performance period. The end point will be based on an average of the last 30-calendar days of the performance period. For this metric there is 0% vesting for performance below threshold, 25% for achieving the median and 100% vesting for achieving upper quartile or above with straight-line interpolation between these points.

Non-Executive Director remuneration (Audited)

The fee structure applicable to the Non-Executive Directors in 2019 and 2020 is detailed in the table below. No increase was applied for 2020. The fee structure will be subject to a further review for 2021:

	2019 fees	2020 fees
Chair	£450,000	£450,000
NED basic annual fee	£75,000	£75,000
Senior Independent Director	£30,000	£30,000
Chairs of Board, Audit, Nomination, Risk and Remuneration Committees	£30,000 (£40,000 for Risk Committee)	£30,000 (£40,000 for Risk Committee)
Members of the above Committees	£15,000 (£10,000 for Nomination Committee)	£15,000 (£10,000 for Nomination Committee)

Other Related Disclosures

External advisers

PwC were appointed as interim advisers to the Remuneration Committee in May 2019 to provide guidance and advice to the Committee through the period of demerger/listing of M&G plc and its first Remuneration Policy and annual remuneration reporting cycle. In Q2 2020, following the AGM, the Remuneration Committee will commence a formal tender process to identify and appoint a remuneration adviser.

From time to time, PwC provide other services to M&G plc including benchmarking data and remuneration regulatory advice. This does not create a conflict with the advice received by the Remuneration Committee, which is provided by PwC's specialist Executive Remuneration practice. PwC are obliged to abide by the Remuneration Consultants, Code of Conduct.

In addition to advice provided regarding remuneration, separate teams within PwC provided unrelated advice in respect of assurance, advisory and tax.

There are no current connections between PwC and individual Directors to be disclosed.

The Remuneration Committee is satisfied that the advice received from PwC is objective and independent. PwC is a member of the Remuneration Consultants Group, whose voluntary code of conduct is designed to ensure objective advice is provided to the Remuneration Committee.

	Key areas of advice	Total fees 2019
PwC	Executive packages, demerger impacts, Remuneration Policy including incentive design and 2019 remuneration decisions.	£152,557

Remuneration Committee Calendar

During 2019 the Remuneration Committee, which formally commenced activities in May following the appointment of the final Remuneration Committee member, primarily focused on items linked to the demerger and listing of M&G plc, but also items linked to merger and transformation activities impacting the broader workforce. The headlines of this activity are provided below:

Q2 2019

- Terms of reference for the Remuneration Committee
- Executive Director remuneration package review and other executive packages to reflect new or amended scope of roles
- Overview of the corporate governance and regulatory landscape for listed financial services companies from PwC
- Overview of remuneration arrangements for investment managers and sales/distribution teams within the Company

Q3 2019

- Terms for the new Director's Remuneration policy
- New incentive plan design for 2020 implementation
- New share plan rules for M&G plc
- Terms of new all-employee share plan offerings (Sharesave and SIP)
- Determination of the treatment of unvested awards over Prudential plc shares at demerger
- M&G plc prospectus remuneration disclosures

Q4 2019

- Remuneration policy and standards for M&G plc employees
- Review of remuneration structures and processes for M&G plc employees, including incentive design and deferral
- Review of incentive arrangements for the investment management teams for implementation in 2020
- Planning for 2019 remuneration disclosures
- In-flight STI and LTIP award forecasts and risk management overview
- Review of the MRT/SII staff identification framework for the 2020 identification process
- Performance scorecards, targets and ranges for the 2020 incentive schemes

AGM outcomes

Nothing to disclose in first year following admission.

Share dilution

All share plans operated by M&G plc, which permit awards to be satisfied by issuing new shares, contain dilution limits that comply with the guidelines produced by the Investment Association (IA) on 31 December 2018. As at 31 December 2019, M&G's plc standing against these dilution limits was:

- 0.93% where the guideline is no more than 5% in any 10 years under all discretionary share plans
- 1.46% where the guideline is no more than 10% in any 10 years under all share plans

Statement on external directorships

Details of external directorships held by the Executive Directors can be found on pages 54 to 55 of the annual report.

Directors' Report

The Directors present their Report for the financial year ended 31 December 2019.

The Directors' Report comprises the Governance section (pages 43 to 102), and the Directors' Strategic Report (pages 2 to 43). In addition, the risk factors set out on pages 38 to 43 and the additional unaudited financial information set out on pages 119 to 252 are incorporated by reference in the Directors Report.

In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4, is set out in this Directors' Report.

Directors

The names and details of the current Directors, along with their biographical details as at the date of this Report, are set out on pages 54 to 55.

Director	Appointment	Resignation
Clive Adamson	22 March 2019	
Mark FitzPatrick	2 July 2018	19 September 2019
Mike Evans	1 October 2018	
Robin Lawther	22 March 2019	
John Foley	2 July 2018	
Clare Bousfield	23 January 2019	
Caroline Silver	22 March 2019	Effective May 2020
Clare Thompson	7 May 2019	

Strategic Report

M&G plc is a savings and investments business, managing investments for both individuals and large institutional investors around the world. M&G plc is required by the Companies Act 2006 to prepare a Strategic Report that includes a fair review of the development and performance of the Company's business during the period ended 31 December 2019, a description of the principal risks and uncertainties facing the Company and the main trends and factors likely to affect the future development, performance and position of the Company's business. The Strategic Report on pages 2 to 43 is incorporated by reference and shall be deemed to form part of this Directors' Report.

Powers of the Board

The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company. A copy of the Company's Articles can be found in the Corporate Governance section of our website.

Share capital

Issued share capital

The issued share capital as at 31 December 2019 consisted of 2,599,906,866 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share scheme, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by Sanne Fiduciary Services Limited and Equiniti Share Plan Trustees Limited ("The Trustees") on behalf of the registered owner in accordance with the relevant plan rules. The Trustees would not usually vote any unallocated shares held in trust, but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed.

As at 3 March 2020, Trustees held 0.17% of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out in the Directors' Remuneration Report.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months. Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Conduct Authority as well as under the rules of some of the Group's employee share plans.

All Executive Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 100 of the Directors' Remuneration Report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro-rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. M&G plc will seek authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 27 May 2020.

Authority to purchase own shares

The Directors require authority from shareholders in relation to the purchase of the Company's own shares. M&G plc will seek authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. A special resolution will be put to shareholders at the AGM on 27 May 2020. There were no share buybacks in the period to 31 December 2019.

Details of shares issued during 2019 can be found in note 23 to the Consolidated Financial Statements on page 174.

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2019, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules. The Company is not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or on voting rights.

Shareholder	% of total voting rights
Blackrock, Inc.	6.79
The Capital Group Companies, Inc.	5.19
Norges Bank	3.99

Between 31 December 2019 and the latest practicable date of publication of this Report, the Company was notified by The Capital Group Companies, Inc. on 27 February 2020 of a reduction in its shareholdings to 4.97%.

Dividend Information

2019 dividend	Shareholders registered on the UK register
Ex-dividend date	16 April 2020
Record date	17 April 2020
Payment date	29 May 2020

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans.

These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

Cash Dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP.

Political donations

The Group does not make political donations.

Equal opportunities and employment of disabled persons

M&G plc's Diversity and Inclusion Policy ensures that equal opportunities are afforded to all colleagues, candidates and suppliers in an environment in which each is treated with dignity and respect. Clearly documented processes are in place to ensure diversity and inclusion is embedded in the culture of the workplace and that we comply with statutory and regulatory requirements in the local labour market; provide equality of opportunity for all who apply for and perform work for M&G plc irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital or civil partnership status, religion or belief, sexual orientation or disability; and allow for reasonable adjustments to support those with special requirements. Moreover, we encourage the same standards of our recruitment and consultant suppliers. The Company's goals around women in senior executive positions can be found on page 99 and the proportion of women on the Board and in senior executive positions can be found on page 56.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans.

In the context of the Group as a whole, none of these is deemed to be significant in terms of their potential impact except for that listed below.

Credit Facilities

Under a £1,286 million multi-currency revolving credit facility between the Company and the banks and financial institutions named therein as lenders (Lenders) dated 27 March 2019 (the Facility), in the event that any person or group of persons acting in concert directly or indirectly gains control of the Company and its subsidiaries, then any Lender may elect within a prescribed time frame to be replaced by a new lender, or to cancel its commitment, under the Facility whereupon the Company shall be required to repay each loan made to it on the last day of the interest period for that loan, and any loan repaid may be re-borrowed from a new lender, subject to the terms of the Facility.

Under a £107 million, and two £53.6 million revolving loan facilities between the Company and the bank named therein as lender (Lender) dated 27 March 2019 (the Facility), in the event that any person or group of persons acting in concert directly or indirectly gains control of the Company and its subsidiaries, then the Lender may elect within a prescribed time frame to be replaced by a new lender, or to cancel its commitment, under the Facility whereupon the Company shall be required to repay each loan made to it, together with accrued interest and all other amounts accrued under the Facility, which shall in each case be immediately due and payable, on the last day of the interest period for that loan.

Risk Management objectives and policies

Details of the framework with allows M&G to manage risk within agreed appetite levels is set out at pages 38 to 43. In this section is information on risk culture and governance, systems of internal control, how risks are categorised and how risk appetites and levels are set. Specific information around risk management objectives, policies (eg hedging) and exposure (eg price, credit, liquidity, cash flow risk) is contained in the financial statements on pages 197 to 213.

Environmental, employee and social policies

Policies relating to environmental matters, the Company's employees and social, community and human right issues can be found on pages 27-37 of this Report. As a relatively new company, the effectiveness of these policies remains under review with no substantive reporting on effectiveness available at the time.

Transactions with related parties

The Company and its related parties comprise members of the M&G plc Group, as well as the Group's joint ventures and associates and any entities controlled by those parties. Note 37 to the consolidated financial statements on page 215 sets out details of related party transactions both pre and post-demerger.

Directors' and executives' beneficial interests

Details of Directors' and executives' beneficial interests can be found in the Directors' Remuneration Report on page 100.

Directors' indemnities and insurance

The Company maintains Directors and Officers Liability insurance cover in respect of legal actions brought against its Directors and Officers. Pension Trustee Liability insurance is also in place to cover legal actions brought against pension trustees of the Group's three pension schemes managed for staff pensions. The policies were held by Prudential plc up until the point of demerger when the named policyholder changed to M&G plc. The policies include coverage for M&G plc and its subsidiaries. Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain directors of the other companies within the Group. Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee directors within the Group. No amounts were paid under these insurance or indemnity provisions both of which remained in force throughout 2019.

Statement of disclosure of information to the auditor

Each Director of the Company confirms that, as far as each is aware, there is no relevant audit information of which the Company's auditor is unaware and that each of the Directors has taken all reasonable steps to ascertain any relevant audit information and to ensure the Company's auditor is aware of that information.

Going concern

As described in the Viability Statement on page 26 an assessment of the Group's prospects and viability for a period of three years to 31 December 2022 has been carried out. The Board has also performed a robust assessment of the principal and emerging risks facing the Group, and is satisfied that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2022.

Greenhouse gas emissions

Further details of our approach to the environment, including information in relation to greenhouse gas emissions, can be found on pages 32 and 33. This forms part of the Sustainability Report section of the Annual Report on pages 27 to 33.

Branches

The Group has branches in Austria, France, Germany, Guernsey, Ireland, Italy, Malta, Netherlands, Poland, Spain and Sweden. More details of the extent of our international footprint can be found in the front cover pages of this report.

Research and development

The Group undertakes research and development activities in relation to longevity research and risk modelling as well as the impact of climate change on various asset classes.

Reappointment of auditors

The auditors, KPMG LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Corporate Governance Statement

Relevant information on the corporate governance practices of M&G plc, and how it has applied the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in July 2018 is set out on pages 46 to 102. These pages include details of internal control and risk management systems and diversity policies.

Requirements of Listing Rule 9.8.4

Information to be included in the Annual Report and Accounts under Listing Rule 9.8.4, where applicable, can be found as follows:

Listing Rule	Description	Location
9.8.4(1) R	Interest capitalised	Not applicable
9.8.4(2) R	Publication of unaudited financial information	Supplementary Information
9.8.4(4) R	Details of long-term incentive schemes required by Listing Rule 9.4.3	Directors' Remuneration Report page 83
9.8.4(5) R	Waiver of emoluments by a director	Not applicable
9.8.4(6) R	Waiver of future emoluments by a director	Not applicable
9.8.4(7) R	Non pre-emptive issues of equity for cash	Not applicable
9.8.4(8) R	Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable
9.8.4(9) R	Parent participation in a placing by a listed subsidiary	Not applicable
9.8.4(10) R	Contracts of significance involving a director	Not applicable
9.8.4(11) R	Provision of services by a controlling shareholder	Not applicable
9.8.4(12) R	Shareholder waivers of dividends	Shareholder information
9.8.4(13) R	Shareholder waivers of future dividends	Shareholder information
9.8.4(14) R	Agreements with controlling shareholders	Not applicable

Index to principal Directors' Report disclosures

Information required to be disclosed in the Directors' Report may be found in the following sections:

In addition, the principal risks set out on pages 40 to 43 and the additional unaudited financial information set out on pages 239 to 250 are incorporated by reference into the Directors' Report.

Signed on behalf of the Board of Directors

Alan F Porter
General Counsel and Company Secretary

9 March 2020

Statement of Directors' Responsibilities

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, 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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

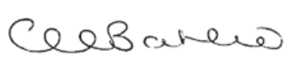
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.



Clare Bousfield
Chief Financial Officer

9 March 2020

Financial Information

Consolidated financial statements

Independent auditor's report

to the members of M&G plc

1. Our opinion is unmodified

We have audited the financial statements of M&G plc ("the Company") for the year ended 31 December 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statement of cash flows, parent company statement of changes in equity, parent company statement of financial position and the related notes, including the accounting policies notes.

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
– the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
– the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 2 July 2018. The period of total uninterrupted engagement is for the two financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£70m 1.4% of net assets
Coverage	97% of Group net assets
Risks of material misstatement	
Risks of the Group	Valuation of insurance contract liabilities
	Valuation of investments that require judgement
	First time adoption of IFRS and formation of the M&G plc Group
Risks of the Parent	Recoverability of the parent company's investments in subsidiaries

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response

Valuation of insurance contract liabilities
(2019: £156,528 million, including insurance contract liabilities of £78,480 million and investment contract liabilities with discretionary participation features of £78,048 million)
Refer to page 67 (Audit Committee Report), pages 130-131 (accounting policy) and pages 176-182 (financial disclosures).
	Subjective valuation:
	The Group has significant insurance contract liabilities representing 71 percent of the Group's total liabilities.
	This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of insurance contract liabilities.
	The valuation of the insurance contract liabilities in relation to the annuity business requires significant judgement in the selection of key assumptions covering both operating assumptions and economic assumptions.
	The key operating assumptions are mortality, which is determined by reference to the Group's own experience and expected levels of future mortality, and the expected level of future expenses, which is based on the expected future costs for administering the underlying policies.
	The key economic assumption, which impacts the calculation of the discount rate that is applied to the insurance contract liabilities, is credit risk that is based on the Group's view of expected future investment defaults.
	The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 34 discloses the sensitivity of the valuation to different assumptions.
	Calculation error and data capture
	The Group uses complex actuarial models to calculate insurance contract liabilities. There is the risk that the modelling does not appropriately reflect the model specifications and / or the product features due to incorrect or incomplete data input into the model and / or unauthorised or erroneous changes to the models.
		We used our own actuarial specialists to assist us in performing our procedures in this area.
		Our procedures included:
		– **Control design and operation:** We used our own IT specialists to assist us in performing our procedures in this area which included testing of the design, implementation and operating effectiveness of key controls over the valuation process including additional testing in relation to model evaluation as a result of identified weaknesses in the general IT control environment. Controls testing in respect of the valuation process included assessment and approval of the methods and assumptions adopted over the calculation of insurance contract liabilities as well as appropriate access and change the group controls over the actuarial models.
		– **Methodology choice:** We have assessed the methodology for selecting assumptions and calculating the insurance contract liabilities. This included:
		  – Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;
		  – Evaluating the analysis of the movements in insurance contract liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted; and
		  – Comparing changes in methodology to our expectations derived from market experience.
		– **Historical comparison:**
		  – Evaluating the evidence used to prepare the mortality experience investigation by reference to actual mortality experience of the policyholders in order to assess whether this supported the year-end assumptions adopted.
		  – Assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing current year unit costs, considering the expected future level of expense inflation and assessing the appropriateness of the likely impact of planned the Group's actions on future costs.

2. Key audit matters: including our assessment of risks of material misstatement (continued)

The risk	Our response
	– **Benchmarking assumptions and sector experience:** – Comparing mortality experience to industry data on current mortality and expectations of future mortality improvements. – Evaluating the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience. – Using the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality, credit risk and expense assumptions. – **Model evaluation:** – Evaluating the appropriateness of the calibration of the Continuous Mortality Investigation ('CMI') model (the CMI Bureau releases industry wide mortality tables), adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience. – Using our own valuation models to perform an independent recalculation of a sample of insurance contract liabilities to confirm that the models have been calibrated in line with the Group's specifications. – Evaluating that changes made to the actuarial models over the year have been appropriately reviewed and approved; and evaluating the appropriateness of the financial impact of the changes made to the models during the year. – **Assessing transparency:** Considering whether the Group's disclosures in relation to the assumptions used in the calculation of insurance contract liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** We found the valuation of insurance contract liabilities to be acceptable.

2. Key audit matters: including our assessment of risks of material misstatement (continued)

	The risk	Our response

Valuation of investments that require judgement
(2019: £41,851 million)
Refer to page 67 (Audit Committee Report), pages 132, 134, 135 (accounting policy) and pages 187-196 (financial disclosures).
	Subjective valuation:
	The areas that involve significant audit effort and judgement are the valuation of illiquid positions within the financial investments portfolio representing 23 per cent of the total investment assets. These include private placement loans, unlisted Net Asset Value ('NAV') funds, equity release mortgages, Fair Value Committee priced assets and investment properties.
	For these positions a reliable third-party price was not readily available and therefore the application of expert in the valuations adopted is required.
	The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments that require judgement has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Note 33 discloses the sensitivity of the valuation to different assumptions.
		We used our own actuarial and valuation specialists to assist us in performing our procedures in this area.
		Our procedures included:
		– **Control design and operation:** Testing of the design and implementation of key controls over the valuation process for the investments, including review and approval of the estimates and assumptions used for the valuation and key authorisation and data input controls.
		– **Methodology choice:** Assessing the appropriateness of the pricing methodologies with reference to relevant accounting standards and the Group's own valuation guidelines as well as industry practice.
		– **Independent re-performance:** Producing our own valuations for certain investments and comparing the output to the Group's valuations.
		– **Benchmarking of assumptions and sector experience:** Agreed the key inputs and assumptions used for the valuations and comparing these to our own market and industry benchmarks.
		– **Assessing valuers' credentials:** Assessing the competence and qualifications of external valuers and reconciling the valuations provided by them to the valuations recorded by the Group.
		– **Tests of detail:**
		  – Independently obtaining the most recent NAV statements, investment manager and administrator control reports to assess the appropriateness of the fair value of the unlisted funds
		  – Performing a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time.
		– **Assessing transparency:** Assessing whether the Group's disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes.
		Our results
		We found the valuation of investments that require judgement to be acceptable.

2. Key audit matters: including our assessment of risks of material misstatement (continued)

	The risk	Our response
First time adoption of IFRS and formation of the M&G plc Group *Refer to page 67 (Audit Committee Report) and pages 124, 136 (accounting policy).*	**Complex accounting treatments and presentation:** The M&G plc Group listed in October 2019. The year-ended 31 December 2019 financial statements are the first set of IFRS compliant financial statements. As part of its formation, the Group executed a step plan which included the transfer of various Prudential plc subsidiaries to the newly formed Group. Some of these subsidiaries were subsequently sold to Prudential plc and other third parties. The execution of the accounting for the formation of the new Group represented a heightened risk of material misstatement, due to the magnitude and complexity of the accounting entries required, in order to meet the requirements the relevant accounting standards. These matters require the Directors to apply judgement due to the range of possible accounting treatments. They are either complex or highly material in nature, representing areas of additional focus for this year's audit.	Our procedures included: – **Assessing principles:** We have assessed the various mandatory exceptions and optional exemptions adopted by the Directors on the first time adoption of IFRSs. – **Assessing application:** We have assessed the consistency of the application of the accounting policies and compliance with each IFRS effective as at 31 December 2019 throughout all periods presented. We assessed the choice of accounting treatment between acquisition or predecessor accounting and prospective or retrospective accounting on each transaction. We have assessed the appropriateness of the Group's presentation of certain activities as discontinued operations. – **Assessing transparency:** We have assessed whether the Group's disclosures on the related notes appropriately reflect the application of the standards on all comparative periods. **Our results** We found the implementation and presentation of the accounting treatments applied in the financial statements to be acceptable.

2. Key audit matters: including our assessment of risks of material misstatement (continued)

	The risk	Our response
Recoverability of the Parent Company's investments in subsidiaries (2019: £11,069 million) *Refer to page 67 (Audit Committee Report), page 232 (accounting policy) and page 235 (financial disclosures).*	**Subjective valuation** The parent company holds its investments in subsidiaries at cost less impairment, representing 89 per cent of the parent company's total assets. As part of our risk assessment, we determined that the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: – **Control design and operation:** Evaluating the design and implementation of the impairment in subsidiaries assessment procedures. – **Benchmarking assumptions:** Where value in use calculations are performed, challenging the assumptions used in the cash flows based on our knowledge of the markets in which the subsidiaries operate and challenging the appropriateness of the discount rate applied based on our industry experience. – **Historical comparisons:** Where value in use calculations are performed, assessing the reasonableness of cash flow projections against historical performance. – **Comparing valuations:** Comparing and reconciling the recoverable amount for the parent company's investments in subsidiaries to the market capitalisation of the Group and corroborating any significant differences. – **Assessing transparency:** Assessing whether the Group's disclosures over the outcome of the impairment assessment the risks inherent in the carrying value of the parent company's investments in subsidiaries. **Our results** We found the assessment of the recoverability of the parent company's investments in subsidiaries to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £70m, determined with reference to a benchmark of Net Assets of which it represents 1.4%.

Materiality for the parent company financial statements as a whole was set at £59.5m, 2018: £85.0m, determined with reference to a benchmark of net assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.5% (2018: 0.7%) of the stated benchmark.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3.5m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 11 reporting components, we subjected three to full scope audits for Group purposes, seven to audit of account balance and 1 to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed or in order to provide further coverage over the Group's results.

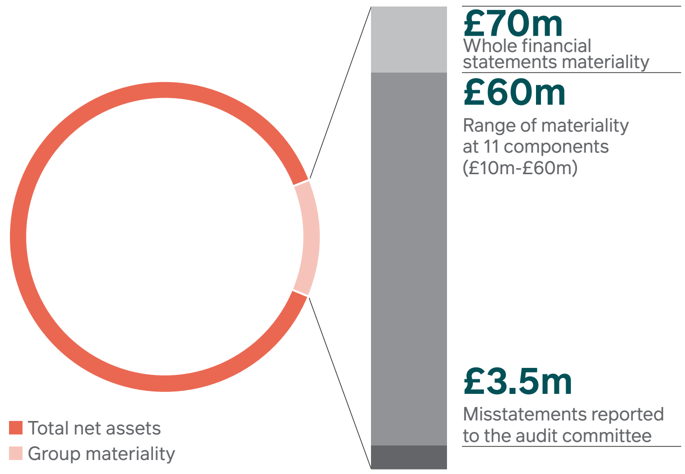
The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £10m to £60m, having regard to the mix of size and risk profile of the Group across the components. The work on 7 of the 11 components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

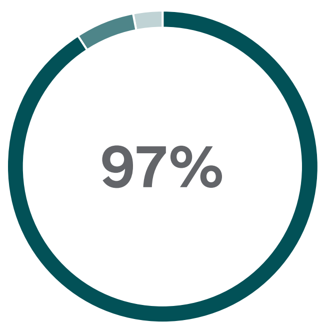
The Group team visited component locations in the UK, Ireland and Luxembourg to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Total net assets
£5,131m

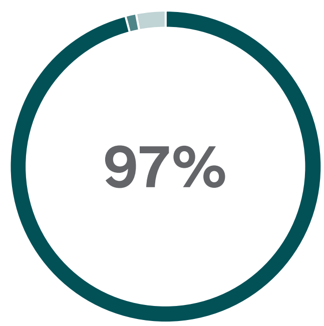
Group materiality
£70m



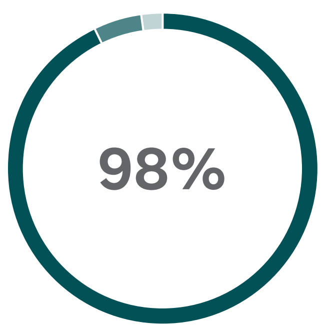
Group net assets



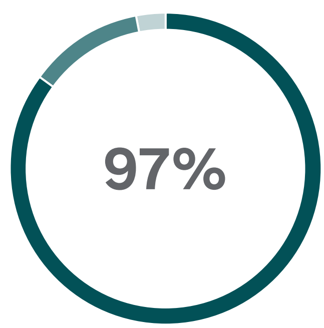
Group profit before tax



Group revenue



Group total assets



- Full scope for Group audit purposes 2019
- Audit of account balance and specified risk-focused audit procedures 2019
- Residual components

Auditor's report

4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of insurance contract liabilities due to the impact of the market movements;
- Adverse fund outflows, policyholder lapse or claims experience.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Group and the Company (such as banks and reinsurers) to meet commitments that could give rise to a negative impact on the Group's and the Company's financial position, increased illiquidity which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline and the impact of Brexit on the economic environment and the resulting impact on the Group's and the Company's capital resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 105 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- 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.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and

- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement.

We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the other 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 107, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, customer conduct regulations, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter and we have performed audit procedures over the provisions and reserves established by management.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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.

Daniel Cazeaux (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

9 March 2020

Consolidated income statement

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 £m	2018 £m
Gross premiums earned		**11,074**	13,061
Outward reinsurance premiums (i)		**115**	(13,137)
Earned premiums, net of reinsurance		**11,189**	(76)
Investment return	4	**19,619**	(3,675)
Fee income	5	**1,286**	1,363
Other income		**35**	240
Total revenue, net of reinsurance from continuing operations		**32,129**	(2,148)
Benefits and claims		**(24,375)**	(7,322)
Outward reinsurers' share of benefit and claims		**431**	12,230
Movement in unallocated surplus of the With-Profits Fund	27	**(2,549)**	162
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**(26,493)**	5,070
Administrative and other expenses	6	**(2,876)**	(2,664)
Movements in third-party interest in consolidated funds		**(1,005)**	291
Finance costs	6	**(28)**	(4)
Total charges, net of reinsurance from continuing operations		**(30,402)**	2,693
Share of profit from joint ventures and associates	15	**18**	52
Profit before tax from continuing operations (ii)		**1,745**	597
Tax (charge)/credit attributable to policyholders' returns	9	**(440)**	406
Profit before tax attributable to equity holders from continuing operations		**1,305**	1,003
Total tax (charge)/credit	9	**(680)**	214
Less tax charge/(credit) attributable to policyholders' returns		**440**	(406)
Tax charge attributable to equity holders	9	**(240)**	(192)
Profit after tax attributable to equity holders from continuing operations		**1,065**	811
Profit/(loss) after tax for the year attributable to equity holders from discontinued operations	10	**58**	(776)
Profit for the year		**1,123**	35
Attributable to equity holders of M&G plc			
From continuing operations		**1,062**	809
From discontinued operations		**58**	(776)
Attributable to non-controlling interests			
From continuing operations		**3**	2
Profit for the year		**1,123**	35
Earnings per share from continuing operations			
Basic (pence per share)	11	**40.9**	31.1
Diluted (pence per share)	11	**40.8**	31.1
Earnings per share			
Basic (pence per share)	11	**43.1**	1.2
Diluted (pence per share)	11	**43.0**	1.2

(i) Outward reinsurance premiums for the year ended 31 December 2018 include reinsurance of £12,149m of the shareholder-backed annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefit and claims for the same year. See Note 2.3.1 for further details.

(ii) This measure is the profit before tax measure under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IFRS. Consequently, profit before tax is not representative of pre-tax profits attributable to equity holders. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the With-Profits Fund after adjusting for taxes borne by policyholders.

The Notes on pages 124 to 220 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 £m	2018 £m
Profit for the year		**1,123**	35
Less: profit/(loss) from discontinued operations	10	**58**	(776)
Profit from continuing operations		**1,065**	811
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	26	**(7)**	62
Exchange movements transferred to consolidated income statement	2	**—**	(58)
		(7)	4
Items that will not be reclassified to profit or loss:			
(Loss)/gain on remeasurement of defined benefit pension asset	18	**(206)**	114
Transfer in of net defined benefit pension asset	18	**15**	—
Tax on remeasurement of defined benefit pension asset	9	**31**	(19)
		(160)	95
Add/(deduct) amount transferred to unallocated surplus of the With-Profits Fund, net of related tax		**155**	(38)
Other comprehensive (expenses)/income on items that will not be reclassified to profit or loss		**(5)**	57
Other comprehensive (expense)/income for the year, net of related tax from continuing operations		**(12)**	61
Total comprehensive income for the year from continuing operations		**1,053**	872
Profit/(loss) from discontinued operations	10	**58**	(776)
Total comprehensive income/(loss) from discontinued operations		**58**	(776)
Total comprehensive income for the year		**1,111**	96
Attributable to equity holders of M&G plc			
From continuing operations		**1,050**	870
From discontinued operations		**58**	(776)
Attributable to non-controlling interests			
From continuing operations		**3**	2
Total comprehensive income for the year		**1,111**	96

The Notes on pages 124 to 220 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2019

	Note	As at 31 December 2019 £m	As at 31 December 2018 £m	At 1 January 2018 £m
Assets				
Goodwill and intangible assets	13	**1,439**	1,446	1,321
Deferred acquisition costs	14	**104**	105	258
Investment in joint ventures and associates accounted for using the equity method	15	**524**	709	519
Property, plant and equipment	16	**1,505**	1,267	490
Investment property	17	**19,136**	18,003	16,607
Defined benefit pension asset	18	**77**	162	165
Deferred tax assets	9	**78**	24	29
Reinsurance assets	27	**11,958**	2,812	2,690
Loans	19	**5,954**	5,909	6,801
Derivative assets		**3,962**	2,624	3,098
Equity securities and pooled investment funds		**72,388**	60,812	78,800
Deposits		**14,221**	12,020	10,254
Debt securities		**85,434**	87,840	117,066
Current tax assets	9	**375**	242	241
Accrued investment income and other debtors	21	**2,923**	4,394	4,707
Assets held for sale	2	**119**	10,821	240
Cash and cash equivalents	22	**6,046**	6,563	7,351
Total assets		**226,243**	215,753	250,637
Equity				
Share capital	23	**130**	130	130
Share premium reserve	23	**370**	370	21,370
Shares held by employee benefit trust		**(26)**	—	—
Treasury shares	24	**(1)**	—	—
Retained earnings	25	**16,342**	20,157	9,193
Other reserves	26	**(11,690)**	(11,728)	(21,182)
Equity attributable to equity holders of M&G plc		**5,125**	8,929	9,511
Non-controlling interests		**6**	5	3
Total equity		**5,131**	8,934	9,514
Liabilities				
Insurance contract liabilities	27	**78,480**	69,298	115,383
Investment contract liabilities with discretionary participation features	27	**78,048**	67,038	62,651
Investment contract liabilities without discretionary participation features	27	**15,651**	15,560	17,373
Unallocated surplus of the With-Profits Fund	27	**16,072**	13,433	16,935
Third-party interest in consolidated funds		**11,643**	9,383	8,112
Subordinated liabilities and other borrowings	28	**7,499**	4,085	4,152
Defined benefit pension liability	18	**28**	173	179
Deferred tax liabilities	9	**1,065**	962	1,580
Current tax liabilities	9	**298**	255	314
Derivative liabilities		**2,204**	3,187	2,712
Lease liabilities	29	**360**	316	39
Other financial liabilities		**3,517**	2,592	3,255
Provisions	30	**326**	512	576
Accruals, deferred income and other liabilities	31	**5,921**	9,298	7,706
Liabilities held for sale	2	**—**	10,727	156
Total liabilities		**221,112**	206,819	241,123
Total equity and liabilities		**226,243**	215,753	250,637

The Notes on pages 124 to 220 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 119 to 123 were approved by the Board and signed on its behalf by the following Directors:

John Foley
Chief Executive, 9 March 2020

Clare Bousfield
Chief Financial Officer, 9 March 2020

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2018		130	21,370	—	—	9,193	(21,182)	9,511	3	9,514
Profit for the year from continuing operations		—	—	—	—	809	—	809	2	811
Loss for the year from discontinued operations	10	—	—	—	—	(776)	—	(776)	—	(776)
Other comprehensive income for the year from continuing operations	25,26	—	—	—	—	57	4	61	—	61
Total comprehensive income for the year		—	—	—	—	90	4	94	2	96
Transactions with equity holders	25	—	—	—	—	(746)	—	(746)	—	(746)
Capital reduction	23	—	(21,000)	—	—	21,000	—	—	—	—
Transfer from/to retained earnings on disposal of subsidiaries	26	—	—	—	—	(9,450)	9,450	—	—	—
Other movements	25	—	—	—	—	70	—	70	—	70
Net (decrease)/increase in equity		—	(21,000)	—	—	10,964	9,454	(582)	2	(580)
At 31 December 2018		130	370	—	—	20,157	(11,728)	8,929	5	8,934
At 1 January 2019		**130**	**370**	**—**	**—**	**20,157**	**(11,728)**	**8,929**	**5**	**8,934**
Profit for the year from continuing operations		**—**	**—**	**—**	**—**	**1,062**	**—**	**1,062**	**3**	**1,065**
Profit for the year from discontinued operations	10	**—**	**—**	**—**	**—**	**58**	**—**	**58**	**—**	**58**
Other comprehensive income for the year from continuing operations	25,26	**—**	**—**	**—**	**—**	**(5)**	**(7)**	**(12)**	**—**	**(12)**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**1,115**	**(7)**	**1,108**	**3**	**1,111**
Dividends paid to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Transactions with equity holders	25	**—**	**—**	**—**	**—**	**(4,935)**	**—**	**(4,935)**	**—**	**(4,935)**
Transfer to retained earnings for vested employee share-based payments	25	**—**	**—**	**2**	**—**	**(2)**	**—**	**—**	**—**	**—**
Movements in respect of share-based payments	26	**—**	**—**	**—**	**—**	**—**	**40**	**40**	**—**	**40**
Shares acquired by employee trusts		**—**	**—**	**(28)**	**—**	**—**	**—**	**(28)**	**—**	**(28)**
Treasury shares held by subsidiary companies	24	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**	**—**	**(1)**
Tax effect of items recognised directly in equity	25,26	**—**	**—**	**—**	**—**	**99**	**5**	**104**	**—**	**104**
Other movements	25	**—**	**—**	**—**	**—**	**(92)**	**—**	**(92)**	**—**	**(92)**
Net (decrease)/increase in equity		**—**	**—**	**(26)**	**(1)**	**(3,815)**	**38**	**(3,804)**	**1**	**(3,803)**
At 31 December 2019		**130**	**370**	**(26)**	**(1)**	**16,342**	**(11,690)**	**5,125**	**6**	**5,131**

The Notes on pages 124 to 220 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 £m	2018 £m
Cash flows from operating activities:			
Profit before tax from continuing operations		**1,745**	597
Profit/(loss) before tax from discontinued operations	10	**88**	(695)
Non-cash movements in operating assets and liabilities included in profit before tax:			
Investments		**(14,918)**	9,885
Other non-investment and non-cash assets		**(8,613)**	(1,506)
Policyholder liabilities (including unallocated surplus)		**23,037**	(12,501)
Other liabilities (including operational borrowings)		**(866)**	5,633
Interest income, interest expense and dividend income		**(4,798)**	(5,206)
Other non-cash items		**417**	500
Operating cash items:			
Interest receipts and payments		**2,595**	3,250
Dividend receipts		**2,107**	1,922
Tax paid (i)		**(613)**	(473)
Net cash flows from operating activities (ii)		**181**	1,406
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(393)**	(241)
Proceeds from disposal of property, plant and equipment		**8**	4
Acquisition of subsidiaries		**(95)**	(173)
Cash inflow/(outflow) from disposal of subsidiaries (iii)	10	**98**	(850)
Net cash flows from investing activities		**(382)**	(1,260)
Cash flows from financing activities:			
Loan to equity holders		**—**	(216)
Interest paid		**(22)**	(4)
Substitution of subordinated liabilities		**3,219**	—
Redemption of subordinated liabilities		**—**	(100)
Capital contribution		**—**	88
Dividends paid	12	**(3,516)**	(746)
Net cash flows from financing activities		**(319)**	(978)
Net (decrease)/increase in cash and cash equivalents		**(520)**	(832)
Cash and cash equivalents at 1 January (iv)		**6,570**	7,355
Effect of exchange rate changes on cash and cash equivalents		**(4)**	47
Cash and cash equivalents at 31 December (iv)		**6,046**	6,570

(i) Tax paid for the year ended 31 December 2019 includes £228m (31 December 2018: £134m) paid on profits taxable at policyholder rather than shareholder rates.

(ii) Cash flows in respect of other borrowings of the With-Profits Fund, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(iii) Cash inflow/(outflow) from disposal of subsidiaries reflects the net cash flow from the disposal of Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited in 2018 and Prudential Vietnam Finance Company Limited in 2019 as presented in Note 10.

(iv) Cash and cash equivalents as at 31 December 2018 include £7m (1 January 2018: £4m) of cash and cash equivalents in respect of operations held for sale.

The Notes on pages 124 to 220 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

These consolidated financial statements are the first set of consolidated financial statements of M&G plc Group ("the Group"). In preparing these consolidated financial statements, the Group has adopted IFRS 1: First-time Adoption of International Financial Reporting Standards ("IFRS 1") and applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as endorsed by the European Union ("EU"), with interpretations issued by the IFRS Interpretations Committee ("IFRICs"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost basis except for investment property measured at fair value, certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit and loss ("FVTPL") and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligations. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

On 2 July 2018, Voyager Dallas Holding Company Limited, as the Company was known at the time, was incorporated and domiciled in the UK as a subsidiary of Prudential plc. The Company was set up to act as holding company for the UK and Europe savings and investments business of Prudential plc. On 3 July 2018, the Company changed its name to M&G Prudential Limited. On 23 November 2018 the Company issued share capital as consideration to Prudential plc for the acquisition of The Prudential Assurance Company Limited ("PAC"), M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited. On 24 July 2019, the Company was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Company changed its name to M&G plc. On 20 September 2019, the Company acquired Prudential Capital Holdings Company Limited, and its subsidiaries, Prudential Capital plc ("PruCap") and Prudential Capital (Singapore) Pte. Limited, from Prudential plc. On 21 October 2019, the Company demerged from Prudential plc and listed on the London Stock Exchange.

All acquisition of entities under common control prior to demerger from Prudential plc have been accounted for under merger accounting principles. Under merger accounting, the results and statement of financial position for entities acquired prior to demerger are presented as if the entities had always been combined (Refer to Note 1.5.3 for further details on accounting policy).

Effect of adoption of IFRS 1

IFRS 1 requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period, which is 31 December 2019 for the Group. IFRS 1 also provides a first-time adopter certain optional exemptions and requires certain mandatory exceptions from full retrospective application. Most of these exemptions must be applied as at the date of transition, which is 1 January 2018 for the Group. As these are the first set of consolidated financial statements prepared by the Group, and the Group is not transitioning from another accounting framework, most of these exceptions and exemptions have limited applicability.

The application of the mandatory exceptions did not impact amounts reported in the consolidated financial statements on the date of transition.

The Group has elected to apply the following optional exemptions in preparing its opening statement of financial position:

- The exemption which permits the cumulative translation differences arising up till the date of transition in relation to foreign operations to be adjusted to zero. The effect of this exemption resulted in the retained earnings at the date of transition increasing by £58m
- The optional exemptions available to first-time adopters in relation to the application of IFRS 16: Leases. The nature and impact of taking up these exemptions is stated in Note 1.2.1

Aside from the above, the Group did not apply any other optional exemptions available under IFRS 1.

1.2 New accounting pronouncements

1.2.1 New accounting pronouncements adopted by the Group
IFRS 16: Leases

Date of initial application

On 1 January 2019, IFRS 16 became effective for the Group. The new standard introduces a single model for lessees, eliminating the distinction in accounting treatment between operating and finance leases.

As required by IFRS 1, the Group has adopted IFRS 16 from 1 January 2018, which is the beginning of the earliest period presented in these consolidated financial statements.

Effect of adopting IFRS 16

IFRS 16 applies primarily to leases of major properties occupied by the Group's businesses, where the Group acts as a lessee. Under IFRS 16, these leases have been brought onto the Group's statement of financial position with a right of use (ROU) asset being established and a corresponding liability, representing the obligation to make lease payments. The previously recognised rental charge in the income statement has been replaced with a depreciation charge for the right of use asset and an interest expense on the lease liability, leading to a more front-loaded operating lease cost profile.

As permitted by IFRS 1, on adoption of IFRS 16 lease liabilities were measured at the present value of remaining lease payments, discounted at the Group's incremental borrowing rate at the date of transition. Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease immediately before the date of transition, as per IFRS 1 for all leases.

1 Basis of preparation and significant accounting policies (continued)

1.2 New accounting pronouncements (continued)

The Group has used the following additional practical expedients as permitted by IFRS 1 on adoption of IFRS 16:

- applied a single discount rate to a portfolio of leases with similar characteristics
- excluded initial direct costs from measurement of ROU assets on initial application
- used hindsight when determining the lease term if the contract had an option to break the lease.

When measuring the lease liabilities, the Group discounted lease payments using the incremental borrowing rate as at 1 January 2018, which ranged between 0.99% and 3.57%.

The adoption of IFRS 16 resulted in a lease liability of £39m and a corresponding ROU asset of £39m being recognised in the statement of financial position.

1.2.2 Other interpretations and amendments

In addition to the above, various new accounting pronouncements became effective on 1 January 2019, however, none of these pronouncements had a material impact on the consolidated financial statements.

1.2.3 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group, including those which have not yet been endorsed by the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the consolidated financial statements are discussed.

IFRS 9: Financial Instruments (endorsed by the EU)

In July 2014, the IASB published IFRS 9: Financial Instruments (IFRS 9) which is mandatorily effective for annual periods beginning on or after 1 January 2018, except as described below, with early application permitted.

IFRS 9 replaces the existing standard, IAS 39: Financial Instruments-Recognition and Measurement. The standard provides new principles for determining classification and measurement of financial instruments, introduces a new forward-looking impairment model based on expected losses (replacing the existing incurred loss model) and provides new guidance on application of hedge accounting.

In September 2016, the IASB published amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17: Insurance Contracts. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. In April 2019, the IASB proposed that the effective date of IFRS 17 should be delayed by one year from periods beginning on or after 1 January 2021 to on or after 1 January 2022. The IASB also proposed in this meeting that IFRS 9 could be delayed for insurers by an additional year to keep the effective dates of IFRS 9 and IFRS 17 aligned. An exposure draft containing the proposal was issued in June 2019 and the IASB plan to publish any resulting amendments to IFRS 17 in mid-2020.

As the Group met the required eligibility criteria for temporary exemption, the adoption of IFRS 9 has been deferred to coincide with the adoption of IFRS 17.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17. The adoption of IFRS 9 may result in the reclassification of certain of the Group's financial assets, resulting in a change in measurement basis from amortised cost to fair value. Furthermore, a revised impairment approach based on expected credit losses will need to be developed for financial assets that will continue to be carried at amortised cost. The Group is currently assessing the scope of assets to which these requirements will apply.

The Group does not currently apply hedge accounting.

Presented below are disclosures required by the amendments to IFRS 4 for entities deferring the adoption of IFRS 9. These are provided to enable users to compare results with those entities that have adopted IFRS 9. As required by the amendment, the table shows the fair value of the Group's directly held financial assets at 31 December 2019, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") as defined by IFRS 9.

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the Group's statement of financial position	Fair value as at 31 December 2019 £m	Movement in fair value during the year £m	Fair value as at 31 December 2019 £m	Movement in fair value during the year £m
Loans	**2,658**	**18**	**3,389**	**131**
Derivative assets-net of derivative liabilities	**—**	**—**	**1,758**	**1,402**
Equity securities and portfolio holdings in unit trusts	**—**	**—**	**72,388**	**8,826**
Deposits	**14,221**	**—**	**—**	**—**
Debt securities	**—**	**—**	**85,434**	**4,240**
Accrued investment income and other debtors	**2,923**	**—**	**—**	**—**
Cash and cash equivalents	**6,046**	**—**	**—**	**—**
Total financial assets, net of derivative liabilities	**25,848**	**18**	**162,969**	**14,599**

1 Basis of preparation and significant accounting policies (continued)

1.2 New accounting pronouncements (continued)

IFRS 17: Insurance Contracts (not yet endorsed by the EU)

In May 2017, the IASB issued IFRS 17: Insurance Contracts ("IFRS 17") to replace the existing interim standard, IFRS 4 Insurance Contracts. The standard applies to annual periods beginning on or after 1 January 2021, however, the IASB have issued an exposure draft in June 2019 that proposes to delay the effective date to 1 January 2022. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

IFRS 4 permitted insurers to continue to use the basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005 (details of these can be found in note 1.5.2). IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin ("CSM") that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly in the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Revenue for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) such as the Group's with-profits products and certain unit-linked products, the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures currently reported in the income statement. In order to transition to IFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However, if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

The Group has commenced a project to implement IFRS 17 which will develop technical interpretations and the related operational capabilities to implement the standard by the prescribed adoption date. The impact from adoption of the standard cannot yet be quantified at this stage.

Other

In addition to the above, the following new accounting pronouncements have also been issued and are not yet effective:

- Definition of a business (Amendments to IFRS 3), issued in October 2018 and effective from 1 January 2020
- Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7), issued in September 2019 and effective from 1 January 2020
- Definition of material (Amendments to IAS 1 and IAS 8), issued in October 2018 and effective from 1 January 2020
- Revised Conceptual Framework for Financial Reporting, issued in March 2018 and effective from 1 January 2020.

Aside from amendments to the 'Definition of a business', which may impact the accounting for the acquisition of certain private equity and real estate related structures prospectively, the Group is not expecting these pronouncements to have a significant impact on the consolidated financial statements.

1 Basis of preparation and significant accounting policies (continued)

1.3 Judgements in applying accounting policies and sources of estimation uncertainty

A full list of the Group's significant accounting policies is provided in section 1.5 of this Note. In applying these accounting policies, the Group has made a number of key judgements, apart from those relating to estimates, which have a significant effect on the amounts recognised in the consolidated financial statements. The following table sets out the basis of these judgements, and references the associated accounting policy and related Note which both give further detail on the specific application.

Financial statement area	Key judgement	Accounting policy	Note
Consolidation of structured entities	IFRS 10 requires entities that the Group controls to be consolidated in the consolidated financial statements. Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Due to the nature of structured entities, judgement is required to determine whether the Group controls and therefore consolidates structured entities.	1.5.1	32
Classification of insurance and investment contracts	IFRS 4 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk.	1.5.2	27
Application of merger accounting to initial set of financial statements	The Group has applied the principles of 'merger accounting' for accounting for the acquisition of entities under common control. Merger accounting principles are not governed by IFRS and therefore judgement is required to determine appropriate application of the principles. Our judgement is that for the initial set of financial statements, merger accounting should be applied as though the Group had existed at 1 January 2018, the opening balance sheet date, as this best reflects the substance and purpose of the demerger from Prudential plc. As a result, share capital and share premium, which were recognised in the Company accounts on the date of incorporation of the Company, have been recognised in these consolidated financial statements as if they had existed at 1 January 2018. Similarly, the acquisitions of entities which occurred to form the Group have been accounted for using the retrospective method of merger accounting (ie the results and assets and liabilities of these entities have been combined within the Group from 1 January 2018, even though the actual transactions occurred after this date), with a corresponding merger reserve recognised as of this date.	1.5.23	2
Accounting for replacement share awards	Under IFRS 2, where new awards are granted as replacement for cancelled schemes, the grant of the replacement awards are accounted for as a modification of the original award, and accordingly, an acceleration of vesting does not occur as is normally the case for cancelled schemes. Judgement is required to determine whether the new discretionary schemes offered would meet the criteria of a replacement award on the basis that they are a continuation of the previous scheme with substantively the same terms and conditions.	1.5.24	39
Classification as held for sale and discontinued operations	Judgement was required in considering whether the sale of Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited, and the sale of the annuity portfolio to Rothesay Life plc met the requirements of IFRS 5 with respect to classification as held for sale, and in particular as to at what point each became highly probable. Further judgement is also required in considering whether they, along with certain parts of the corporate treasury activity of Prudential Capital Holdings Company Limited, met the definition of a discontinued operation under IFRS 5.	1.5.25	10

1 Basis of preparation and significant accounting policies (continued)

1.4 Sources of estimation uncertainty

The preparation of these consolidated financial statements requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The following table sets out the assets and liabilities measured using assumptions and estimates which have a significant risk of resulting in a material adjustment to their carrying value within the next financial year. Details of the nature of the estimate is provided in the related accounting policy and details of the assumptions applied at the statement of financial position date are provided in the related Note.

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Insurance contract liabilities	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The area where the assumptions could have a material impact are the assumed rates of policyholder mortality, maintenance expenses and the valuation rate of interest used when establishing policyholder liabilities for annuities and also the assumptions used in determining the allowance for maintenance expenses within the policyholder liabilities other than annuities.	1.5.2	27, 34
Equity securities and pooled investment funds, Investment property and Loans	Determination of fair value of financial assets classified as level 3 in the fair value hierarchy involves the use of inputs which are not observable in the market and hence require a high degree of estimation which could result in a significant change in the valuation.	1.5.4, 1.5.14	20
Defined benefit pension liability	The defined benefit pension scheme liability is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long-term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	1.5.15	18
Provisions relating to past conduct issues	The determination of provision relating to past conduct issues pertaining to annuity and pensions mis-selling requires the use of various assumptions which can impact the carrying values either when recognised separately, or when included within the valuation of insurance contract liabilities.	1.5.31	30, 35

1.5 Accounting policies

1.5.1 Basis of consolidation

The Group has control over an investee if all three of the following conditions are met: (i) it has power over an investee; (ii) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (iii) it has the ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. Where the Group is deemed to control an entity, the entity is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity but does not have control over the entity, the investments are carried at fair value through profit or loss ("FVTPL") within financial investments in the consolidated statement of financial position.

The Group performs a reassessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In these arrangements, the Group's share of the underlying net assets may be lower or higher than 50% but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party, for example, where significant decisions required unanimous approval of all parties, or where all parties have equal voting rights.

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it holds between 20% and 50% of the voting rights of the entity.

Investments in associates and joint ventures held by the Group's insurance or investment funds, including venture capital business, mutual funds and unit trusts, are accounted for at FVTPL. All other investments in joint ventures and associates are accounted for using the equity method of accounting. Under the equity method, the Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Collective investment vehicles including open-ended investment companies ("OEICs") and Luxembourg-domiciled Sociétés d'Investissement à Capital Variable ("SICAVs")
- Limited partnerships
- Collateralised debt obligations
- Mortgage-backed securities
- Similar asset-backed securities.

Collective investment vehicles

The Group invests in OEICs, SICAVs and unit trusts, which invest mainly in equities, bonds, cash and cash equivalents, and properties.

The assessment of control over OEICs, SICAVs and unit trusts requires judgement. In assessing control, the Group determines whether it is acting as principal or agent. This includes an assessment of the scope of its decision-making authority, including rights held by third parties, which may provide these parties substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power.

In addition, the assessment considers the aggregate economic interest of the Group, which includes both direct holding and expected management fee if the fund manager is a Group company, however, management fee in most cases forms an immaterial part of the aggregate economic interest of the Group.

Holdings in such investments can fluctuate on a daily basis according to the participation of the Group and other investors in them. As a result, in determining control, the Group looks at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the Group's involvement.

Consolidation assessment is performed in line with the following principles:

- Where the Group manages the assets of the entity, and the aggregate of Group's ownership holding in the entity exceeds 50%, the Group is judged to have control over the entity.
- Where the Group manages the assets of the entity, and the aggregate of Group's ownership holding in the entity is between 20% and 50%, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.
- Where the Group manages the assets of the entity, and the aggregate of Group's ownership holding in the entity is less than 20%, the Group is judged to not have control over the entity.
- Where the assets of the entity are managed externally, an assessment is made of whether the Group has existing rights that give it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and unit trusts where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as subsidiaries and are consolidated, with the interests of investors other than entities within the Group being classified as liabilities, presented as third-party interest in consolidated funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at FVTPL within equity securities and pooled investment funds in the consolidated statement of financial position.

Where the Group initially sets up OEICs, SICAVs and unit trusts as part of its operations through its investment management business, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with OEICs, SICAVs and unit trusts. For these investment vehicles, the Group is not deemed to control the entities, but to be acting as an agent.

Limited partnerships

The Group invests in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity.

Such interests in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities which limited partnerships are engaged in. Accounting for the limited partnerships (including underlying investees) as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the level of shareholdings in the general partners.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

Other structured entities
The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities, the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle, including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements, taking into account aggregate economic interest where relevant.

(iv) Third-party interests
Interests of parties other than the Group in entities which the Group controls are assessed to determine whether they should be classified as financial liabilities or as non-controlling interests in equity on the statement of financial position. Puttable third-party interests such as units held by external investors in unit trusts are classified as financial liabilities. Third-party interests in private equity vehicles set up with finite lives are also classified as financial liabilities.

1.5.2 Insurance and investment contracts

(i) Classification
Contracts written by the Group's insurance operations are classified as either insurance contracts or investment contracts. Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. Judgement is applied in assessing whether the features of a contract gives rise to the transfer of significant insurance risk. This assessment is based on a readily identifiable scenario which is used to determine if there would be a significant difference in the contract's cash outflows if the insured event occurs. This judgement is made at inception and is not revisited.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts.

Some contracts, both insurance and investment, contain discretionary participation features ("DPF") representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance. These contracts are classified as insurance or investment contracts with discretionary participation features.

The measurement of contracts depends on their classification. Those classified as either insurance contracts or investment contracts with discretionary participation features are accounted for as insurance contracts under IFRS 4. Investment contracts without discretionary participation features are accounted for as financial instruments under IAS 39. The classification of the Group's insurance operations' main contract types are shown below:

Type of contract	Classification
With-profits	Insurance contract/Investment contract with discretionary participation features
Unit-linked with significant insurance risk	Insurance contract
Unit-linked without significant insurance risk	Investment contract
Annuities	Insurance contract

(ii) Measurement: Insurance contracts and investment contracts with discretionary participation features
Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4 Insurance Contracts, which permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP), which have been grandfathered by the Group. In particular, the Group uses a modified statutory basis, which is based on grandfathered regulatory requirements prior to the adoption of Solvency II, adjusted in accordance with the Statement of Recommended Practice issued by the Association of British Insurers ("ABI SORP"). An exception was for the Group's With-Profits Fund, which is measured on a realistic basis in accordance with FRS 27 Life Assurance. The measurement of the liabilities arising from the main types of contracts in scope of IFRS 4 is described further below.

Valuation of the With-Profits Fund's liabilities
The policyholder liabilities for the Group's With-Profits Fund are measured under FRS 27 Life Assurance, which requires the use of the realistic value of liabilities. In aggregate, this has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances.

The realistic basis requires the value of with-profits liabilities to be calculated as: a with-profits benefits reserve; plus future policy-related liabilities; plus the realistic current liabilities of the fund.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

The realistic basis requires the value of with-profits policyholder liabilities to be calculated as the sum of:

(i) a with-profits benefits reserve ("WPBR")

(ii) future policy-related liabilities ("FPRL")

The WPBR is primarily based on the retrospective calculation of accumulated asset shares with adjustments to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the With-Profits Fund assets attributable to their policies. For certain classes of business, the WPBR is instead calculated using a prospective bonus reserve valuation, valuing future claims and expenses using the expected future bonus rates.

The FPRL must include a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using a stochastic approach. The future policy-related liabilities also include other liabilities such as tax on shareholder transfers and enhancements to policy benefits arising from the distribution of surplus from non-profit business written within the With-Profits Fund.

The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. The shareholders' share of profit is recognised in line with the distribution of bonuses to policyholders.

Unallocated surplus of the With-Profits Fund

The unallocated surplus of the With-Profits Fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess/(shortfall) of income over expenditure of the With-Profits Fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to/(from) the unallocated surplus each year through a charge/(credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Valuation of unit-linked contracts

For unit-linked contracts classified as insurance contracts, the attaching liability reflects the unit value obligation and an additional provision in respect of expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and discounted at an appropriate valuation interest rate.

Valuation of annuity contracts

The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The primary assumptions required are in respect of policyholder mortality, credit assumptions within the valuation interest rate, and future expense levels.

Liability adequacy test

The Group performs adequacy testing on its liabilities in respect of insurance contracts and investment contracts with discretionary participation features to ensure that the carrying amounts (net of related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement.

(iii) Investment contracts without discretionary participation features

Investment contracts without discretionary participation features, such as unit-linked savings and similar contracts, are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a fair value basis.

The Group incurs various incremental, directly attributable acquisition costs relating to the investment management element of these contracts which are capitalised and amortised in line with the related revenue. If the contracts involve upfront charges, this income is also deferred and amortised through the income statement in line with contractual service provision in accordance with IFRS 15.

1.5.3 Business acquisitions

Business acquisitions are accounted for by applying the acquisition method of accounting, where the identifiable assets and liabilities of the acquired business are recorded at fair value on the date of acquisition. The excess of the fair value of acquisition consideration over the recorded value of the assets and liabilities of the acquired entity is recorded on the statement of financial position as goodwill. Expenses related to acquiring new subsidiaries are charged to the income statement in the year in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

Acquisitions of entities under common control are accounted for under merger accounting principles. Under merger accounting, the results and statement of financial position for entities acquired on initial formation of the Group are presented as if the entities had always been combined. Assets and liabilities of the entities acquired are recorded at their carrying values and a fair value measurement is not undertaken. No new goodwill is recognised and the differences between the cost of investment, which is its fair value, and the carrying value of assets and liabilities acquired is recorded within equity.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.4 Financial assets and liabilities

(i) Classification and measurement

The classification of financial assets and liabilities is determined at initial recognition. The Group classifies derivative financial assets and financial liabilities as held for trading.

Financial assets which are managed and whose performance is evaluated on a fair value basis are designated at fair value through profit or loss (FVTPL). The vast majority of the Group's financial assets fall into this category as the assets are held to back policyholder liabilities. Managing assets on a fair value basis maximises returns to policyholders and avoids accounting mismatches in the income statement.

Financial assets classified as held for trading or at FVTPL, and financial liabilities classified as held for trading, are measured at fair value with all changes thereon being recognised in investment return in the income statement.

The Group's financial assets which are not derivatives or designated at FVTPL are classified as loans or receivables. These instruments comprise non-quoted investments that have fixed or determinable payments and include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method and are subject to impairment reviews. Where there is objective evidence that a loss event has occurred the, Group measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cashflows discounted at the original effective interest rate.

The Group uses the trade date method to account for regular purchases and sales of financial assets. Transaction costs are expensed as incurred.

Financial liabilities other than derivatives are classified according to the substance of the contractual arrangements. The Group designates financial liabilities at FVTPL if these instruments are managed and their performance evaluated on a fair value basis. Investment contract liabilities without discretionary participation features are designated at FVTPL, with changes in fair value recognised within benefits and claims in the consolidated income statement. The fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets.

Third-party interest in consolidated funds which are classified as financial liabilities are designated as FVTPL to match the treatment of the underlying assets in the funds. Changes in fair value are recognised in movements in third-party interest in consolidated funds in the consolidated income statement.

Financial liabilities which are not designated at FVTPL are measured at amortised cost using the effective interest method.

(ii) Determination of fair value

The Group uses current bid prices to value its investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties. Financial assets measured at fair value are classified into a three-level hierarchy as described in Note 33.

If the market for a financial investment of the Group is not active, the fair value is determined using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement, which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in Note 33.

1.5.5 Earned premiums, policy fees and claims paid

Premiums and annuity considerations for conventional with-profits policies and other protection-type life insurance and annuity policies are accounted for when due. For unit-linked business and unitised with-profits policies, premiums are accounted for when the liabilities arising from the premiums are recognised. These amounts exclude premium taxes and similar duties where the Group collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.6 Reinsurance

The business seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Where the reinsurance contracts transfer significant insurance risk to the reinsurer, the asset arising from the contract is classified as the reinsurer's share of insurance contract liabilities.

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. Reinsurance premiums paid and reinsurance recoveries on claims paid are recognised when the corresponding insurance premium is received from the policyholder and when the reinsured claims are incurred, respectively. These items are disclosed separately on the face of the income statement. Any gains or losses arising on the purchase of reinsurance contracts are immediately recognised in the income statement.

Where the reinsurance contract does not transfer significant insurance risk to the reinsurer, the contract is classified as a financial instrument and is measured at FVTPL.

1.5.7 Fee income

Revenue arising from contracts with customers consists of investment management and performance fee income from the Group's asset management business, investment contracts without DPF and other fees and commissions.

Management fee income is based on investment assets under management and is only recognised when the Group satisfies its performance obligation to provide the asset management services. It is recognised in the year in which the services are rendered and is recognised net of rebates. Since the asset management service the Group provides is a continuous service, it satisfies its performance obligation over time. Therefore, the Group meets the criteria for its revenue to be recognised over time as the client benefits from the asset management services received from the Group.

Performance fee income is based on the achievement of prescribed performance hurdles. It is only recognised when the performance obligations are satisfied or upon the crystallisation event occurring and when it is highly probable that a significant reversal will not occur.

Fees from investment contracts without DPF are recognised over time as the services are provided, which may be the point at which the cash is received. Other fees and commissions such as from the provision of financial advice to customers are recognised when performance obligations are satisfied or upon the crystallisation of an event. The price is determined based on the agreed initial or ongoing adviser charge.

No significant judgements are applied on the timing or transaction price or the determination of the costs incurred to obtain or fulfil a contract.

1.5.8 Investment return

Investment return included in the consolidated income statement comprises interest income, rental income, dividends, foreign exchange gains and losses, realised and unrealised gains and losses on investments designated as FVTPL, and realised gains and losses (including impairment) on items held at amortised cost. Interest income is recognised as it accrues on an effective income basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

1.5.9 Deferred acquisition costs

The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For investment contracts without discretionary participating features, these acquisition costs are capitalised and amortised in line with the related revenue as required by IFRS 15. For certain insurance contracts, such acquisition costs are also capitalised and amortised in line with the emergence of projected margins. These costs (deferred acquisition costs) are recognised as an asset in the statement of financial position.

The recoverability of any deferred acquisition costs is reviewed at each reporting date, and to the extent that these are no longer deemed recoverable from future revenue or projected margins, then the carrying value is written down to the recoverable amount and the related impairment charge recorded in the consolidated income statement.

For insurance contracts written within the UK regulated With-Profits Fund, in accordance with FRS 27 there is no deferral of acquisition costs and these costs are expensed as incurred. Similarly, for insurance contracts where all of the acquisition costs are recovered upfront, such as annuities, no acquisition costs are deferred.

1.5.10 Derivatives and hedge accounting

The primary areas of the Group's continuing operations where derivative instruments are held are in the With-Profits Fund and annuity business. Management designates derivatives on inception and those that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded within investment return in the consolidated income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39 and has had no fair value or cash flow hedges for the years ended 31 December 2019 and 31 December 2018.

1.5.11 Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred. Gains and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the consolidated income statement.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.12 Securities lending and reverse repurchase agreements

The Group is party to various securities-lending agreements and repurchase agreements under which securities are transferred to third parties on a short-term basis. The transferred securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, including cash collateral which is not legally separated from the Group, the collateral and corresponding obligation to return such collateral is recognised as a financial liability in the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments on the statement of financial position. The right to receive the return of any cash paid as purchase consideration plus interest is recognised as a financial asset in the statement of financial position.

1.5.13 Subordinated liabilities and other borrowings

Subordinated liabilities include loan notes issued by the Group which are classified as financial liabilities as they have a fixed repayment date and do not represent a residual interest in the net assets of the Company on liquidation. The notes rank junior to all other liabilities of the Group in the event of liquidation, but above share capital.

Borrowings include operational borrowings attributable to the shareholder-financed operations and other borrowings attributable to the With-Profits Fund.

Subordinated liabilities and other borrowings are initially recognised at fair value, net of transaction costs. Borrowings, excluding those backing buy-to-let mortgages, which are managed on a fair value basis and designated at FVTPL, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity, or for hybrid debt, over the expected life of the instrument.

Borrowings backing buy-to-let mortgages are designated at FVTPL in line with the underlying loan assets.

1.5.14 Investment property

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment property, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors' valuation standards. Each property is externally valued at least once every three years.

1.5.15 Defined benefit pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation for the relevant scheme exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position in respect of that scheme. By contrast, if the fair value of the assets of the relevant scheme exceeds the present value of the defined benefit obligation then the surplus in respect of that scheme will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding in respect of schemes where there is no unconditional right to a refund to any surplus, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 Employee Benefits deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the pension surplus or deficit recognised on the consolidated statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit obligation at the start of the year, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income. Contributions to the Group's defined contribution pension schemes are expensed when due.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.16 Tax

The Group applies IAS 12 Income Taxes in accounting for taxes on income. Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. Income tax recoverable on tax-allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offsetting against taxable profits arising in the current or prior periods. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 Income Taxes does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax is also not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are only offset when there is both a legal right to set off and an intention to settle on a net basis.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

The Group is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, the Group considers an uncertain tax position to exist and a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management's judgement and estimate of the likely amount of the liability, or recovery, by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management's judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and that they have full knowledge of all related information. The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

1.5.17 Goodwill

Goodwill arises when the Group acquires a business and the fair value consideration paid exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the consolidated statement of financial position at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash-generating units. Goodwill impairment charges are recognised immediately in the income statement.

1.5.18 Intangible assets

Intangible assets acquired through business combinations are measured at fair value on acquisition. For assets such as service concessions, licences and software, this represents the price paid to acquire them. Intangible assets are subsequently carried at cost less amortisation and any accumulated impairment losses.

Intangibles are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels unless the pattern cannot be determined reliably, in which case a straight-line method is applied.

Impairment testing is conducted when there is an indication of impairment. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash-generating unit to which it is allocated.

Amortisation and impairment of intangible assets is charged to the income statement.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.19 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, debt securities and money market funds with less than 90 days' maturity from the date of acquisition.

1.5.20 Dividends

Dividends are recognised when the obligation becomes certain, ie when the dividend is no longer at the discretion of the Company. In the case of interim dividends, this occurs when the dividends are paid. For final dividends, this occurs when they are recommended by the Board and approved by shareholders.

1.5.21 Share capital and share premium

An equity instrument is any contract that evidences a residual interest in the assets of the Group, after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Where the consideration received from the issue or sale of existing shares exceeds the nominal value recorded in share capital, the difference is recorded in share premium. Share premium is recorded net of share issue costs.

1.5.22 Treasury shares

Where any of the Group entities purchase the Company's share capital, the consideration paid, including any attributable transaction costs, is shown as a deduction from total shareholders' equity. Any gains and losses arising on treasury shares are included within equity.

1.5.23 Merger reserve

The merger reserve arises from the application of merger accounting principles to acquisition of entities under common control. It represents the difference between the aggregate capital reserves and value of the entities acquired, which is recognised directly in equity. On disposal of the relevant entity, the related merger reserve is released directly to retained earnings.

1.5.24 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 or a Monte Carlo simulation 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 based on the number of equity instruments expected to vest over the vesting period, with the corresponding entry to equity.

For cash-settled share-based payments, the fair value of service rendered is based on the fair value of the liability related to the equity instrument granted. The fair value equity instrument granted is remeasured at each reporting date with any changes recognised in the share-based payment expense for the period.

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.

1.5.25 Discontinued operations

The Group classifies an entity (or a component of an entity) within the Group as a discontinued operation if it has either been disposed of, or is classified as held for sale, and

a. represents a separate major line of business or geographical area of operations, or

b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

c. is a subsidiary acquired exclusively with a view to resale.

The analysis of the comprehensive income and cash flows relating to discontinued operations is disclosed separately in the consolidated financial statements.

1.5.26 Earnings per share ("EPS")

Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, excluding treasury shares.

Diluted EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares, excluding treasury shares, adjusted to take into account the effect of any dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are share options and awards granted to employees. Potential ordinary shares are treated as dilutive when their conversion to ordinary shares results in a decrease in EPS.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.27 Foreign exchange

The Group's consolidated financial statements are presented in million pounds Sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries are translated into the presentation currency of the Group from their functional currencies. All assets and liabilities of foreign subsidiaries are converted at year-end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates.

Foreign currency monetary assets and liabilities are translated at the spot exchange rate at the reporting date. Changes resulting from exchange rates are recognised in the income statement.

Foreign currency transactions are translated into functional currencies at the spot rate prevailing on the date of transactions.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the translation of foreign subsidiaries are recognised in other comprehensive income and taken to Other reserves within equity. On disposal of the foreign subsidiary, the related exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on disposal.

The income statements and cash flows, and statements of financial position of Group entities that have a different functional currency from the Group's presentation currency, have been translated using the following principal exchange rates.

	2019 Income statement and cash flows (average rate)	**2019 Statement of financial position (closing rate)**	2018 Income statement and cash flows (average rate)	2018 Statement of financial position (closing rate)
Euro (EUR)	**1.14**	**1.18**	1.13	1.11
Hong Kong Dollar (HKD)	**10.00**	**10.32**	10.46	9.97
Indian Rupee (INR)	**89.90**	**94.56**	91.25	88.92
Polish Złoty (PLN)	**4.90**	**5.02**	4.82	4.78
Vietnamese Đồng (VND)	**29.65**	**30.70**	30.73	29.54
US Dollar (USD)	**1.28**	**1.32**	1.34	1.27

1.5.28 Leases

The Group leases office property to conduct its business. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception, the Group allocates the consideration in a contract to each lease component. However, for the leases of land and buildings, in which the Group acts as lessee, the Group has elected to account for the lease and non-lease components as a single lease component.

Where the Group acts as a lessee, it recognises a right of use asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Group applies the cost model to the right of use assets, except for those that meet the definition of an investment property, to which the fair value model is applied.

The asset is initially measured at cost which comprises the amount of the lease liability, and lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs related to the dilapidation of the asset that would be incurred, less any lease incentives received. Subsequently, the asset is depreciated using the straight-line method from the commencement date to the earlier of (i) the end of the right of use asset's useful life and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's own incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time, the lease liability may be re-measured where there is a change in future lease payments for example, where the Group reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right of use asset or an amount is recognised in the consolidated income statement if the carrying amount of the right of use asset has been reduced to zero.

The Group presents the right of use assets that do not meet the definition of investment property in 'Property, plant and equipment' on the consolidated statement of financial position. The corresponding lease liabilities are presented in 'Lease liabilities'.

Where the Group acts as lessor, it classifies and accounts for its leases as operating or finance leases. Where the Group acts as an intermediate lessor, as it does with some of its property leases, it accounts for its interests in the head lease and the sub-lease separately. The Group assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'Investment return'.

1 Basis of preparation and significant accounting policies (continued)

1.5 Accounting policies (continued)

1.5.29 Property, plant and equipment ("PPE")

PPE includes Group occupied properties and other tangible assets, such as computer equipment, motor vehicles, leasehold improvements and fixtures and fittings. PPE including owner-occupied property is measured at cost, which represents the original purchase price less any expenses incurred in bringing it to its working conditions, and subsequently measured using the cost model.

Depreciation is charged to the consolidated income statement on a straight-line basis over its estimated useful life. Management determines useful lives and residual values for assets when they are acquired. The Group assesses the useful life, residual value and depreciation method for PPE on an annual basis and any adjustments are made where required.

An impairment review of PPE is carried out whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assess impairment at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which is the higher of the asset's fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the consolidated income statement.

1.5.30 Assets and liabilities held for sale

The Group classifies assets and liabilities as held for sale when the carrying amount is expected to be recovered through a sale transaction, usually within one year, and management are committed to the sale.

Assets and liabilities held for sale are shown separately on the consolidated statement of financial position and are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on an asset which is classified as held for sale.

When the Group is committed to a sale of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Income and expenses of subsidiaries sold during the year are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21: The Effects of changes in Foreign Exchange rates.

1.5.31 Provisions and contingent assets and liabilities

Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation resulting from a past event, it is more probable than not that a loss will be made in settling the obligation and the amounts can be estimated reliably.

Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

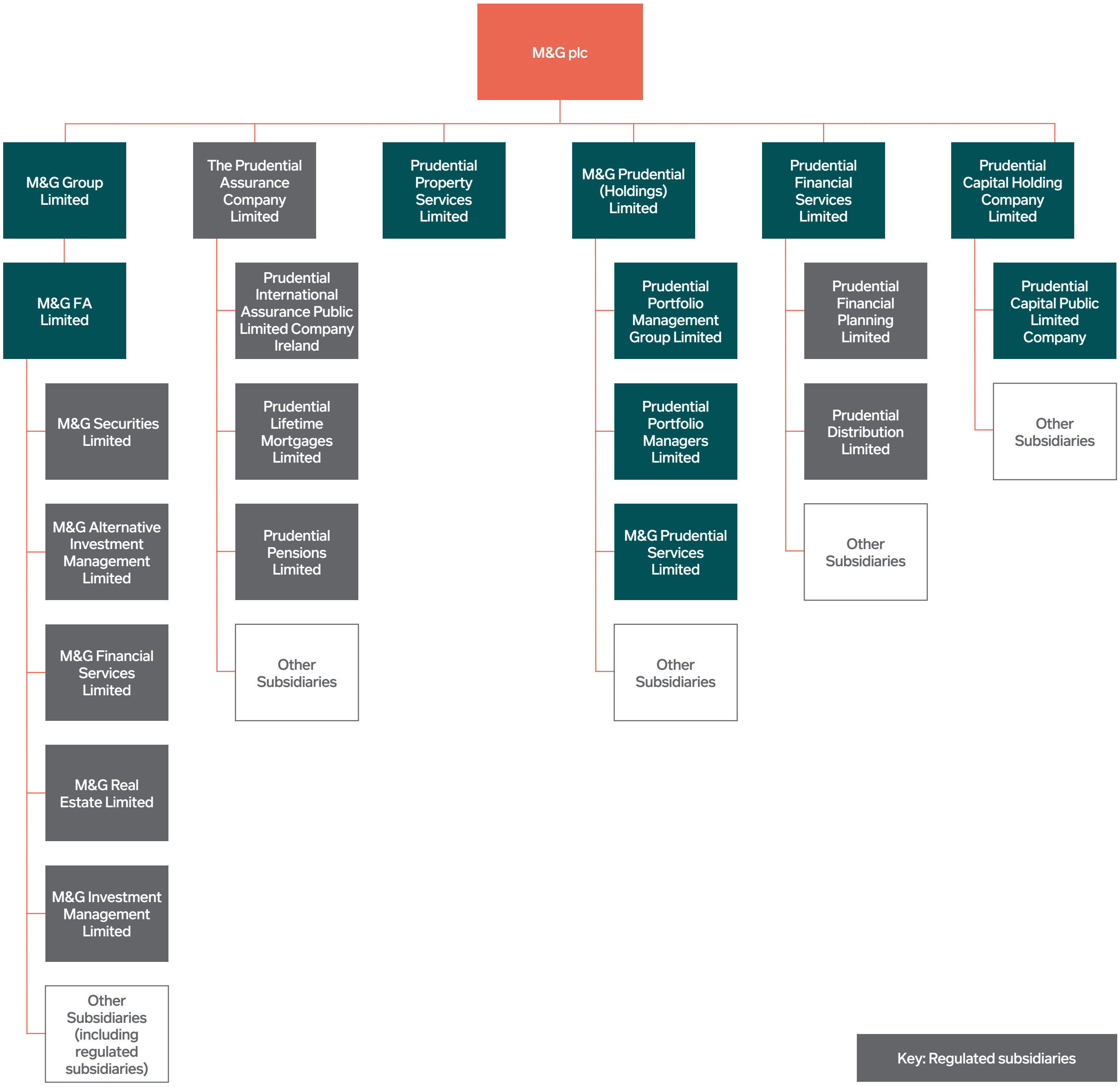
Contingent liabilities are possible obligations of the Group where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured, it is no longer treated as contingent and recognised as a liability.

Contingent assets which are possible benefits to the Group are only disclosed if it is probable that the Group will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the consolidated statement of financial position as an asset.

2 Group structure and products

2.1 Group composition

The following diagram is an extract of the Group structure at 31 December 2019 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.



A complete list of the Group's related undertakings comprising subsidiaries, joint ventures, associates and other significant holdings is contained within Note 41.

Financial information

2 Group structure and products (continued)

2.2 Transactions relating to demerger from Prudential plc

In preparation for the demerger of the Company, a number of restructuring transactions were undertaken with other companies within the Prudential plc group. These have each been considered in further detail below and together formed part of a co-ordinated plan to sell certain parts of these lines of business prior to the demerger.

2.2.1 Disposal of Hong Kong subsidiaries

On 28 February 2018, the Board of The Prudential Assurance Company Limited ("PAC") approved a plan to sell its subsidiaries, Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited, to Prudential Corporation Asia Limited, an entity which is not within the Group and completed on 19 December 2018. Accordingly, at this date the Group concluded that with a committed plan to sell, approved by the Board of PAC, the associated assets and liabilities should be classified as held for sale. The loss on disposal was calculated as follows:

19 December 2018	£m
Total assets of operations disposed of	(43,244)
Total liabilities of operations disposed of	42,227
Net assets of operations disposed of	(1,017)
Cash consideration received	33
Release of foreign currency translation reserve	58
Loss on disposal	(926)

On the date of disposal £9,450m was transferred from merger reserve to retained earnings in respect of the disposal, representing the difference between aggregate capital reserves and the value of the Hong Kong subsidiaries on the date of acquisition.

2.2.2 Disposal of Prudential Vietnam Finance Company Limited

During 2017, Prudential Holborn Life Limited, a subsidiary of PAC, approved a plan to sell Prudential Vietnam Finance Company Limited. On 23 January 2018 an agreement was reached to sell the Company to Shinhan Card Co. Ltd, which, following regulatory approval, was completed on 14 June 2019 for £119m. It was therefore treated as held for sale as at 31 December 2018. The resultant gain on disposal was calculated as follows:

14 June 2019	**£m**
Total assets of operations disposed of	**(225)**
Total liabilities of operations disposed of	**165**
Net assets of operations disposed of	**(60)**
Cash consideration received	**119**
Transaction costs	**(4)**
Gain on disposal	**55**

2.2.3 Acquisition of Prudential Capital Holdings Company Limited

On 20 September 2019, Prudential plc sold its investment in Prudential Capital Holdings Company Limited to the Company. As detailed in the basis of preparation in Note 1.5.23, merger accounting principles were applied to this acquisition such that the results and assets and liabilities of this entity were combined within the Group from its initial formation on 1 January 2018. The operations of Prudential Capital Holdings Limited prior to 20 September 2019 included the provision of certain treasury services to Prudential plc and its subsidiaries which do not relate to the ongoing operations of the Group.

2.2.4 Acquisition of 10FA India Private Limited (formerly known as Prudential Global Services Private Limited)

On 16 September 2019, the Group acquired Prudential Global Services Private Limited ("PGS") from Prudential Corporate Holdings Limited for a cash consideration of £19m, being the net asset value of PGS, which was considered to be equal to the fair asset value of PGS. The name of the company was subsequently changed to 10FA India Private Limited on 22 October 2019.

As detailed in the basis of preparation in Note 1.5.23, merger accounting principles were applied to this acquisition such that the results and assets and liabilities of this entity were combined within the Group from its initial formation on 1 January 2018.

2 Group structure and products (continued)

2.3 Corporate transactions

2.3.1 Proposed sale of annuity portfolio to Rothesay Life plc

On 14 March 2018, Prudential plc announced the reinsurance of £12,149m (as at 31 December 2017) of PAC's shareholder-backed annuity portfolio to Rothesay Life plc by way of a collateralised reinsurance arrangement followed by an insurance business transfer scheme (the "Scheme") under Part VII of Financial Services and Markets Act. The terms of the reinsurance arrangement transferred substantially all of the economic risk and capital requirements associated with the Annuity Portfolio to Rothesay Life plc, subject to a residual counterparty credit risk attaching to reinsurance receivables. Accordingly, the assets and liabilities associated with the Annuity Portfolio were classified as held for sale as at 31 December 2018.

On 17 May 2019, the independent expert who was appointed to report to the High Court concluded that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. PAC and Rothesay Life plc were granted leave to appeal the judgment. A notice of appeal was lodged at the Court of Appeal on 27 September 2019, but the case is not expected to be heard before Spring 2020 at the earliest. The High Court's judgment has no direct impact on the reinsurance with Rothesay Life plc. As the associated assets and liabilities no longer meet the criteria to be classified as held for sale, they have been included within the relevant line item in the consolidated statement of financial position as at 31 December 2019. The reclassification did not have any impact on profit or loss.

2.3.2 Assets and liabilities held for sale

The assets and liabilities classified as held for sale on the consolidated statement of financial position as at 31 December 2018 in respect of the reinsured annuity business and Prudential Vietnam Finance Company Limited are as follows:

	For the year ended 31 December 2018 £m
Assets:	
Reinsurance asset	10,502
Other assets (including cash and cash equivalents) (i)	282
Assets held for sale (ii)	10,784
Liabilities:	
Insurance contract liabilities	10,502
Other liabilities (i)	225
Liabilities held for sale	10,727

(i) Other assets include £216m and other liabilities include £158m as at 31 December 2018 in respect of Prudential Vietnam Finance Company Limited which was sold on 14 June 2019.

(ii) Assets held for sale on the consolidated statement of financial position as at 31 December 2019 also includes £88m (2018: £nil) of seed capital classified as held for sale as it is expected to be divested within 12 months. Also included within assets held for sale is £17m of investment property classified as held for sale (2018: £10m) and £14m (2018: £27m) in relation to the Group's consolidated infrastructure capital private equity vehicles.

2.4 Insurance and investment products

2.4 Insurance and investment contracts written by the Group's insurance entities

A description of the main contract types written by the Group's insurance entities is provided below.

The Group's with-profits contracts are written in the With-Profits Fund in which policyholders share in the profit of the fund. There are three with-profits sub-funds: the With-Profits Sub-Fund ("WPSF"), the Defined Charge Participating Sub-Fund ("DCPSF") and the Scottish Amicable Insurance Fund ("SAIF").

Shareholder-backed business represents all insurance and investment contracts in the Group other than contracts written in the With-Profits Fund. The profit on these contracts accrues directly to the Group's shareholders.

2.4.1 With-profits contracts

With-profits contracts provide returns to policyholders through bonuses that are smoothed to reduce the impact of volatility of the investment performance of the assets in the fund.

Financial information

2 Group structure and products (continued)

2.4 Insurance and investment products (continued)

2.4.1.1 Conventional and accumulating with-profits contracts written in WPSF and DCPSF

Conventional and accumulating with-profits policyholders receive their share of profit by way of regular and final bonuses.

Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholder transfers.

In normal investment conditions, the Group expects changes in regular bonus rates to be gradual over time. However, the Group retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

A final bonus which is normally declared annually, may be added when a claim is paid. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares of representative sample policies and are subject to smoothing.

Regular bonuses are typically declared once a year, and once credited are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration.

Contracts are predominantly written in the WPSF, where the shareholders are entitled to an amount up to one-ninth of the bonus declared, which is payable as a cash transfer from the With-Profits Fund.

For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders' profit arises as the difference between charges and expenses.

2.4.1.2 With-profits contracts with a PruFund investment option ("PruFund contracts")

These are a range of with-profits contracts offering policyholders a choice of investment profiles ("PruFund funds"). Unlike the with-profits contracts described above, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate ("EGR"). The EGR is adjusted for significant market movements.

The EGR may be applied for each of the different PruFund funds within the range, varying depending on the individual asset mix of that fund. The applicable EGR, net of the relevant charges, is applied to calculate the 'smoothed unit value' of policyholder funds. The EGRs are reviewed and updated quarterly, with the smoothed unit value calculated daily. In normal investment conditions, the EGR is expected to reflect PAC's view of how the funds will perform over the longer term.

Policyholders are protected from some of the extreme short-term ups and downs of direct investments by using an established smoothing process. Prescribed adjustments are made to the smoothed unit value if it moves outside a specified range relative to the value of the underlying assets.

PruFund contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one-ninth of the difference between the smoothed unit value on withdrawal and the initial investment. The DCPSF also contains PruFund contracts, and for these contracts the shareholders receive profits or losses arising from the difference between the charges and expenses on this business.

2.4.1.3 SAIF with-profits contracts

SAIF is a ring-fenced with-profits sub-fund. No new business is written in SAIF, although regular premiums and top-ups are still being collected on in-force policies. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund. The process of determining policyholder bonuses of SAIF with-profits policies is similar to that for the with-profits policies of the WPSF. In addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.

The Group's main exposure to guaranteed annuity options arises through contracts in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 35.3.2.

2.4.2 Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investments or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 4 (see Note 27).

Charges are deducted from the unit-linked funds for investment and administration services, and for certain contracts, insurance coverage. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product.

2 Group structure and products (continued)

2.4 Insurance and investment products (continued)

2.4.3 Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium. There are various types of annuity contracts written across the Group: level, fixed increase, inflation-linked (referred to as 'non-profit annuities') and with-profits annuities. Some non-profit annuities have been written in the With-Profits Fund, and profits relating to this business accrue to the With-Profits Fund.

- Level annuities: provide a regular (for example, monthly) fixed annuity payment over the policyholder's life.
- Fixed increase annuities: provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.
- Inflation-linked annuities: provide for a regular annuity payment to which an additional amount is added periodically based on the increase in an inflation index.
- With-profits annuities: are written in the With-Profits Fund. These combine the income features of annuity contracts with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the With-Profits Fund.

3 Segmental analysis

The Group's operating segments are defined and presented in accordance with IFRS 8: Operating Segments on the basis of the Group's management reporting structure and its financial management information. The Group's primary reporting format is by customer type, with supplementary information being given by product type. The Chief Operating Decision Maker for the Group is the Group Executive Committee.

3.1 Operating segments

The Group's operating segments are:

Savings and Asset Management

The Group's Savings and Asset Management business provides a range of retirement, savings and investment management solutions to its retail and institutional customers. The Group's retirement and savings products are distributed to retail customers through intermediaries and through its own advisers, and include the Retirement Account (a combined individual pension and income drawdown product), individual pensions, ISAs, collective investments and a range of on-shore and off-shore bonds.

All of the Group's products that give access to the PruFund investment proposition are included in the Savings and Asset Management segment. The PruFund investment proposition gives retail customers access to savings contracts with smoothed investment returns and a wide choice of investment profiles. Unlike the conventional and accumulating with-profits contracts in the Group's Heritage business, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate.

The Group's investment management capability is offered to both retail and institutional investors. The Group's retail customers invest through either UK-domiciled Open Ended Investment Companies ("OEICs") or Luxembourg-domiciled Sociétés d'Investissement à Capital Variable ("SICAVs") and have access to a broad range of actively managed investment products, including Equities, Fixed Income, Multi-Asset and Real Estate. The Group serves these customers through its many business-to-business relationships both in the UK and overseas, which include independent financial advisers, high-street banks and wealth managers. The Group's institutional investors, include pension funds, insurance companies and banks from around the world, who invest through segregated mandates and pooled funds into a diverse range of Fixed Income and Real Estate investment products and services.

The Savings and Asset Management segment also earns investment management revenues from the significant proportion of Heritage assets it manages.

Heritage

The Group's Heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new customers but may accept further contributions from existing policyholders.[i] The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

The life products in Heritage are primarily whole of life assurance, endowment assurances, term assurance contracts, lifetime mortgages, income protection, and critical illness products. Investment products include unit-linked contracts and the Prudential bond offering, which mainly consists of single-premium-invested whole of life policies, where the customer has the option of taking ad-hoc withdrawals, regular income or the option of fully surrendering their bond.

Some of the Group's Heritage products written through conventional and accumulating with-profits contracts, in the With-Profits Sub-Fund, provide returns to policyholders through 'regular' and 'final' bonuses that reflect a smoothed investment return.

(i) The Group accepts new members to existing Corporate Pension schemes and writes a small number of new annuity policies with customers who have a pension issued by PAC.

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3 Segmental analysis

3.1 Operating segments (continued)

The Heritage business includes the closed Scottish Amicable Insurance Fund ("SAIF") with-profits sub-fund. This fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund although they are entitled to asset management fees on it. It also includes the Defined Charge Participating sub-fund ("DCPSF"), which consists of two types of business: (i) the Defined Charge Participating business, primarily business reinsured from Prudential International Assurance plc; and (ii) the with-profits annuities transferred from Equitable Life Assurance Society on 31 December 2007.

Corporate Centre

Corporate Centre includes central corporate costs incurred by the M&G Group functions and debt costs.

3.2 Adjusted operating profit before tax methodology

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS GAAP measures and is key to decision-making and the internal performance management of operating segments.

Adjusted operating profit before tax includes IFRS profit from continuing operations only.

For the Group's fee based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Costs associated with fundamental one-off Group-wide restructuring and transformation are not included in adjusted operating profit before tax.

For the Group's business written in the With-Profits Fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers, and can be separated into two types:

1. Cash flow hedges: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers.
2. Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position, with no direct link to IFRS profits.

The realised gains or losses on the cash flow hedges are allocated to adjusted operating profit before tax in line with emergence of the corresponding shareholder transfer within IFRS profit. Any short-term temporary movements in the fair value of these instruments, not relating to the current year's shareholder transfer are excluded from adjusted operating profit before tax. As the capital hedges do not explicitly hedge future IFRS profits, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

For the Group's shareholder annuity products written by the Heritage segment, adjusted operating profit before tax excludes impacts that are the result of credit experience variance relative to assumptions including the impact of credit risk provisioning for actual upgrades and downgrades during the year, and the impact of defaults and other similar experience such as asset exchanges arising from debt restructuring. Total fair value movements on surplus assets backing the shareholder annuity capital are also excluded from adjusted operating profit before tax.

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Group, including profits or losses arising on corporate transactions and profit/loss from discontinued operations.

The key adjusting items between IFRS profit before tax from continuing operations and adjusted operating profit before tax are:

Short-term fluctuations in investment returns

The adjustment for short-term fluctuations in investment returns represents:

(i) Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer.

(ii) Total fair value movements on surplus assets backing the shareholder annuity capital, and the difference between the assumed long-term credit experience used to determine adjusted operating profit before tax for the Group's shareholder annuity products and the actual credit experience over the year, specifically:

- The impact of credit risk provisioning for actual upgrades and downgrades during the year. This is calculated by reference to current interest rates.
- Credit experience variance relative to assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring.

3 Segmental analysis (continued)

Items relating to investment returns which are included in adjusted operating profit before tax are:

- The net impact of movements in the value of policyholder liabilities and fair value of the assets backing these liabilities, excluding the items included in short-term fluctuations above. The fair value movements of the assets backing the liabilities are closely correlated with the related change in liabilities.
- The unwind of the credit risk premium, which is the opening value of the assets multiplied by the credit risk premium assumption, with an adjustment for claims paid over the year. The credit risk premium assumption is the difference between total default allowance and a best estimate default allowance (both of which allow for the combination of defaults and downgrades).
- Actual income received in the year, such as coupon payments, redemption payments and rental income, on surplus assets backing the shareholder annuity capital, less an allowance for expenses.
- The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing.
- Changes to credit risk provisioning not included in the short-term fluctuations above.

Profit/(Loss) on disposal of businesses and corporate transactions

The adjusting items of £53m for the year ended 31 December 2019 and £(508m loss) for the year ended 31 December 2018 resulted from the reinsurance of £12bn of annuities to Rothesay Life plc in anticipation of sale, which is considered to be non-recurring in nature and is therefore excluded from IFRS adjusted operating profit before tax.

The (loss)/gain on disposal of Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company is not included in the reconciliation of adjusted operating profit to IFRS profit from continuing operations as they are presented in profit from discontinued operations in the consolidated income statement.

Restructuring and other costs

Restructuring and other costs primarily reflect the shareholder allocation of costs associated with the merger, transformation, rebranding and other change in control costs. These costs represent fundamental one-off Group-wide restructuring and transformation and are therefore excluded from IFRS adjusted operating profit.

3.3 Analysis of Group adjusted operating profit before tax by segment

	For the year ended 31 December 2019			
	Savings and Asset Management £m	Heritage £m	Corporate Centre £m	Total continuing operations £m
Fee based revenues (i)	1,191	96	—	1,287
Annuity margin	—	458	—	458
With-profits shareholder transfer net of hedging gains/(losses) (ii)	55	187	—	242
Adjusted operating income	1,246	741	—	1,987
Adjusted operating expenses	(817)	(87)	(59)	(963)
Other shareholder profit/(loss)	30	98	(18)	110
Share of profit from joint ventures and associates	15	—	—	15
Adjusted operating profit/(loss) before tax	474	752	(77)	1,149
Short-term fluctuations in investment returns	(59)	357	—	298
Profit on disposal of businesses and corporate transactions	—	53	—	53
Restructuring and other costs (iii)	(52)	(98)	(48)	(198)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders from continuing operations	363	1,064	(125)	1,302
IFRS profit attributable to non-controlling interests	3	—	—	3
Profit/(loss) before tax attributable to equity holders from continuing operations	366	1,064	(125)	1,305

(i) Fee based revenues includes internal revenue, of this amount £110m relates to revenues that Savings and Asset Management has earned from Heritage segment, and other presentational differences which are excluded in the analysis of fee income by segment in Note 5.

(ii) The with-profits shareholder transfer is paid to the shareholder net of tax. The shareholder transfer amount is grossed up for tax purposes with regard to IFRS adjusted operating profit.

(iii) Restructuring and other costs excluded from adjusted operating profit relate solely to merger, transformation, rebranding and other change in control costs allocated to the shareholder. Additional restructuring costs are included in the analysis of administrative and other expenses in Note 6.

3 Segmental analysis (continued)

3.3 Analysis of Group adjusted operating profit before tax by segment (continued)

	For the year ended 31 December 2018			
	Savings and Asset Management £m	Heritage £m	Corporate Centre £m	Total continuing operations £m
Fee based revenues (i)	1,258	96	—	1,354
Annuity margin	—	1,129	—	1,129
With-profits shareholder transfer net of hedging gains/(losses) (ii)	54	201	—	255
Adjusted operating income	1,312	1,426	—	2,738
Adjusted operating expenses	(779)	(125)	(13)	(917)
Other shareholder profit/(loss)	(81)	(136)	1	(216)
Share of profit from joint ventures and associates	16	—	—	16
Adjusted operating profit/(loss) before tax	468	1,165	(12)	1,621
Short-term fluctuations in investment returns	41	(44)	—	(3)
Loss on disposal of businesses and corporate transactions	—	(508)	—	(508)
Restructuring and other costs (iii)	(62)	(47)	—	(109)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders from continuing operations	447	566	(12)	1,001
IFRS profit attributable to non-controlling interests	2	—	—	2
Profit/(loss) before tax attributable to equity holders from continuing operations	449	566	(12)	1,003

The Group has a widely diversified customer base. There are no customers whose revenue represents greater than 10% of fee based revenue.

Each reportable segment reports adjusted operating income as its measure of revenue. Fee based revenues and other income primarily represents asset management charges, transactional charges and annual management charges on unit-linked business. The annuity margin reflects the margin earned on annuity business and includes net earned premiums, claims and benefits paid, net investment return for assets backing the liabilities, net investment income for surplus assets backing the annuity capital, actuarial reserving changes, investment management expenses and administrative expenses. The with-profits shareholder transfer reflects the statutory transfer gross of attributable tax net of hedging gains or losses on cash flow hedges held to match those transfers.

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other net shareholder expenses includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio.

Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method.(i)

(i) Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

3 Segmental analysis (continued)

3.4 Reconciliation of adjusted operating income and management expenses to total revenues and expenses as presented in the consolidated income statement

The following tables provide a reconciliation of adjusted operating income and adjusted operating expenses, presented in the tables above, to total revenue net of reinsurance and total charges net of reinsurance respectively, as presented in the consolidated income statement:

	For the year ended 31 December			
	2019		2018	
	Income £m	**Expense £m**	Income £m	Expense £m
Adjusted operating income and operating expenses	**1,987**	**(963)**	2,738	(917)
Other net shareholder expenses	**139**	**(29)**	21	(237)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance	**26,493**	**(26,493)**	(5,070)	5,070
Movements in third-party interests in consolidated funds	**1,005**	**(1,005)**	(291)	291
Annuity and with-profit administration expenses	**1,603**	**(1,603)**	1,447	(1,447)
Tax charge attributable to policyholder returns	**440**	**—**	(406)	—
Short-term fluctuation in investment returns	**297**	**—**	(3)	—
Loss on disposal of business and corporate transactions	**53**	**—**	(508)	—
Restructuring and other costs	**—**	**(198)**	—	(109)
Other	**112**	**(111)**	(76)	42
IFRS total income and total expenses from continuing operations	**32,129**	**(30,402)**	(2,148)	2,693

Adjusted operating income and adjusted operating expenses exclude policyholder items which have an equal and opposite effect on revenue and charges in the consolidated income statement, such as premiums, policyholder investment returns, benefits and claims, movement in unallocated surplus of the With-Profits Fund and movements in third-party interest in consolidated funds.

Other differences include presentational differences between reporting requirements and the determination of adjusted operating income and adjusted operating expenses, including:

- Administrative expenses in the annuity and with-profits portfolio, which are netted against adjusted operating income in the analysis of Group adjusted operating profit before tax by segment.
- Revenues which are required to meet the tax charge or credit attributable to policyholder returns, which are not included in the analysis of Group adjusted operating profit before tax by segment.

3.5 Total external revenue by geography

The following table provides a geographical segmentation of total earned premiums, net of reinsurance and other income (includes fee income and other income), as presented in the consolidated income statement:

	For the year ended 31 December	
	2019 £m	2018 £m
United Kingdom:		
Earned premiums, net of reinsurance	**10,723**	(999)
Other income	**743**	954
Total United Kingdom	**11,466**	(45)
Rest of the world:		
Earned premiums, net of reinsurance	**466**	923
Other income	**578**	649
Total Rest of the world	**1,044**	1,572
Total:		
Earned premiums, net of reinsurance	**11,189**	(76)
Other income	**1,321**	1,603
Total	**12,510**	1,527

The geographical analyses of revenues from long-term business are based on the territory of the operating unit assuming the risk. Other income from external customers in the Asset Management business is allocated based on client domicile.

3 Segmental analysis (continued)

3.5 Total external revenue by geography (continued)

Total non-current, non-financial assets from continuing operations by geographical location

The following table provides a geographical segmentation of non-current, non-financial assets as presented in the consolidated statement of financial position:

	For the year ended 31 December 2019 £m	2018 £m
UK	**15,361**	15,398
Rest of the world	**7,347**	6,132
Total	**22,708**	21,530

Non-current, non-financial assets for this purpose consist of goodwill and intangible assets, deferred acquisition costs, property, plant and equipment, investment property, and investment in joint ventures and associates accounted for using the equity method.

4 Investment return

	Note	For the year ended 31 December 2019 £m	2018 £m
Interest and similar income arising from:			
Cash and cash equivalents		**8**	13
Deposits with credit institutions		**106**	51
Loans [(i)]		**248**	235
Debt securities		**2,497**	2,675
		2,859	2,974
Dividend income		**2,119**	1,808
Income from investment property:			
Rental income	17	**1,065**	927
Net fair value (losses)/gains on investment property	17	**(859)**	144
		206	1,071
Gains/(losses) on financial instruments at fair value through profit and loss arising from:			
Equity securities and pooled investment funds		**8,837**	(5,579)
Loans		**124**	(179)
Debt securities		**4,240**	(2,436)
Derivatives		**1,402**	(1,404)
		14,603	(9,598)
Foreign exchange (losses)/gains		**(168)**	70
Total investment return from continuing operations		**19,619**	(3,675)

(i) Interest arising on loans of £248m for the year ended 31 December 2019 (2018: £235m) comprises £130m (2018: £137m) arising on loans held at fair value through the profit and loss and £118m (2018: £98m) arising on loans held at amortised cost.

5 Fee income

The following table disaggregates management fee revenue by segment:

	For the year ended 31 December 2019 £m	2018 £m
Savings and Asset Management:		
Management fees	**1,198**	1,301
Rebates	**(45)**	(55)
Total management fees, less rebates	**1,153**	1,246
Performance fees	**18**	8
Investment contracts without discretionary participation features	**30**	35
Other fees and commissions	**60**	49
Total Savings and Asset Management fee income	**1,261**	1,338
Heritage:		
Investment contracts without discretionary participation features	**25**	25
Total Heritage fee income	**25**	25
Total fee income from continuing operations	**1,286**	1,363

6 Administrative and other expenses

	Note	For the year ended 31 December 2019 £m	2018 £m
Staff and employment costs		**586**	713
Acquisition costs incurred:			
Insurance contracts		**168**	166
Investment contracts		**20**	27
Amortisation of deferred acquisition costs:			
Insurance contracts	14	**7**	5
Investment contracts	14	**10**	10
Depreciation	16	**97**	89
Amortisation of intangible assets	13	**11**	13
Impairment of goodwill and intangible assets	13	**23**	27
Impairment of tangible assets	16	**—**	30
Restructuring costs		**201**	256
Expenses under arrangements with reinsurers		**112**	4
Interest expense		**154**	97
Commission expense		**263**	321
Investment management fees		**221**	205
Property-related costs		**152**	148
Other expenses		**851**	553
Total administrative and other expenses from continuing operations		**2,876**	2,664

In addition to the interest expense shown above, the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2019 was £28m (2018: £4m). This was shown as finance costs in the consolidated income statement. Total finance costs incurred for the year ended 31 December 2019 were £182m (2018: £101m).

7 Staff and employment costs

The average number of staff employed by the Group during the year was:

	For the year ended 31 December 2019	2018
Average staff headcount of continuing operations	**5,680**	6,478
Average staff headcount of discontinued operations	**2,341**	6,124

The following table shows the staff costs and other employee-related costs for both continuing and discontinued operations:

	Note	For the year ended 31 December 2019 £m	2018 £m
Wages and salaries		**554**	630
Social security costs		**70**	65
Share-based payments	39	**26**	14
Pension costs:			
Defined benefit schemes	18	**(101)**	80
Defined contribution schemes		**41**	42
Total staff and employment costs		**590**	831

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 72 to 102.

8 Fees payable to the auditor

The following table shows the auditor remuneration aggregated for both continuing and discontinued operations.

	For the year ended 31 December 2019 £m	2018 £m
Fees payable to the Company's auditor and its associates for other services:		
Fees payable to the Company's auditor for the audit of the Company's individual and consolidated financial statements	**2.0**	—
Audit of subsidiaries pursuant to legislation	**5.7**	4.7
Audit-related assurance services	**1.2**	1.1
Other assurance services	**0.5**	0.4
All other services	**0.2**	—
Total fees payable to the auditor	**9.6**	6.2

Fees payable to the auditor disclosed above exclude audit and non-audit fees payable to the Group's principal auditor by funds managed by the Group, but which are not controlled by the Group, and therefore are not consolidated in the consolidated financial statements.

For the year ended 31 December 2019, fees of £0.3m (2018: £0.2m) were incurred in relation to the audit of the Group's defined benefit pension schemes.

For the year ended 31 December 2019 fees paid on behalf of the Company by Prudential plc in relation to demerger were £9.9m.

For more information on non-audit services, refer to the Audit Committee Report on pages 65 to 69.

9 Tax

9.1 Tax charged/(credited) to the consolidated income statement from continuing operations

	For the year ended 31 December 2019 £m	2018 £m
The total tax charge/(credit) comprises:		
Current tax		
Current year	**689**	392
Adjustments in respect of prior years	**(171)**	30
Total current tax	**518**	422
Deferred tax:		
Origination and reversal of temporary differences in the year	**165**	(630)
Adjustments in respect of prior years	**(3)**	(6)
Total deferred tax	**162**	(636)
Total tax charge/(credit)	**680**	(214)

The tax charge above, comprising current and deferred tax, can be analysed as follows:

	For the year ended 31 December 2019 £m	2018 £m
UK tax	**600**	(319)
Overseas tax	**80**	105
Total tax charge/(credit)	**680**	(214)

9.1.1 Allocation of profit/(loss) before tax and tax charge between equity holders and policyholders

The profit before tax from continuing operations reflected in the consolidated income statement for the year ended 31 December 2019 of £1,745m (2018: £597m) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of the With-Profits Fund.

This is the formal measure of profit before tax under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, this measure of profit before all taxes is not representative of pre-tax profits attributable to equity holders.

The tax charge/(credit) attributable to policyholder returns is removed from the Group's total profit before tax in arriving at the Group's profit before tax attributable to equity holders. As the net of tax profits attributable to policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge/(credit) attributable to policyholders included in the total tax charge.

	For the year ended 31 December 2019 Equity holders £m	2019 Policyholders £m	2019 Total £m	2018 Equity holders £m	2018 Policyholders £m	2018 Total £m
Profit before tax from continuing operations	**1,305**	**440**	**1,745**	1,003	(406)	597
Tax (charge)/credit from continuing operations	**(240)**	**(440)**	**(680)**	(192)	406	214
Profit for the year from continuing operations	**1,065**	**—**	**1,065**	811	—	811

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9 Tax (continued)

9.1 Tax charged/(credited) to the consolidated income statement from continuing operations (continued)

9.1.2 Tax reconciliation

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Equity holders £m	Policyholders £m	Total £m	Equity holders £m	Policyholders £m	Total £m
Profit before tax from continuing operations	**1,305**	**440**	**1,745**	1,003	(406)	597
Tax charge/(credit) based on the standard UK corporation tax rate of 19% (2018: 19%)	**248**	**84**	**332**	191	(77)	114
Impact of profits/(losses) earned in jurisdictions with different statutory rates to the UK	**1**	**—**	**1**	2	—	2
(weighted average rate for equity holders is 19.1% (2018: 19.2%)						
Recurring items						
Different basis of taxation-policyholders	**—**	**507**	**507**	—	(364)	(364)
Deductions not allowable for tax purposes	**14**	**—**	**14**	11	—	11
Effects of results of joint ventures and associates(i)	**(3)**	**—**	**(3)**	(3)	—	(3)
Other	**3**	**—**	**3**	2	—	2
Non-recurring items						
Adjustments in relation to prior periods	**(23)**	**(151)**	**(174)**	(11)	35	24
Tax charge/(credit) from continuing operations	**240**	**440**	**680**	192	(406)	(214)

(i) Profit before tax includes the Group's share of profits after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item.

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise. The key applicable tax rate for 2019 is the UK Corporation tax rate of 19% as the majority of the Group's profits are earned and taxed in the UK.

The calculation of the tax charge includes a degree of estimation and judgement. Due to the complex nature of the Group's business, the tax affairs remain open and subject to challenge by the tax authorities for a number of years. The adjustment in respect of prior periods primarily results from changes in assumptions made in the current period in relation to amounts included in earlier period tax submissions.

9.1.3 Factors that may impact the future tax rate

The majority of the Group's profits are generated in the UK. Taking into account recurring tax-adjusting items, the underlying effective tax rate for equity holders' portion of profits is expected to be marginally higher than the statutory rate in the UK. Legislation has been enacted in the UK to reduce the corporation tax rate to 17% from 1 April 2020.

9.1.4 Use of accounting estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. The two principal areas of judgement that could impact the reported tax position are the recognition and measurement of deferred tax assets and the level of provisioning for uncertain tax positions.

The recognition of a deferred tax asset relies on an assessment of the probability of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

The provisions for uncertain tax positions cover a wide range of issues, only a fraction are expected to be subject to challenge by a tax authority at any point in time. The Group engages constructively and transparently with tax authorities with a view to early resolution of uncertain tax matters. Estimated positions are based on the probability of potential challenge within certain jurisdictions and the possible outcome based on relevant facts and circumstances. The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

9 Tax (continued)

9.1 Tax charged/(credited) to the consolidated income statement from continuing operations (continued)

The Group does not consider there to be a significant risk of a material adjustment in the next financial year to the deferred and current tax balances from either recognition and measurement of deferred tax assets or the level of provisioning for uncertain tax positions.

9.1.5 Tax in respect of discontinued operations

		For the year ended 31 December	
		2019	2018
	Note	**£m**	£m
Tax charge from discontinued operations	10	**30**	81

9.1.6 Tax (credited)/charged to other comprehensive income

	For the year ended 31 December	
	2019	2018
	£m	£m
The tax (credit)/charge booked to other comprehensive income, current and deferred tax, comprises:		
Actuarial (losses)/gains on defined benefit pension schemes	**(31)**	19
Total tax (credit)/charge to Other Comprehensive Income	**(31)**	19

9.1.7 Tax (credited)/charged to equity

	For the year ended 31 December	
	2019	2018
	£m	£m
The tax (credit)/charge booked to shareholders' equity, current and deferred tax, comprises:		
Fair value loss on debt instruments	**(101)**	—
Share-based payments	**(5)**	—
Other short-term timing differences	**2**	—
Total tax (credit)/charge to equity	**(104)**	—

9.2 Deferred tax

Deferred tax assets and liabilities

Under IAS 12, deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period. Deferred tax assets are recognised to the extent that they are regarded as recoverable on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted or tax losses utilised. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

Deferred tax in the statement of financial position

The table below shows movements on deferred tax assets and liabilities during the year. The amounts are different from those disclosed on the balance sheet as the below amounts are presented before offsetting asset and liability balances where there is a legal right to set off and an intention to settle on a net basis.

9 Tax (continued)

9.2 Deferred tax (continued)

	For the year ended 31 December 2019								
	Unrealised gains/(losses) on investments(i) £m	Life tax transitional adjustments(ii) £m	Other short-term timing differences £m	Deferred acquisition costs(iii) £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward(iv) £m	Share-based payments and deferred compensation £m	Total £m
Assets	**3**	**3**	**5**	**70**	**9**	**11**	**—**	**22**	**123**
Liabilities	**(827)**	**(129)**	**(1)**	**(8)**	**(45)**	**(51)**	**—**	**—**	**(1,061)**
As at 1 January 2019	**(824)**	**(126)**	**4**	**62**	**(36)**	**(40)**	**—**	**22**	**(938)**
Income statement	**(176)**	**33**	**2**	**(9)**	**(28)**	**2**	**18**	**(4)**	**(162)**
Equity and other comprehensive income	**—**	**—**	**67**	**—**	**31**	**—**	**—**	**5**	**103**
Other movements	**1**	**—**	**—**	**—**	**—**	**9**	**—**	**—**	**10**
As at 31 December 2019	**(999)**	**(93)**	**73**	**53**	**(33)**	**(29)**	**18**	**23**	**(987)**
Assets	**7**	**2**	**77**	**60**	**7**	**13**	**18**	**23**	**207**
Liabilities	**(1,006)**	**(95)**	**(4)**	**(7)**	**(40)**	**(42)**	**—**	**—**	**(1,194)**
As at 31 December 2019	**(999)**	**(93)**	**73**	**53**	**(33)**	**(29)**	**18**	**23**	**(987)**

	For the year ended 31 December 2018								
	Unrealised gains/(losses) on investments(i) £m	Life tax transitional adjustments(ii) £m	Other short-term timing differences £m	Deferred acquisition costs(iii) £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward(iv) £m	Share-based payments and deferred compensation £m	Total £m
Assets	4	2	3	93	15	11	—	24	152
Liabilities	(1,426)	(163)	(4)	(18)	(41)	(51)	—	—	(1,703)
As at 1 January 2018	(1,422)	(161)	(1)	75	(26)	(40)	—	24	(1,551)
Income statement	602	35	5	(13)	9	—	—	(2)	636
Equity and other comprehensive income	—	—	—	—	(19)	—	—	—	(19)
Other movements	(4)	—	—	—	—	—	—	—	(4)
As at 31 December 2018	(824)	(126)	4	62	(36)	(40)	—	22	(938)
Assets	3	3	5	70	9	11	—	22	123
Liabilities	(827)	(129)	(1)	(8)	(45)	(51)	—	—	(1,061)
As at 31 December 2018	(824)	(126)	4	62	(36)	(40)	—	22	(938)

(i) Deferred tax on unrealised gains/(losses) on investments primarily arises on two key components. The largest component relates to gains/(losses) on certain investments which are only taxed when realised, ie when an asset is sold. The second component relates to gains/(losses) on certain investments held by life insurance companies, which for UK corporation tax purposes are deemed to have been disposed of and immediately reacquired at market value at the end of each accounting period. Any gain/(loss) arising on the deemed disposal is required to be spread over a seven-year period.

(ii) The UK Government made substantial changes to the rules relating to the taxation of life insurance companies. A net deferred tax liability was recognised for the temporary difference that arose on the transition to the new regime. The deferred tax balances are scheduled to reverse by 31 December 2022.

(iii) The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For UK corporation tax purposes, acquisition expenses in respect of certain life insurance business is required to be spread over a seven-year period. A deferred tax asset was recognised for the expected future tax deductions.

(iv) The tax losses carried forward relate wholly to UK capital losses. Under UK law, capital losses can be carried forward indefinitely. A deferred tax asset has been recognised on a proportion of these carried-forward losses as the Group considers it is probable that sufficient future UK capital gains will be available against which these losses can be utilised.

9 Tax (continued)

9.2 Deferred tax (continued)

The deferred tax balances arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
UK	**76**	22	**(824)**	(715)
Overseas	**2**	2	**(241)**	(247)
As at 31 December	**78**	24	**(1,065)**	(962)

9.2.3 Unrecognised deferred tax

Tax losses and temporary differences

At the end of the reporting period, the Group's continuing operations have unused tax losses of £542m (2018: £nil) for which no deferred tax asset is being recognised. The Group's unused tax losses wholly relate to capital losses in the UK. These losses originally arose in different companies in the Prudential plc group. Some arose and were transferred to the Group during 2019. Others arose in a previous period but the Group did not have the economic benefits arising from the utilisation of the losses. Following the demerger from Prudential plc, any future economic benefit which arises from the future use of these losses will accrue to the Group. No deferred tax asset is recognised on the £542m of capital losses as it is considered not probable that future taxable UK capital gains will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely.

Group investments in subsidiaries, branches and investments

Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation by virtue of parent company exemptions on dividends from subsidiaries and on capital gains on disposal. Consequently, the Group does not consider there to be any significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

9.3 Current tax assets and liabilities

	Current tax assets		Current tax liabilities	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Corporation tax	**364**	234	**(255)**	(219)
Other taxes	**11**	8	**(43)**	(36)
As at 31 December	**375**	242	**(298)**	(255)

Movements on corporation tax current tax assets and liabilities were as follows:

	For the year ended 31 December	
	2019	2018
	£m	£m
Net corporation tax asset/(liability) as at 1 January	**15**	(43)
Income statement – continuous operations	**(518)**	(422)
Reserves movement for the period	**32**	—
Corporation tax paid	**613**	473
Other movements	**(33)**	7
Net corporation tax asset/(liability) as at 31 December	**109**	15
Corporation tax assets	**364**	234
UK	**346**	218
Overseas	**18**	16
Corporation tax liabilities	**(255)**	(219)
UK	**(242)**	(208)
Overseas	**(13)**	(11)
Net corporation tax asset as at 31 December	**109**	15

Financial information

9 Tax (continued)

9.3 Current tax assets and liabilities (continued)

	Corporation tax assets		Corporation tax liabilities	
	As at 31 December 2019 £m	As at 31 December 2018 £m	**As at 31 December 2019 £m**	As at 31 December 2018 £m
Tax recoverable/(due) within 12 months	360	231	(249)	(214)
Tax recoverable/(due) after 12 months	4	3	(6)	(5)
As at 31 December	**364**	234	**(255)**	(219)

One of the Group's subsidiaries, The Prudential Assurance Company Limited ("PAC"), is the lead litigant in a combined group action against HM Revenue and Customs ("HMRC") concerning the correct historical tax treatment applying to dividends received from overseas portfolio investments of its With-Profits Fund.

In February 2018, the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court released in July 2018 upheld the main point in dispute in PAC's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle. The Supreme Court issued its order giving effect to its decision in October 2019, stating any remaining issues of computation be remitted back to the High Court. PAC and HMRC are working through the mechanics of implementing the Supreme Court decisions. This work, to date, has led to a reduction in the estimate for policyholder tax credit recoverable during 2019 and the estimate of interest receivable. As at 31 December 2019, PAC has recognised a total policyholder tax credit of £122m (2018: £150m) in respect of its claim against HMRC. Of this amount, £39m has been paid by HMRC leaving a tax recoverable balance of £83m recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. It is expected the issue will be finalised in the first half of 2020 at which point PAC should receive full and final payment.

10 Discontinued operations

On 19 December 2018, Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited were sold by PAC to Prudential Corporation Asia Limited. On 14 June 2019, Prudential Holborn Life Limited, a subsidiary of PAC, sold Prudential Vietnam Finance Company Limited to Shinhan Card Co. Ltd. Refer to Note 2 for further details. Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited are considered a separate geographical area of operations from a management perspective as they represent the insurance business undertaken as part of the Prudential plc group in Asia prior to their sale.

On 20 September 2019, Prudential plc sold its investment in Prudential Capital Holdings Company Limited to the Company. As set out in Note 1.5.23 and Note 2, the results of Prudential Capital Holdings Company Limited have been included in the financial statements of the Group retrospectively from 1 January 2018. The operations of Prudential Capital Holdings Limited prior to 20 September 2019 included the provision of certain treasury services to Prudential plc and its subsidiaries which do not relate to the ongoing operations of the Group.

All of these transactions were part of a single co-ordinated plan to demerge the M&G plc business from Prudential plc. Accordingly, profit or loss from the Asian insurance entities and the Prudential plc related corporate treasury activities have been presented as discontinued operations in the consolidated statement of comprehensive income in the periods to 31 December 2018 and 31 December 2019 up until the point of sale/cessation of activities.

10 Discontinued operations (continued)

Statement of consolidated comprehensive income from discontinued operations	For the year ended 31 December 2019 £m	2018 £m
Earned premiums, net of reinsurance	**—**	7,671
Investment return and other income	**60**	(1,497)
Total revenue, net of reinsurance from discontinued operations	**60**	6,174
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance	**—**	(4,153)
Administrative expenses and other expenses	**(27)**	(1,699)
Total charges, net of reinsurance from discontinued operations	**(27)**	(5,852)
Movement in third-party interest in consolidated funds	**—**	(87)
Finance costs	**—**	(6)
Gain/(loss) on disposal of subsidiaries[i]	**55**	(926)
Share of profit from joint ventures and associates	**—**	2
Profit before tax from discontinued operations	**88**	(695)
Tax charge attributable to policyholders' returns	**—**	(47)
Profit/(loss) before tax attributable to equity holders from discontinued operations	**88**	(742)
Total tax credit from discontinued operations	**(30)**	(81)
Less: Tax expense attributable to policyholders' returns	**—**	47
Tax charge attributable to equity holders' returns	**(30)**	(34)
Total comprehensive income/(loss) from discontinued operations	**58**	(776)

(i) This represents the Group's gain/(loss) on disposal of these subsidiaries. For more information please see Note 2.2.

Cash flows	For the year ended 31 December 2019 £m	2018 £m
Net cash flows from operating activities	**(2,455)**	1,333
Net cash flows from financing activities	**(5)**	(212)
Net cash flows from investing activities	**(17)**	(895)
Total net cash flows from discontinued operations	**(2,477)**	226

10 Discontinued operations (continued)

The following table illustrates the cash flows on disposal of subsidiaries:

Cash flows on disposal of subsidiaries	For the year ended 31 December 2019 £m	2018 £m
Investment in joint ventures and associates accounted for using the equity method	**—**	18
Reinsurance assets	**—**	3,417
Loans	**188**	312
Derivative assets	**—**	218
Equity securities and pooled investment funds	**—**	13,531
Deposits	**—**	162
Debt securities	**—**	23,727
Cash	**17**	883
Other assets	**20**	976
Total assets	**225**	43,244
Insurance contract liabilities	**—**	(34,704)
Investment contract liabilities	**—**	(688)
Unallocated surplus of the With-Profits Fund	**—**	(2,461)
Third-party interest in consolidated funds	**—**	(2,498)
Current tax liabilities	**(1)**	(6)
Derivative liabilities	**—**	(28)
Provisions and other liabilities	**(164)**	(1,842)
Total liabilities	**(165)**	(42,227)
Net assets disposed	**60**	1,017
Gain/(loss) on sale	**55**	(926)
Items transferred to profit and loss	**—**	(58)
Total cash consideration (net of transaction costs)	**115**	33
Cash and cash equivalents disposed	**(17)**	(883)
Cash inflow/(outflow) from disposal of subsidiaries	**98**	(850)

11 Earnings per share

Basic earnings per share for the year ended 31 December 2019 was 43.1p (2018: 1.2p) and diluted earnings per share was 43.0p (2018: 1.2p). Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares. Diluted EPS is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue.

The following table shows details of basic and diluted earnings per share:

	For the year ended 31 December					
	2019			2018		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations £m	Discontinued operations £m	Total £m
Profit/(loss) attributable to equity holders of the Company	**1,062**	**58**	**1,120**	809	(776)	33

	For the year ended 31 December	
	2019 Millions	2018 Millions
Weighted average number of ordinary shares outstanding	**2,597**	2,600
Dilutive effect of share options and awards	**4**	—
Weighted average number of diluted ordinary shares outstanding	**2,601**	2,600

	For the year ended 31 December					
	2019			2018		
	Continuing operations Pence per share	**Discontinued operations Pence per share**	**Total Pence per share**	Continuing operations Pence per share	Discontinued operations Pence per share	Total Pence per share
Basic earnings per share	**40.9**	**2.2**	**43.1**	31.1	(29.9)	1.2
Diluted earnings per share	**40.8**	**2.2**	**43.0**	31.1	(29.9)	1.2

12 Dividends

12.1 Transaction with equity holders

The following table represents dividends paid to Prudential plc prior to demerger on 18 October 2019:

	For the year ended 31 December	
	2019 £m	2018 £m
Dividends – cash	**3,516**	746
Dividends – in specie	**849**	—
Total dividends paid to Prudential plc	**4,365**	746

In 2018, PAC and M&G Group Limited paid dividends of £513m and £196m respectively to Prudential plc, the parent Company prior to incorporation and transfer of ownership to M&G plc. Additionally, PruCap paid a dividend of £37m to Prudential plc in 2018.

Dividends paid to Prudential plc by M&G plc post-incorporation on 2 July 2018 up to the date of demerger were £1,392m, of which, £849m were non-cash in specie dividends and £543m in cash. A final dividend was paid to Prudential plc prior to demerger on 18 October 2019 of £2,968m.

PruCap was transferred on 20 September 2019, and prior to this paid a £5m dividend to Prudential plc.

12.2 Dividend in respect of 2019

An ordinary dividend of £310m (11.92 pence per share) and a special dividend of £100m (3.85 pence per share) will be paid on 29 May 2020, at which point they will be recognised in the financial statements.

13 Goodwill and intangible assets

	For the year ended 31 December					
	2019			2018		
	Goodwill £m	**Other intangibles £m**	**Total £m**	Goodwill £m	Other intangibles £m	Total £m
Cost						
At 1 January	**1,360**	**155**	**1,515**	1,207	354	1,561
Transfer to held for sale	**—**	**—**	**—**	—	(158)	(158)
Additions	**10**	**40**	**50**	162	12	174
Disposals and transfers	**—**	**(16)**	**(16)**	(10)	(56)	(66)
Foreign exchange differences	**(2)**	**(5)**	**(7)**	1	3	4
At 31 December	**1,368**	**174**	**1,542**	1,360	155	1,515
Accumulated amortisation and impairment						
At 1 January	**(5)**	**(64)**	**(69)**	—	(240)	(240)
Transfer to held for sale	**—**	**—**	**—**	—	158	158
Amortisation	**—**	**(11)**	**(11)**	—	(13)	(13)
Impairment	**—**	**(23)**	**(23)**	(5)	(22)	(27)
Disposals and transfers	**—**	**—**	**—**	—	55	55
Foreign exchange differences	**—**	**—**	**—**	—	(2)	(2)
At 31 December	**(5)**	**(98)**	**(103)**	(5)	(64)	(69)
Net book amount	**1,363**	**76**	**1,439**	1,355	91	1,446

	For the year ended 31 December	
	2019 £m	2018 £m
Goodwill comprises:		
Arising on acquisition of M&G Group Limited	**1,153**	1,153
Arising on acquisition of subsidiaries held by the With-Profits Fund	**210**	202
	1,363	1,355

13.1 Impairment assessment

Impairment assessment

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis. Goodwill is tested annually for impairment by comparing the cash-generating unit's carrying amount, including any goodwill, with its recoverable amount.

Asset management business

The carrying value of the goodwill relating to the asset management business, which is part of the Savings and Asset Management segment, was tested for impairment as at 31 December 2019 and no impairment was identified. For the purposes of impairment testing, the asset management business, which comprises of M&G Group Limited and its subsidiaries, represent a single cash-generating unit. The recoverable amount of the cash-generating unit as at 31 December 2019 was determined by calculating the value in use. The value in use represents the present value of future cash flows based on a three-year plan, approved by management, and cash flow projections for later years. The value in use is particularly sensitive to a number of key assumptions as follows:

- The set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, are considered by management in arriving at the expectations for the final projections for the plan.
- The assumed growth rate on forecast cash flows beyond the terminal year of the plan after considering expected future and past growth rates. As at 31 December 2019 a growth rate of 2.0% (2018: 1.7%) was used to extrapolate beyond the plan period.
- Various risk discount rates were applied in accordance with the nature of the individual component businesses. For the most material components of retail and institutional business, as at 31 December 2019 a risk discount rate of 11% (2018: 12%) was applied to post-tax cash flows. The pre-tax risk discount rate as at 31 December 2019 was 13% (2018: 15%).
- That asset management contracts continue on similar terms.

13 Goodwill and intangible assets (continued)

13.1 Impairment assessment (continued)

Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its carrying amount and therefore there is no impact on the carrying value of goodwill.

At 31 December 2019, there were no indicators of impairment. Accordingly no impairment has been recognised.

Acquisition of subsidiaries held by the With-Profits Fund

Goodwill arising on acquisition of subsidiaries relates to acquisitions made within consolidated infrastructure private equity vehicles which are held by the With-Profits Fund. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its carrying amount.

13.2 Intangible assets

Intangible assets comprise insurance contracts acquired through business combinations, software, service concessions and licences.

14 Deferred acquisition costs

	For the year ended 31 December					
	2019			2018		
	Insurance contracts £m	**Other contracts £m**	**Total £m**	Insurance contracts £m	Other contracts £m	Total £m
At 1 January	**49**	**56**	**105**	207	51	258
Additions	**15**	**1**	**16**	15	15	30
Amortisation to the income statement	**(7)**	**(10)**	**(17)**	(5)	(10)	(15)
Transfer to held for sale	**—**	**—**	**—**	(170)	—	(170)
Foreign exchange differences	**—**	**—**	**—**	2	—	2
At 31 December	**57**	**47**	**104**	49	56	105

15 Investments in joint ventures and associates

15.1 Investments in joint ventures and associates accounted for using the equity method

	As at 31 December		As at 1 January
	2019 £m	2018 £m	2018 £m
Interests in joint ventures	**486**	672	464
Interests in associates	**38**	37	55
Investments in joint ventures and associates accounted for using the equity method	**524**	709	519

	For the year ended 31 December	
	2019 £m	2018 £m
Share of profit from joint ventures	**3**	36
Share of profit from associates	**15**	16
Share of profit from joint ventures and associates accounted for using the equity method	**18**	52

There is no share of other comprehensive income from joint ventures or associates.

15.1.1 Interests in joint ventures accounted for using the equity method

All of the Group's investments in joint ventures which are accounted for using the equity method are property vehicles held in the WPSF. The results of the Group's joint ventures are reflected in the movement in the unallocated surplus of the WPSF and therefore do not affect shareholders' results.

No joint ventures are considered to be material individually or in aggregate from the Group's perspective for the years ended 31 December 2019 and 31 December 2018. None of the Group's joint ventures are listed and financial information of these investments covering the same reporting period as that of the Group has been used for accounting for these investments using the equity method.

15.1.2 Interests in associates accounted for using the equity method

The Group has interests in associates which are accounted for using the equity method in the consolidated financial statements. All of the Group's associates which are accounted for using the equity method are held by the shareholder-backed business. No associates are considered to be material individually or in aggregate from the Groups perspective for the years ended 31 December 2019 and 31 December 2018. None of the Group's equity-accounted associates are listed, and the reporting date and reporting period of the Group's equity-accounted associates are the same as the Group.

15 Investments in joint ventures and associates (continued)

15.2 Interests in associates accounted for at fair value through profit or loss ("FVTPL")

The Group has investments in OEICs, unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the WPSF where the Group has significant influence. These investments are accounted for on a FVTPL basis and are included within equity securities and pooled investment funds in the consolidated statement of financial position. None of the associates accounted for at FVTPL are considered individually material to the Group for the years ended 31 December 2019 and 31 December 2018.

The aggregate fair value of associates accounted for at FVTPL was £764m as at 31 December 2019 (31 December 2018: £237m; 1 January 2018: £2,271m).

16 Property, plant and equipment

Property, plant and equipment comprises right of use assets, properties and land occupied by the Group and other tangible assets. A reconciliation of the carrying amount of these items from the beginning to the end of the year is as follows:

	For the year ended 31 December							
	2019				2018			
	Right of use assets £m	Group-occupied property £m	Other tangible assets £m	Total £m	Right of use assets £m	Group-occupied property £m	Other tangible assets £m	Total £m
Cost								
At 1 January	**298**	**59**	**1,193**	**1,550**	39	80	649	768
Transfer to held for sale	**—**	**—**	**—**	**—**	—	—	(102)	(102)
Additions	**51**	**49**	**344**	**444**	259	4	237	500
Arising on acquisition of subsidiaries	**—**	**11**	**8**	**19**	—	5	517	522
Disposals and transfers	**(49)**	**—**	**(113)**	**(162)**	—	(31)	(110)	(141)
Foreign exchange differences	**—**	**(6)**	**(21)**	**(27)**	—	1	2	3
At 31 December	**300**	**113**	**1,411**	**1,824**	298	59	1,193	1,550
Accumulated depreciation and impairment								
At 1 January	**(17)**	**(6)**	**(260)**	**(283)**	—	(11)	(267)	(278)
Transfer to held for sale	**—**	**—**	**—**	**—**	—	—	57	57
Depreciation charge for the year	**(16)**	**(10)**	**(71)**	**(97)**	(17)	(2)	(70)	(89)
Impairment	**—**	**—**	**—**	**—**	—	—	(30)	(30)
Disposals and transfers	**—**	**—**	**54**	**54**	—	7	49	56
Foreign exchange differences	**—**	**1**	**6**	**7**	—	—	1	1
At 31 December	**(33)**	**(15)**	**(271)**	**(319)**	(17)	(6)	(260)	(283)
Net book amount	**267**	**98**	**1,140**	**1,505**	281	53	933	1,267

16.1 Right of use assets

On adoption of IFRS 16 on 1 January 2018, the Group recognised right of use assets of £39m for leases of land and buildings which are used as office space across various locations. Some leases include lease break options that are exercisable at the option of the Group. As at 31 December 2019, £32m (2018: £21m) of right of use assets were held by the WPSF.

16.2 Other tangible assets

As at 31 December 2019, £992m (2018: £782m) of other tangible assets were held by the WPSF. Included within other tangible assets are assets under construction of £382m (2018: £382m), held by the WPSF.

17 Investment property

Investment property is primarily held by the WPSF and is carried at fair value. A reconciliation of the carrying amount of investment property from the beginning of the year to the end of the year is set out below:

	For the year ended 31 December	
	2019	2018
	£m	£m
At 1 January	**18,003**	16,607
Transfer to held for sale	**(149)**	—
Additions:		
Resulting from property acquisitions	**1,888**	1,332
Resulting from expenditure capitalised	**445**	183
Disposals	**(224)**	(211)
Net (loss)/gain from fair value adjustments	**(859)**	144
Foreign exchange differences	**32**	(52)
At 31 December	**19,136**	18,003

For the year ended 31 December 2019, rental income from investment property was £1,065m (2018: £927m). Direct operating expenses, including repairs and maintenance arising from these properties for the year ended 31 December 2019 were £60m (2018: £56m).

The Group's policy is to let investment property to tenants through operating leases. Minimum future rental income to be received on non-cancellable leases of the Group's freehold investment property are receivable in the following periods:

	As at 31 December	
	2019	2018
	£m	£m
Less than 1 year	**356**	307
1 to 5 years	**1,216**	1,049
Over 5 years	**2,435**	2,217
Total minimum future rental income	**4,007**	3,573

The total minimum future rental income receivable on non-cancellable leases of the Group's leasehold investment property as at 31 December 2019 is £1,437m (2018: £1,596m).

18 Defined benefit pension schemes

18.1 Background and summary economic and IAS 19 financial positions

The Group operates three defined benefit pension schemes, which historically have been funded by the Group and Prudential plc. The largest defined benefit scheme as at 31 December 2019 is the Prudential Staff Pension Scheme ("PSPS"), which accounts for 82% (2018: 82%) of the present value of the defined benefit pension obligation.

The Group also operates two smaller defined benefit pension schemes that were originally established by the M&G ("M&GGPS") and Scottish Amicable ("SASPS") businesses.

Under IAS 19: Employee Benefits and IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, the Group can only recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, PSPS's net economic pension surplus is restricted up to the present value of the Group's economic benefit, which is calculated as the difference between the estimated future cost of service for active members and the estimated future ongoing contributions. In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from the schemes (if any) would be recognised in full. Currently, only the SASPS scheme is in deficit based on the IAS 19 valuation.

Until 30 June 2019, the PSPS net economic pension surplus was attributed 30% to Prudential plc (external to the Group) and 70% to the With-Profits Fund (part of the Group). On 30 June 2019, in preparation for the demerger, the 30% attributable to Prudential plc was formally reallocated to the Group's shareholders. The consolidated statement of financial position as at 31 December 2018 included only the element of the PSPS scheme related to the With-Profits Fund. On 30 June 2019, the full value of the scheme surplus allowable under IFRIC 14 was attributed to the Group and is therefore reflected on the consolidated statement of financial position as at 31 December 2019. This resulted in an incremental pension surplus of £15m recognised on the consolidated statement of financial position of the Group, with the corresponding gain recognised in the consolidated statement of comprehensive income.

The IAS 19 surplus for M&GGPS is lower than the economic surplus position, as the pension scheme has investments in insurance policies issued by Prudential Pensions Limited, a subsidiary of the Group, through which it invests in certain pooled funds. Under IAS 19, insurance policies issued by a related party do not qualify as plan assets. SASPS's net economic pension deficit is funded 40% by the With-Profits Fund and 60% by the Group's shareholders.

18 Defined benefit pension schemes (continued)

18.1 Background and summary economic and IAS 19 financial positions (continued)

Changes to scheme rules

In January 2019, following consultation, the Group reached agreement that pensionable salary increases for the members of all the three defined benefit schemes who earn in excess of £35,000 would be capped after 30 September 2019. Pension benefits will still relate to how many years employees have been active scheme members, as they do now, as long as the employees remain working for the Group.

The pension scheme valuations for the schemes as at 31 December 2019 incorporate the effect of these changes in scheme rules, and the impact is included as a past service credit within the income statement in line with the requirements of Plan Amendment, Curtailment or Settlement – Amendments to IAS 19.

The pension assets and liabilities for the defined benefit pension schemes are as follows:

	As at 31 December 2019			
	PSPS [ii] £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	**7,447**	**867**	**663**	**8,977**
Present value of defined benefit obligation	**(6,520)**	**(895)**	**(489)**	**(7,904)**
Effect of restriction on surplus	**(887)**	**—**	**—**	**(887)**
Net economic pension surplus/(deficit) [i]	**40**	**(28)**	**174**	**186**
Eliminate Group-issued insurance policies	**—**	**—**	**(137)**	**(137)**
Net total pension surplus/(deficit)	**40**	**(28)**	**37**	**49**

	As at 31 December 2019			
	PSPS [ii] £m	SASPS £m	M&GGPS £m	Total £m
Attributable to:				
Shareholder-backed business	**12**	**(17)**	**37**	**32**
With-Profits Fund	**28**	**(11)**	**—**	**17**
Net total pension surplus/(deficit)	**40**	**(28)**	**37**	**49**

	As at 31 December 2018			
	PSPS [ii] £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,075	806	598	8,479
Present value of defined benefit obligation	(6,167)	(885)	(467)	(7,519)
Effect of restriction on surplus	(677)	—	—	(677)
Net economic pension surplus/(deficit) [i]	231	(79)	131	283
Eliminate Group-issued insurance policies	—	—	(225)	(225)
Net total pension surplus/(deficit)	231	(79)	(94)	58
Less: amount attributable to external party	(69)	—	—	(69)
Net pension surplus/(deficit) attributable to the Group	162	(79)	(94)	(11)

	As at 31 December 2018			
	PSPS [ii] £m	SASPS £m	M&GGPS £m	Total £m
Attributable to:				
Shareholder-backed business	—	(47)	(94)	(141)
With-Profits Fund	162	(32)	—	130
Net total pension surplus/(deficit)	162	(79)	(94)	(11)

18 Defined benefit pension schemes (continued)

18.1 Background and summary economic and IAS 19 financial positions (continued)

	As at 1 January 2018			
	PSPS [ii] £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,474	822	617	8,913
Present value of defined benefit obligation	(6,753)	(959)	(508)	(8,220)
Effect of restriction on surplus	(485)	—	—	(485)
Net economic pension surplus/(deficit) [i]	236	(137)	109	208
Inter-company insurance policies	—	—	(151)	(151)
Net total pension surplus/(deficit)	236	(137)	(42)	57
Less: amount attributable to external party	(71)	—	—	(71)
Net pension surplus/(deficit) attributable to the Group	165	(137)	(42)	(14)

(i) The economic basis reflects the position of the defined benefit schemes from the perspective of the pension schemes, adjusted for the effect of IFRIC 14 for the derecognition of PSPS's unrecognisable surplus and before adjusting for any non-qualifying assets.

(ii) As at 31 December 2019, the surplus of PSPS has been allocated 70% to the With-Profits Fund and 30% to the Group's shareholders. Until 30 June 2019, the portion attributable to the Group's shareholders was attributable to Prudential plc. Hence, the related amounts have been shown as attributable to an external party. No deficit funding is required for PSPS.

	As at 1 January 2018			
	PSPS [ii] £m	SASPS £m	M&GGPS £m	Total £m
Adjusted pension surplus/(deficit) attributable to the Group:				
Shareholder-backed business	—	(82)	(42)	(124)
With-profits fund	165	(55)	—	110
	165	(137)	(42)	(14)

18.1.2 Triennial actuarial valuations

A full actuarial valuation is required for defined benefit pension schemes every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee-administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high-quality corporate bonds while a more prudent assumption is typically used for the actuarial valuation.

Summary information on the latest completed actuarial valuation for each of the schemes is shown in the table below:

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	5 April 2017	31 March 2017	31 December 2017
Funding level at the last valuation	105%	75%	120%
Deficit funding arrangement agreed with the Trustees based on the last completed valuation	No deficit funding required	Deficit funding of £26m per annum from 1 April 2017 until 31 March 2027, or earlier if the scheme's funding level reaches 100% before date. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required
Current level of employer contributions for active members	Are at the minimum level required under the scheme rules (approximately £3.5m per annum)	Approximately £7m per annum	Approximately £6m per annum
Contributions to cover ongoing administration and other expenses	£5m per annum	£1m per annum	Approximately £1.5m per annum

The contributions detailed above represent the Group's current expectation of amounts that will be paid to each respective plan in the next annual reporting period.

Financial information

18 Defined benefit pension schemes (continued)

18.1 Background and summary economic and IAS 19 financial positions (continued)

18.1.3 Risks to which the defined benefit schemes expose the Group

The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where there is a deficit, the employers of the schemes would agree a deficit recovery plan. Accordingly, the pension schemes expose the Group to a number of risks, the most significant of which are interest rate risk, equity risk, inflation risk, credit risk and mortality risk.

18.1.4 Corporate governance

The Group's pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by the Pensions Regulator in accordance with the Pensions Act 2004. Each scheme has a corporate trustee to which some directors are appointed by Group employers with the remaining directors nominated by members in accordance with UK legal requirements. The Trustees have the ultimate responsibility to ensure that each scheme is managed in accordance with its Trust Deed and Rules. The Trustees act in the best interests of the schemes' beneficiaries; this includes taking appropriate account of each employer's legal obligation and financial ability to support the schemes when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored, with the Trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's defined benefit pension schemes are final salary schemes, which are closed to new entrants. Going forward, pensionable salaries for most members will be capped at their levels as at 30 September 2019. The Trustee of each scheme sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the investment managers. The Trustees consult with the principal employer for each scheme on the investment principles, but the ultimate responsibility for the investment of the assets of the schemes lies with the trustees.

The Trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members. For all three schemes, and especially PSPS and SASPS, a significant portion of the scheme assets are invested in liability-matching assets such as bonds and gilts, including index-linked gilts, to partially hedge against inflation. In addition, the schemes maintain portfolios of interest rate and inflation swaps to match more closely the duration and inflation profiles of their assets to their liabilities.

All three schemes have invested in a mix of both return-seeking assets, such as equities and property, and matching assets, including leveraged liability-driven investment portfolios to reflect the liability profile of the scheme. They manage the risks of the return-seeking exposure by investing in a diversified mix of investments.

18.2 Assumptions

18.2.1 Demographic assumptions

Post-retirement mortality

The calculation of the defined benefit obligation for the Group's schemes requires assumptions to be set for both current mortality and the allowance for future mortality improvements. The table below sets out the mortality tables and mortality improvement model used for the Group's schemes, along with the associated life expectancies.

				Expectation of life from retirement at aged 60			
As at	**Scheme**	**Mortality tables (with scaling factors applied to reflect experience)**	**Mortality improvements model(ii)**	**Male currently aged 60**	**Male currently aged 40**	**Female currently aged 60**	**Female currently aged 40**
31 December 2019 (i)	PSPS	S2PMA/S2PFA for males/females	CMI 2017	27.3	29.5	28.5	30.4
	SASPS	S1PMA/S1PFA for males/females	CMI 2017	27.1	29.4	30.3	32.2
	M&GGPS	SAPS2 Light	CMI 2017	28.8	30.8	30.2	32.0
31 December 2018	PSPS	S2PMA/S2PFA for males/females	CMI 2015	28.1	30.9	29.0	31.4
	SASPS	S2PMA/S2PFA for males/females	CMI 2015	28.1	30.9	29.0	31.4
	M&GGPS	S2PMA/S2PFA for males/females	CMI 2015	28.1	30.9	29.0	31.4

(i) The IAS 19 current mortality assumptions used as at 31 December 2019 were amended to be specific to each scheme, instead of being based upon the largest scheme (PSPS).

(ii) The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2019, this allowance was based on the CMI 2017 mortality improvements model with improvement factors of 1.75% for males (S_k = 7.5) and 1.50% for females (S_k = 7.75) (as at 31 December 2018 this allowance was based on the CMI 2015 model with improvement factors of 1.75% for males and 1.50% for females).

18 Defined benefit pension schemes (continued)

18.2 Assumptions (continued)

Withdrawal assumptions for changes in scheme rules

As a result of the changes in scheme rules during 2019, an update was made to the withdrawal assumptions used for the pension scheme valuation to reflect the expected increase in opt-outs (withdrawals) from the schemes. The effect of this assumption change is reflected within gain/(loss) on remeasurement of defined benefit pension asset in the consolidated statement of comprehensive income.

18.2.2 Economic assumptions

The actuarial assumptions used in determining defined benefit obligations and the net periodic benefit costs for each of the Group's defined benefit pension schemes are as follows:

	For the year ended 31 December					
	2019 (v)			2018		
	PSPS	**SASPS**	**M&GGPS**	PSPS	SASPS	M&GGPS
Discount rate (i)	**2.1%**	**2.1%**	**2.1%**	2.8%	2.8%	2.8%
Salary inflation (ii)	**3.1%**	**3.0%**	**3.0%**	3.3%	3.3%	3.3%
Retail Prices Index (RPI)	**3.1%**	**3.0%**	**3.0%**	3.3%	3.3%	3.3%
Consumer Prices Index (CPI)	**2.1%**	**2.0%**	**2.0%**	2.3%	2.3%	2.3%
Rate of increase of pensions in payment for inflation (iii)						
CPI (maximum 5%) (iv)	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
CPI (maximum 2.5%) (iv)	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
Discretionary (iv)	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
RPI (maximum 5%) (iv)	**n/a**	**3.0%**	**3.0%**	n/a	3.3%	3.3%
RPI (maximum 2.5%) (iv)	**n/a**	**2.5%**	**2.5%**	n/a	2.5%	2.5%

(i) The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable to allow for the difference in duration between the index and the pension liabilities.

(ii) Note that due to the scheme changes during 2019, the pensionable salary used to determine scheme benefits will be frozen at the 30 September 2019 levels for most members.

(iii) The rate of inflation used reflects the long-term assumption for UK RPI or CPI, depending on the particular tranche of scheme benefits, with caps and floors applied in accordance with the scheme rules.

(iv) Certain tranches of scheme benefits within PSPS have statutory pension increases in line with the better of CPI up to a maximum level, or a discretionary level determined by the employer. Other tranches are not guaranteed and determined by the employer on a discretionary basis.

(v) The IAS 19 discount rate and inflation rate assumptions have been determined by considering the shape of the bond index and inflation curves, relative to the profile of the scheme's liabilities. During 2019, the process of setting these assumptions was amended to reflect the characteristics of each scheme's liabilities, instead of being based upon the largest scheme. The impact of the change in this approach is reflected within actuarial gains and losses.

18.2.3 Other assumptions

In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("GMPs"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. In light of this Court ruling, at 31 December 2019 and 31 December 2018, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes – comprising £32m for PSPS, £18m for SASPS, and £5m for M&GGPS as at 31 December 2019 (£22m for PSPS, £17m for SASPS and £5m for M&GGPS as at 31 December 2018).

18.2.4 Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries, where applicable, and on the rate of increase of pensions in payment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the Group's comprehensive income due to the effect of restriction on surplus for PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the With-Profits Fund as described above. The Group's shareholders' exposure to changes in the PSPS liability increased during 2019 as a result of the transfer of the 30% surplus from Prudential plc to the Group.

18 Defined benefit pension schemes (continued)

18.2 Assumptions (continued)

		As at 31 December 2019			
		Increase/(decrease) in the present value of the scheme's defined benefit obligation			
	Sensitivity of the change in assumptions	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Base position	n/a	**6,520**	**895**	**489**	**7,904**
Discount rate	Decrease by 0.2%	**216**	**42**	**24**	**282**
		(205)	**(39)**	**(23)**	**(267)**
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2%	**(35)**	**(29)**	**(15)**	**(79)**
Mortality rate	Increase in life expectancy by 1 year	**242**	**32**	**24**	**298**

		As at 31 December 2018			
		Increase/(decrease) in the present value of the scheme's defined benefit obligation			
	Sensitivity of the change in assumptions	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Base position	n/a	6,167	885	467	7,519
Discount rate	Decrease by 0.2%	214	45	23	282
		(202)	(42)	(22)	(266)
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2%	(37)	(33)	(19)	(89)
Mortality rate	Increase in life expectancy by 1 year	238	33	20	291

18.3 Plan assets of the schemes

	As at 31 December							
	2019				2018			
	PSPS £m	Other £m	Total £m	%	PSPS £m	Other £m	Total £m	%
Equities:								
UK	**8**	**7**	**15**	**—**	8	6	14	—
Overseas	**25**	**63**	**88**	**1**	204	53	257	3
Bonds: (i)								
Government	**4,676**	**688**	**5,364**	**61**	4,596	538	5,134	61
Corporate	**1,753**	**487**	**2,240**	**25**	1,586	454	2,040	24
Asset-backed securities	**298**	**14**	**312**	**3**	263	12	275	3
Derivatives	**186**	**1**	**187**	**2**	103	4	107	1
Properties	**150**	**144**	**294**	**3**	143	143	286	3
Other assets	**351**	**126**	**477**	**5**	172	194	366	5
Total value of assets (ii)	**7,447**	**1,530**	**8,977**	**100**	7,075	1,404	8,479	100

(i) As at 31 December 2019, 88% of the bonds were investment grade (2018: 87%).

(ii) As at 31 December 2019, 94% of the total value of the scheme assets were derived from quoted prices in an active market (2018: 94%), while the value of the remaining assets is derived from the use of various observable and unobservable inputs. None of the scheme assets included property occupied by the Group. The IAS 19-basis plan assets as at 31 December 2019 of £8,840m (2018: £8,254m) is different from the economic-basis plan assets of £8,977m (2018: £8,479m) as shown above due to the exclusion of investment in Group insurance policies by M&GGPS as described above.

18 Defined benefit pension schemes (continued)

18.4 Reconciliation in movement of schemes' surplus/deficit

	Economic basis						Attributable to	
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic pension surplus/(deficit) £m	Other adjustments £m	Net pension surplus / (deficit) £m	External party [iii] £m	Group £m
Net defined benefit pension asset/(liability) at 1 January 2019	8,479	(7,519)	(677)	283	(225)	58	69	(11)
Total expense recognised in income statement:								
Current service cost	—	(28)	—	(28)	—	(28)	(4)	(24)
Past service costs	—	150	—	150	—	150	20	130
Net interest	224	(196)	(18)	10	(6)	4	—	4
Administration expenses	(10)	—	—	(10)	—	(10)	(1)	(9)
Total amount recognised in consolidated income statement[i]	214	(74)	(18)	122	(6)	116	15	101
Remeasurements:								
Actuarial gains and losses:								
Return on the scheme assets less amount included in interest income	646	—	—	646	(9)	637	130	507
Gains/(losses) on changes in demographic assumptions	—	117	—	117	—	117	36	81
Gains/(losses) on changes in financial assumptions	—	(830)	—	(830)	—	(830)	(170)	(660)
Experience gains on scheme liabilities	—	(10)	—	(10)	—	(10)	(5)	(5)
Unrecognisable surplus	—	—	(192)	(192)	—	(192)	(63)	(129)
Remeasurement gains and losses[ii]	646	(723)	(192)	(269)	(9)	(278)	(72)	(206)
Transfer in of net defined benefit pension asset	—	—	—	—	—	—	(15)	15
Benefit payments	(412)	412	—	—	—	—	—	—
Employers' contributions	50	—	—	50	—	50	3	47
Transfer in to investment in Group insurance policies	—	—	—	—	103	103	—	103
Net defined benefit pension asset/(liability) at 31 December 2019	8,977	(7,904)	(887)	186	(137)	49	—	49

Financial information

18 Defined benefit pension schemes (continued)

18.4 Reconciliation in movement of schemes' surplus/deficit (continued)

	Economic basis						Attributable to	
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic pension surplus/(deficit) £m	Other adjustments £m	Net pension surplus/(deficit) £m	External party[iii] £m	Group £m
Net defined benefit pension asset/(liability) at 1 January 2018	8,913	(8,220)	(485)	208	(151)	57	71	(14)
Total expense recognised in income statement:								
Current service cost	—	(44)	—	(44)	—	(44)	(15)	(29)
Past service costs	—	(53)	—	(53)	—	(53)	(9)	(44)
Net interest	216	(200)	(13)	3	(4)	(1)	1	(2)
Administration expenses	(8)	—	—	(8)	—	(8)	(3)	(5)
Total amount recognised in consolidated income statement[i]	208	(297)	(13)	(102)	(4)	(106)	(26)	(80)
Remeasurements:								
Actuarial gains and losses:								
Return on the scheme assets less amount included in interest income	(221)	—	—	(221)	10	(211)	(56)	(155)
Gains/(losses) on changes in demographic assumptions	—	168	—	168	—	168	37	131
Gains /(losses) on changes in financial assumptions	—	330	—	330	—	330	85	245
Experience gains on scheme liabilities	—	27	—	27	—	27	—	27
Unrecognisable surplus	—	—	(179)	(179)	—	(179)	(45)	(134)
Remeasurement gains and losses[ii]	(221)	525	(179)	125	10	135	21	114
Benefit payments	(473)	473	—	—	—	—	—	—
Employers' contributions	51	—	—	51	—	51	2	49
Employees' contributions	1	—	—	1	—	1	1	—
Transfer in to investment in Group insurance policies	—	—	—	—	(80)	(80)	—	(80)
Net defined benefit pension asset/(liability) at 31 December 2018	8,479	(7,519)	(677)	283	(225)	58	69	(11)

(i) A credit of £56m is included in the total amount recognised in the income statement attributable to the Group for the year ended 31 December 2019 relating to the With-Profits Fund (2018: expense of £47m).

(ii) Included in the share of remeasurement gains and losses for the year ended 31 December 2019 are losses relating to shareholders totalling £19m (2018: gains of £70m) which are recognised in other comprehensive income. The amounts attributable to the With-Profits Fund for the year ended 31 December 2019 amount to losses of £187m (2018: gains of £44m) and are recognised in other comprehensive income and transferred to unallocated surplus of the With-Profits Fund.

(iii) Until 30 June 2019, the shareholders' share in relation to PSPS was attributable to Prudential plc. Hence, the related amounts have been shown as attributable to an external party.

18 Defined benefit pension schemes (continued)

18.5 Maturity analysis of benefit obligations

The following table provides an expected maturity analysis of the undiscounted defined benefit obligations:

	All schemes						
	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	Total £m
As at 31 December 2019	**255**	**1,125**	**1,538**	**1,534**	**1,485**	**5,799**	**11,736**
As at 31 December 2018	257	1,142	1,593	1,641	1,631	7,426	13,690

The weighted average duration of each scheme's defined benefit obligations (in years) are as follows:

	PSPS	SASPS	M&GGPS
As at 31 December 2019	**17**	**23**	**25**
As at 31 December 2018	17	25	25

19 Loans

The amounts included in the consolidated statement of financial position in relation to loan assets are analysed as follows:

	As at 31 December		As at 1 January
	2019 £m	2018 £m	2018 £m
Mortgage loans	**4,377**	4,496	4,582
Policy loans	**2**	3	230
Other loans	**1,575**	1,410	1,989
Total loans	**5,954**	5,909	6,801

The Group consolidates a securitisation vehicle which holds a portfolio of buy-to-let mortgages which are carried at fair value through profit or loss. The Group's interest is held by the WPSF. The fair value of the loans as at 31 December 2019 was £1,462m (2018: £1,603m). The vehicle financed the acquisition of the loan portfolio through the issue of debt instruments, largely to external parties, which are securitised upon the loans acquired.

As at 31 December 2019, 80% of the £2,179m (2018: 79% of £1,997m) of mortgage loans held by the shareholder-backed business related to lifetime (equity release) mortgage business which had an average loan-to-property value of 35% (2018: 33%). The equity release mortgages are carried at fair value through profit or loss. Sensitivities in relation to the valuation of the lifetime (equity release) mortgages are provided in Note 33.9.

The carrying value of loans and receivables held at amortised cost are reported net of allowance for loan losses of £20m as at 31 December 2019 (2018: £42m).

Other loans mainly comprise syndicated and bridge commercial loans.

20 Classification of financial instruments

20.1 Financial assets

		As at 31 December 2019			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Loans	19	**3,339**	**—**	**2,615**	**5,954**
Derivative assets	33	**—**	**3,962**	**—**	**3,962**
Equity securities and pooled investment funds		**72,388**	**—**	**—**	**72,388**
Deposits		**—**	**—**	**14,221**	**14,221**
Debt securities	33	**85,434**	**—**	**—**	**85,434**
Accrued investment income and other debtors		**—**	**—**	**2,923**	**2,923**
Cash and cash equivalents	22	**—**	**—**	**6,046**	**6,046**
Total financial assets		**161,161**	**3,962**	**25,805**	**190,928**

		As at 31 December 2018			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Loans	19	3,281	—	2,628	5,909
Derivative assets	33	—	2,624	—	2,624
Equity securities and pooled investment funds		60,812	—	—	60,812
Deposits		—	—	12,020	12,020
Debt securities	33	87,840	—	—	87,840
Accrued investment income and other debtors		—	—	4,379	4,379
Cash and cash equivalents	22	—	—	6,563	6,563
Total financial assets		151,933	2,624	25,590	180,147

Financial assets expected to be recovered after one year as at 31 December 2019 are £82,838m (2018: £86,384m).

20.2 Financial liabilities

		As at 31 December 2019			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Investment contract liabilities without discretionary participation features	27	**15,651**	**—**	**—**	**15,651**
Third-party interest in consolidated funds	33	**11,643**	**—**	**—**	**11,643**
Subordinated liabilities and other borrowings	28	**1,422**	**—**	**6,077**	**7,499**
Derivative liabilities		**—**	**2,204**	**—**	**2,204**
Other financial liabilities		**—**	**—**	**3,517**	**3,517**
Accruals, deferred income and other liabilities		**390**	**—**	**4,680**	**5,070**
Total financial liabilities		**29,106**	**2,204**	**14,274**	**45,584**

20 Classification of financial instruments (continued)

20.2 Financial liabilities (continued)

		As at 31 December 2018			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Investment contract liabilities without discretionary participation features	27	15,560	—	—	15,560
Third-party interest in consolidated funds	33	9,383	—	—	9,383
Subordinated liabilities and other borrowings	28	1,606	—	2,479	4,085
Derivative liabilities		—	3,187	—	3,187
Other financial liabilities		—	—	2,592	2,592
Accruals, deferred income and other liabilities		355	—	8,107	8,462
Total financial liabilities		26,904	3,187	13,178	43,269

Other financial liabilities relate to obligations under funding, securities lending and sale and repurchase agreements.

Financial liabilities expected to be settled in more than one year as at 31 December 2019 were £9,352m (2018: £5,873m).

21 Accrued investment income and other debtors

	As at 31 December		As at 1 January
	2019 £m	2018 £m	2018 £m
Interest receivable	**831**	906	1,100
Other	**691**	528	601
Total accrued investment income	**1,522**	1,434	1,701
Other debtors	**1,401**	2,960	3,006
Total accrued investment income and other debtors	**2,923**	4,394	4,707
Analysed as:			
Expected to be settled within one year	**2,703**	4,220	4,400
Expected to be settled after one year	**220**	174	307
Total accrued investment income and other debtors	**2,923**	4,394	4,707

22 Cash and cash equivalents

	As at 31 December		As at 1 January
	2019 £m	2018 £m	2018 £m
Cash	**3,579**	3,733	4,861
Cash equivalents	**2,467**	2,830	2,490
Total cash and cash equivalents	**6,046**	6,563	7,351

Cash equivalents consist solely of money market fund investments with a maturity of less than 90 days at acquisition.

23 Issued share capital and share premium

M&G plc was incorporated on 2 July 2018. For the purposes of these consolidated financial statements, share capital and share premium have been presented as if the parent company existed at 1 January 2018.

23.1 Issued share capital

	For the year ended 31 December			
	2019		2018	
Issued shares fully paid	**Number of ordinary shares**	**Share capital £m**	Number of ordinary shares	Share capital £m
At 1 January	**2,597,930,000**	**130**	2,597,930,000	130
Bonus issue	**1,976,866**	**—**	—	—
At 31 December	**2,599,906,866**	**130**	2,597,930,000	130

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 account. On 18 October, in preparation of demerger, 1,976,866 bonus shares were issued at par value of 5 pence per share by utilising the share premium reserve.

23.2 Share premium

	For the year ended 31 December	
	2019 £m	2018 £m
At 1 January	**370**	21,370
Capital reduction	**—**	(21,000)
At 31 December	**370**	370

On 3 December 2018, the Company performed a capital reduction which reduced the share premium account by £21,000m.

24 Shares held by employee benefit trusts and other treasury shares

The Group buys and sells own shares either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £26m as at 31 December 2019 is deducted from retained earnings.

24.1 Shares held by employee benefit trust

The M&G Employee Share Trust ("the Trust") was created on 20 September 2019 to facilitate the procurement, holding and distribution of M&G plc shares under the various employee incentive schemes in operation. The Trust is funded via a loan from M&G plc.

On 16 October 2019, as part of the demerger the Trust received 1.2m Prudential plc shares from Prudential plc Employee Share Trust, representing shares that M&G plc via its subsidiaries had paid for in previous years to hedge the exposure under the various employee incentive schemes.

On 21 October 2019, the date of listing of M&G plc, the Prudential plc shares held by the Trust were each converted into 1 M&G plc share and 1 Prudential plc share based on the terms of the demerger and subsequent listing of M&G plc on the London Stock Exchange. The Prudential plc shares were sold and M&G plc shares of equivalent value were purchased on 11 November 2019.

Further acquisitions were made during the year to hedge the various outstanding share-based payment awards. Some of the shares acquired were transferred to a separate employee benefit trust that administers the Share Incentive Plan ("SIP"), which includes administration of the free share awards offered to employees at demerger (refer to Note 39 for details).

The movement in the M&G plc shares held is detailed below:	**Number of shares**
Shares received at date of listing	**1,203,335**
Shares acquired during the period	**12,606,493**
Shares awarded during the period	**(970,768)**
Closing balance as at 31 December 2019	**12,839,060**

The Trust holds 8,681,580 shares and 4,157,480 shares are held by the trustee of the SIP scheme.

24.2 Other treasury shares

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS, and some of these funds hold shares in M&G plc.

The total number of shares held by these funds at 31 December 2019 was 586,885 (2018: nil) and the cost of acquiring these shares of £0.5m (2018: £nil) is included in the cost of own shares.

The market value of these shares as at 31 December 2019 was £1m (2018: nil). During the year ended 31 December 2019, these funds made no additions or disposals of M&G plc shares (2018: nil). All share transactions were made on an exchange. Other than set out above, the Group did not purchase, sell or redeem any M&G plc listed securities during 2019.

25 Retained earnings

The movements in the following table are aggregated for both continuing and discontinued operations.

	Note	For the year ended 31 December 2019 £m	2018 £m
At 1 January		**20,157**	9,193
Recognised in comprehensive income:			
Profit for the year attributable to equity holders from continuing operations		**1,062**	809
Profit/(loss) for the year attributable to equity holders from discontinued operations		**58**	(776)
Other comprehensive (expenses)/income on items that will not be reclassified to profit or loss		**(5)**	57
Total items recognised in comprehensive income		**1,115**	90
Recognised directly in equity:			
Transaction with equity holders:			
Dividends	12	**(4,365)**	(746)
Distribution in kind[(i)]		**(570)**	—
Tax effect of items recognised directly in equity		**99**	—
Capital reduction	23	**—**	21,000
Transfer from retained earnings on disposal of subsidiaries	26	**—**	(9,450)
Transfer to retained earnings for vested employee share-based payments		**(2)**	—
Other movements		**(92)**	70
Total items recognised directly in equity		**(4,930)**	10,874
Net (decrease)/increase in equity		**(3,815)**	10,964
At 31 December		**16,342**	20,157

(i) Distribution in kind represents the difference between fair value of the subordinated notes at initial recognition and the actual cash transferred by Prudential plc in respect of the notes on substitution of the debt. The difference is treated as a distribution in kind in accordance with the requirements of section 845 of the Companies Act 2006.

26 Other reserves

The movements in the following tables are aggregated for both continuing and discontinued operations:

	Equity-settled share-based payment reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Total Other reserves £m
At 1 January 2019	**—**	**(11,732)**	**4**	**(11,728)**
Exchange movements arising on foreign operations	**—**	**—**	**(7)**	**(7)**
Total comprehensive income for the year	**—**	**—**	**(7)**	**(7)**
Reserve movements in respect of share-based payments	**40**	**—**	**—**	**40**
Tax effect of items recognised directly in equity	**5**	**—**	**—**	**5**
Net increase/(decrease) in equity	**45**	**—**	**(7)**	**38**
At 31 December 2019	**45**	**(11,732)**	**(3)**	**(11,690)**

26 Other reserves (continued)

	Merger reserve £m	Foreign currency translation reserve £m	Total other reserves £m
At 1 January 2018	(21,182)	—	(21,182)
Exchange movements arising on foreign operations	—	62	62
Exchange movements transferred to consolidated income statement	—	(58)	(58)
Total comprehensive income for the year	—	4	4
Transfer to retained earnings on disposal of subsidiaries	9,450	—	9,450
Net increase in equity	9,450	4	9,454
At 31 December 2018	(11,732)	4	(11,728)

The merger reserve arises from the application of merger accounting principles to the acquisition of entities under common control. It represents the difference between the aggregate capital reserves and the value of the entities acquired. On disposal of the relevant entity, the related merger reserve is released directly to retained earnings.

On 14 December 2018, PAC sold the beneficial interest of its Hong Kong subsidiaries to Prudential Corporation Asia Limited (a direct subsidiary of Prudential plc). As a result of the disposal, £9,450m was transferred from the merger reserve to retained earnings.

27 Policyholder liabilities and unallocated surplus

27.1 Determination of insurance and investment contract liabilities for different components of business

Note 2.4 describes the different types of insurance and investment contracts across the business. A description relating to the determination of the policyholder liabilities and the key assumptions for each component of business is set out below:

27.1.1 With-profits business

The With-Profits Fund mainly contains with-profits contracts but also contains some non-profit business (annuities, unit-linked, and term assurances). The liabilities of the With-Profits Fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 Life Assurance. The basis is consistent with the rules for the determination of reserves on the realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances.

The with-profits contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4. The realistic basis requires the value of with-profits policyholder liabilities to be calculated as the sum of:

(i) A with-profits benefits reserve ("WPBR")

(ii) Future policy-related liabilities ("FPRL")

The WPBR is primarily based on the retrospective calculation of accumulated asset shares with adjustments to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the With-Profits Fund assets attributable to their policies. For certain classes of business, the WBPR is instead calculated using a prospective bonus reserve valuation, valuing future claims and expenses using the expected future bonus rates.

The FPRL is comprised of other components of the liability including a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using stochastic modelling techniques. The FPRL also include other liabilities such as tax on shareholder transfers and enhancements to policy benefits arising from the distribution of surplus from non-profit business written within the With-Profits Fund.

Assumptions used for the realistic, market-consistent valuation of with-profits business typically do not contain margins, whereas those used for the valuation of other classes of business (for example, annuities) contain margins of prudence within the assumptions. The main assumptions used in the prospective elements of the with-profits policyholder liabilities are listed below:

- Persistency assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business.
- Management actions under which the fund is managed in different scenarios.
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure, and are allocated between entities and product groups in accordance with each operation's internal cost allocation model.
- Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.
- The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis.

27 Policyholder liabilities and unallocated surplus (continued)

27.1 Determination of insurance and investment contract liabilities for different components of business (continued)

On 25 October 2019, a reinsurance arrangement with Prudential Hong Kong Limited, a subsidiary of Prudential plc, which covered £1,078m of the non-profit annuity business contained within the With-Profits Fund, was terminated as part of demerger activities. At 31 December 2019, there are no significant external reinsurance arrangements in place in respect of the With-Profits Fund's liabilities.

Unallocated surplus

The unallocated surplus of the With-Profits Fund represents the excess of the fund's assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess/(shortfall) of income over expenditure of the With-Profits Fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to/(from) the unallocated surplus each year through a charge/(credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Determination of bonuses

Determining discretionary bonuses for traditional types of with-profits business requires the PAC Board to apply significant judgement, including in particular the following:

- Determining what constitutes fair treatment of customers.
- Determining the process for the smoothing of investment returns.
- Determining at what level to set bonuses to ensure that they are competitive.

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. The Group determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business.

The Group's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent with the Principles and Practices of Financial Management ("PPFM") that explains how the With-Profits Fund is managed. In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A Chief Actuary who provides the PAC Board with all actuarial advice.
- A With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed.
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting interests and rights have been addressed.

In determining bonus rates for the with-profits policies, smoothing is applied to the allocation of the overall earnings of the With-Profits Fund, of which the investment return is a significant element. The degree of smoothing is illustrated numerically in the following table, which allows comparison of the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution with the more volatile movement in investment return and other items of income and expenditure of the With-Profits Fund.

27 Policyholder liabilities and unallocated surplus (continued)

27.1 Determination of insurance and investment contract liabilities for different components of business (continued)

	For the year ended 31 December 2019 £m	2018 £m
Net income of the fund:		
Investment return	**13,910**	(2,359)
Claims incurred	**(9,106)**	(8,776)
Movement in policyholder liabilities	**(11,535)**	(554)
Add back policyholder bonus for the year (as shown below)	**2,375**	2,345
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**(18,266)**	(6,985)
Earned premiums, net of reinsurance	**11,755**	12,505
Other income	**35**	36
Acquisition costs and other expenditure	**(1,837)**	(1,064)
Share of profits from investment joint ventures	**3**	36
Tax charge	**(413)**	273
Net income of the fund before movement in unallocated surplus of the With-Profits Fund	**5,187**	2,442
Movement in unallocated surplus of the With-Profits Fund	**(2,549)**	162
Surplus for distribution for the year	**2,638**	2,604
Surplus for distribution for the year allocated as follows:		
90% policyholders' bonus (as shown above)	**2,375**	2,345
10% shareholders' transfers	**263**	259
Surplus for distribution for the year	**2,638**	2,604

27.1.2 Unit-linked business

For unit-linked contracts, the attaching liability reflects the unit value obligation and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, a provision for expense and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile. To calculate the non-unit reserves for unit-linked insurance contracts, assumptions are set for maintenance expenses, the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability and acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Acquisition costs and deferred income are recognised consistent with the level of service provision.

Certain parts of the unit-linked business are reinsured externally, either by way of fund reinsurance or by reinsuring specific risk benefits. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

27 Policyholder liabilities and unallocated surplus (continued)

27.1 Determination of insurance and investment contract liabilities for different components of business (continued)

27.1.3 Annuities and other long-term business

The majority of the policyholder liabilities in the 'annuities and other long-term business' component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used.

As described in Note 2, on 14 March 2018, part of the annuity liability was reinsured externally to Rothesay Life plc. In addition, some of the longevity risk in respect of the remaining annuity business is reinsured externally. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

The key assumptions used to calculate the policyholder liability in respect of annuity business are as follows:

Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Group's portfolio.

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2019. New mortality projection models are released annually by the Continuous Mortality Investigation ("CMI"). The CMI tables used are adjusted as appropriate each year to reflect anticipated mortality improvements, including an appropriate margin for prudence. The mortality improvement assumptions used are summarised in the table below:

Period ended	Model version	Long-term improvement rate[(i)]	Smoothing parameter (S_k)[(ii)]
31 December 2019	CMI 2017	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.75
31 December 2018	CMI 2016	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.5

(i) As at 31 December 2019 and 31 December 2018, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence.

(ii) The smoothing parameter controls the amount of smoothing by calendar year when determining the level of initial mortality improvements.

The sensitivity of IFRS profit before tax to changes in assumed mortality rates is shown in Note 34.2.

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. Equities are valued using the greater of the dividend yield and the average of the dividend yield and the earnings yield.

An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities, and the sensitivity of IFRS profit after tax to changes in this assumption is shown in Note 34.2.

Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment expenditure and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for prudence is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. The sensitivity of IFRS profit after tax to changes in maintenance expense levels is shown in Note 34.2.

27.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund

The following tables show the movement in policyholder liabilities and unallocated surplus of the With-Profits Fund by business component. The analysis includes the impact of premiums, claims and investment movements on policyholder liabilities. The impact does not represent premiums, claims, and investment movements as reported in the income statement. For example, the premiums shown below will exclude any deductions for fees/charges, as the table only shows the impact on the insurance and investment contract liabilities and unallocated surplus of the With-Profits Fund. Claims (surrenders, maturities and deaths) represent the liability released rather than the claim amount paid to the policyholder.

27 Policyholder liabilities and unallocated surplus (continued)

27.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund (continued)

		Shareholder-backed funds and subsidiaries				
	With-profits sub-funds [i] £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m	Reinsurance asset £m	Net total £m
At 1 January 2018	148,869	25,291	38,182	212,342	(2,690)	209,652
Comprising:						
Insurance contract liabilities	69,296	7,938	38,149	115,383		
Investment contract liabilities with DPF	62,634	—	17	62,651		
Investment contract liabilities without DPF	4	17,353	16	17,373		
Unallocated surplus of the With-Profits Fund	16,935	—	—	16,935		
Net Flows:						
Premiums	12,525	1,147	339	14,011		
Surrenders	(4,764)	(1,950)	(66)	(6,780)		
Maturities/deaths	(4,552)	(619)	(1,625)	(6,796)		
Net flows	3,209	(1,422)	(1,352)	435		
Reclassification of reinsured UK annuity contracts as held for sale	—	—	(10,858)	(10,858)		
Disposal of Hong Kong subsidiaries	(24,080)	(2,146)	(4,517)	(30,743)		
Shareholders' transfers post-tax	(259)	—	—	(259)		
Switches	(165)	165	—	—		
Investment-related items and other movements [ii]	(3,332)	(1,171)	(1,071)	(5,574)		
Foreign exchange differences	(14)	—	—	(14		
At 31 December 2018/1 January 2019	**124,228**	**20,717**	**20,384**	**165,329**	**(2,812)**	**162,517**
Comprising:						
Insurance contract liabilities	**43,775**	**5,219**	**20,304**	**69,298**		
Investment contract liabilities with DPF	**67,018**	**—**	**20**	**67,038**		
Investment contract liabilities without DPF	**2**	**15,498**	**60**	**15,560**		
Unallocated surplus of the With-Profits Fund	**13,433**	**—**	**—**	**13,433**		
Net Flows:						
Premiums	**11,745**	**890**	**287**	**12,922**		
Surrenders	**(4,987)**	**(2,667)**	**(444)**	**(8,098)**		
Maturities/deaths	**(4,522)**	**(606)**	**(1,948)**	**(7,076)**		
Net flows	**2,236**	**(2,383)**	**(2,105)**	**(2,252)**		
Reclassification of reinsured UK annuity contracts previously classified as held for sale	**—**	**—**	**10,502**	**10,502**		
Business transferred within the Group	**(44)**	**(9)**	**53**	**—**		
Shareholders' transfers post-tax	**(263)**	**—**	**—**	**(263)**		
Switches	**(156)**	**156**	**—**	**—**		
Investment-related items and other movements [iii]	**10,925**	**2,513**	**1,613**	**15,051**		
Foreign exchange differences	**(112)**	**—**	**(4)**	**(116)**		
At 31 December 2019	**136,814**	**20,994**	**30,443**	**188,251**	**(11,958)**	**176,293**
Comprising:						
Insurance contract liabilities	**42,717**	**5,396**	**30,367**	**78,480**		
Investment contract liabilities with DPF	**78,022**	**—**	**26**	**78,048**		
Investment contract liabilities without DPF	**3**	**15,598**	**50**	**15,651**		
Unallocated surplus of the With-Profits Fund	**16,072**	**—**	**—**	**16,072**		

(i) Includes the WPSF, the DCPSF and the SAIF, including the non-profit business written within these funds.

(ii) Investment related items and other movements include the impact of assumption changes. For the shareholder-backed business, assumption changes including, annuitant mortality, expenses and credit default/downgrade allowances reduced policyholder liabilities by £297m for the year ended 31 December 2019 (2018: £706m). For the With-Profits Fund, the impact of assumption changes for the year ended 31 December 2019 was a reduction in policyholder liabilities of £219m (2018: £394m), which was offset by a corresponding increase in unallocated surplus of the With-Profits Fund.

27 Policyholder liabilities and unallocated surplus (continued)

27.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund (continued)

Further analysis of the movement in the Group's insurance contract liabilities, reinsurance asset, investment contract liabilities and unallocated surplus of the With-Profits Fund is provided below. The movement in these items is predominantly allocated to the 'benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance' line in the consolidated income statement, along with benefits and claims paid to policyholders, net of amount attributable to reinsurers.

	Insurance contract liabilities £m	Reinsurance asset [iii] £m	Investment contract liabilities [iv] £m	Unallocated surplus of the With-Profits Fund £m
At 1 January 2018	115,383	(2,690)	80,024	16,935
Income and expense included in the consolidated income statement [i]	(8,838)	(10,793)	3,932	(162)
Other movements including amounts included in other comprehensive income [ii]	(37,262)	10,671	(1,328)	(3,341)
Foreign exchange differences	15	—	(30)	1
At 31 December 2018/At 1 January 2019	**69,298**	**(2,812)**	**82,598**	**13,433**
Income and expense included in the income statement [i]	**(1,063)**	**1,356**	**12,688**	**2,549**
Other movements including amounts included in other comprehensive income [ii]	**10,311**	**(10,502)**	**(1,583)**	**136**
Foreign exchange differences	**(66)**	**—**	**(4)**	**(46)**
At 31 December 2019	**78,480**	**(11,958)**	**93,699**	**16,072**

(i) The total charge for the 'benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance' shown in the consolidated income statement comprises the amounts shown as 'income and expense included in the consolidated income statement' in the table above together with benefits and claims paid of £12,750m for the year ended 31 December 2019 (2018: £12,228m), net of amounts attributable to reinsurers of £1,787m for the year ended 31 December 2019 (2018: £1,437m).

(ii) 'Other movements including amounts included in other comprehensive income' include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39; changes in the unallocated surplus of the With-Profits Fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income; and balance sheet reallocations, which totalled nil for the year ended 31 December 2019, net of reinsurance (2018: £(30,574)m). The amount for balance sheet reallocations for the year ended 31 December 2018 includes the reclassification of the UK annuity business reinsured to Rothesay Life plc as held for sale and the disposal of the Hong Kong subsidiaries. The amount for balance sheet reallocations for the year ended 31 December 2019 includes the reclassification of the reinsured UK annuity business out of held for sale, together with reclassifications between insurance contract liabilities and the unallocated surplus of the With-Profits Fund.

(iii) Includes reinsurers' share of claims outstanding of £156m as at 31 December 2019 (2018: £149m).

(iv) This comprises investment contracts with discretionary participation features of £78,048m as at 31 December 2019 (2018: £67,038m) and investment contracts without discretionary participation features of £15,651m as at 31 December 2019 (2018: £15,560m).

27 Policyholder liabilities and unallocated surplus (continued)

27.3 Duration of liabilities

The tables below show the expected timing of the cash flows which make up the policyholder liabilities. The expected timing of the cash flows will depend on the contract term and also expectations of assumptions such as future mortality and persistency, depending on the type of contract. For with-profits and unit-linked contracts, actual amounts payable will vary with future investment performance of the funds. The following tables show the carrying value of the policyholder liabilities and the expected timing of the cash flows, on a discounted basis:

	As at 31 December 2019									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuities	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	**32,656**	**78,025**	**110,681**	**10,061**	**29,475**	**39,536**	**6,288**	**15,674**	**21,962**	**172,179**
Expected cash flow timing:										
0 to 5 years	**34%**	**38%**	**37%**	**34%**	**27%**	**30%**	**44%**	**31%**	**35%**	**36%**
5 to 10 years	**24%**	**26%**	**26%**	**26%**	**23%**	**24%**	**25%**	**24%**	**24%**	**25%**
10 to 15 years	**16%**	**16%**	**16%**	**17%**	**19%**	**18%**	**15%**	**18%**	**17%**	**17%**
15 to 20 years	**11%**	**9%**	**9%**	**10%**	**14%**	**13%**	**8%**	**13%**	**12%**	**10%**
20 to 25 years	**7%**	**5%**	**5%**	**6%**	**9%**	**8%**	**4%**	**7%**	**6%**	**6%**
over 25 years	**8%**	**6%**	**7%**	**7%**	**8%**	**7%**	**4%**	**7%**	**6%**	**6%**

	As at 31 December 2018									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuities	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	34,242	67,020	101,262	9,533	19,460	28,993	6,063	15,578	21,641	151,896
Expected cash flow timing:										
0 to 5 years	34%	37%	36%	33%	27%	29%	44%	32%	36%	35%
5 to 10 years	23%	27%	26%	26%	23%	24%	25%	24%	24%	25%
10 to 15 years	16%	17%	17%	17%	19%	18%	15%	18%	17%	17%
15 to 20 years	11%	9%	10%	11%	14%	13%	8%	12%	11%	10%
20 to 25 years	7%	4%	5%	6%	9%	8%	4%	7%	6%	6%
over 25 years	9%	6%	6%	7%	8%	8%	4%	7%	6%	7%

The cash flow projections of expected liability payments used in the expected cash flow timing table above are from the value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.

Liability payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business. Shareholder-backed annuity business includes the legacy shareholder annuity business, but for 31 December 2018 excludes the amount classified as held for sale.

28 Subordinated liabilities and other borrowings

	As at 31 December		As at 1 January
	2019	2018	2018
	£m	£m	£m
Subordinated liabilities	**3,767**	—	—
Operational borrowings	**130**	136	423
Borrowings attributable to the With-Profits Fund	**3,602**	3,949	3,729
Total subordinated liabilities and other borrowings	**7,499**	4,085	4,152

28.1 Subordinated liabilities

The Group's subordinated liabilities consist of subordinated notes which were transferred from Prudential plc on 18 October 2019 and were recorded at fair value on initial recognition. The transfer of the subordinated liabilities was achieved by substituting the Company in place of Prudential plc as issuer of the debt, as permitted under the terms and conditions of each applicable instrument. All costs related to the transaction were borne by Prudential plc.

	As at 31 December 2019	
	Principal amount	**Carrying value £m**
5.625% Sterling fixed rate due 20 October 2051	**£750m**	**862**
6.25% Sterling fixed rate due 20 October 2068	**£500m**	**608**
6.50% US Dollar fixed rate due 20 October 2048	**$500m**	**448**
6.34% Sterling fixed rate due 19 December 2063	**£700m**	**856**
5.56% Sterling fixed rate due 20 July 2055	**£600m**	**684**
3.875% Sterling fixed rate due 20 July 2049	**£300m**	**309**
Total subordinated liabilities		**3,767**

Subordinated notes issued by the Company rank below its senior obligations and ahead of its preference shares and ordinary share capital.

A description of the key features of each of the Group's subordinated notes as at 31 December 2019 is as follows:

	5.625% Sterling fixed rate	**6.25% Sterling fixed rate**	**6.50% US Dollar fixed rate**	**6.34% Sterling fixed rate**	**5.56% Sterling fixed rate**	**3.875% Sterling fixed rate**
Principal amount	£750m	£500m	$500m	£700m	£600m	£300m
Issue date[(i)]	1 October 2018	1 October 2018	1 October 2018	16 December 2013 (amended 10 June 2019)	9 June 2015 (amended 10 June 2019)	8 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date thereafter)	20 October 2048 (and each semi-annual interest payment date thereafter)	20 October 2028 (and each semi-annual interest payment date thereafter)	19 December 2043 (and each semi-annual interest payment date thereafter)	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment date thereafter)
Solvency II own funds treatment	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2

(i) The subordinated notes were issued by Prudential plc rather than by the Company.

As at 31 December 2019, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £41m is expected to be settled within 12 months.

Financial information

28 Subordinated liabilities and other borrowings (continued)

28.1 Subordinated liabilities (continued)

28.1.1 Movement in subordinated liabilities

The following table reconciles the movement in subordinated liabilities in the year:

	2019 £m
At 1 January	**—**
Fair value on initial recognition	**3,789**
Amortisation	**(9)**
Foreign exchange movements	**(13)**
At 31 December	**3,767**

The subordinated liabilities were recognised at fair value on initial recognition, however the cash received in respect of these liabilities from Prudential plc was £3,219m. The difference was treated as distribution in kind in accordance with the requirements of section 845 of the Companies Act 2006.

There were no repayments of principal on these loans during the year. The amortisation of premium on the loans based on an effective interest rate and the foreign exchange movement on the translation of the subordinated liabilities denominated in US dollar are both non-cash items.

28.2 Other borrowings

28.2.1 Operational borrowings attributable to shareholder-financed operations

	As at 31 December		As at 1 January
	2019 £m	2018 £m	2018 £m
Bank loans and overdrafts	**—**	31	296
Other borrowings	**130**	105	127
Total	**130**	136	423

Other borrowings included amounts for which repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. The lender does not have recourse to any other assets of the Group and the liability is not payable to the degree of shortfall.

In March 2019, the Group entered into revolving credit facilities of £1.5bn with several banks and financial institutions, and these are due to mature in 2024. As at 31 December 2019, these remain undrawn.

28.2.2 Other borrowings attributable to the With-Profits Fund

	As at 31 December		As at 1 January
	2019 £m	2018 £m	2018 £m
Non-recourse borrowings of consolidated investment funds (i)	**3,525**	3,872	3,593
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance Ltd (ii)	**—**	—	100
Bank loans and overdrafts	**38**	40	—
Other borrowings	**39**	37	36
Total	**3,602**	3,949	3,729

(i) In all instances, the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds. As at 31 December 2019, the non-recourse borrowings of consolidated investment funds primarily relate to £1,422m (2018: £1,561m) of debt instruments issued by a consolidated securitisation vehicle which are backed by a portfolio of mortgage loans (see Note 19 for further details). These debt instruments are carried at fair value through profit or loss, consistent with the underlying mortgage portfolio.

(ii) The interests of the holders of the bonds issued by Scottish Amicable Finance Ltd, a subsidiary of SAIF, were subordinated to the entitlements of the policyholders of that fund.

28 Subordinated liabilities and other borrowings (continued)

28.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's borrowings as recognised in the consolidated statement of financial position:

	Operational borrowings (£m)						
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2019	**34**	**93**				**3**	**130**
As at 31 December 2018	44	89	—	—	—	3	136
As at 1 January 2018	297	—	123	—	—	3	423

	Borrowings attributable to the With-Profits Fund (£m)						
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2019	**289**	**17**	**92**	**80**	**49**	**3,075**	**3,602**
As at 31 December 2018	584	71	90	5	102	3,097	3,949
As at 1 January 2018	370	371	184	59	1	2,744	3,729

29 Lease liabilities

The Group adopted IFRS 16 on 1 January 2018. For further details, see Note 1.2.1. The Group leases various land and buildings to utilise as office space. Information about leases for which the Group is a lessee is presented below.

	As at 31 December	
	2019 £m	2018 £m
At 1 January	316	39
Additions	56	275
Interest expense	13	11
Lease repayments	(25)	(9)
At 31 December	**360**	316

	As at 31 December	
	2019 £m	2018 £m
Non-current	**328**	307
Current	**32**	9
Total lease liabilities	**360**	316

As at 31 December 2019, £49m (2018: £21m) of the lease liabilities are attributable to the With-Profits Fund.

The maturity analysis of lease payments on an undiscounted basis is presented in Note 36.

Some of the leases of office buildings contain lease break options exercisable by the Group. The Group assesses at the point of lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances.

The undiscounted value of lease payments beyond the break period which are not recognised in lease liabilities as at 31 December 2019 is £61m.

30 Provisions

	As at 31 December 2019 £m	2018 £m
Regulatory	**101**	326
Staff benefits	**109**	123
Restructuring and other	**76**	4
Other	**40**	59
Total provisions	**326**	512

	For the year ended 31 December 2019 £m	2018 £m
At 1 January	**512**	576
Charged to consolidated income statement:		
Additional provisions	**153**	71
Unused amounts released	**(32)**	(7)
Used during the year	**(307)**	(128)
At 31 December	**326**	512

Regulatory provisions in relation to annuity sales practices

Regulatory provisions included a provision for the review of past annuity sales of £100m as at 31 December 2019 (2018: £324m; 1 January 2018: £369m). PAC has agreed with the Financial Conduct Authority ("FCA") to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. In addition, PAC will be conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. In 2019, the provision was increased by £33m (2018: £nil). The ultimate amount that will be expended by PAC on the review will remain uncertain until the project is completed. The key assumptions underlying the provision are average cost of redress per customer and the operational cost of performing the review per customer. An increase in the average cost of redress per customer for outstanding cases of 10% would result in the provision recognised increasing by £7m. An increase in the total operational cost of performing the reviews of 20% would result in the provision recognised increasing by £7m. Additionally, in 2018, PAC agreed with its professional indemnity insurers that they will meet £166m of claims costs, which will be paid as PAC incurs costs and redress relating to the review. The income has been recognised in other income in the consolidated income statement and within other debtors in the consolidated statement of financial position.

Staff benefits

Staff benefits primarily relates to performance-related bonuses expected to be paid to staff over the next three years.

Restructuring and other

Included in provisions is £76m as at 31 December 2019 (2018: £4m) primarily related to change in control costs which will be incurred in the four years to 2023.

31 Accruals, deferred income and other liabilities

	As at 31 December 2019 £m	2018 £m	As at 1 January 2018 £m
Accruals and deferred income	1,447	1,293	910
Creditors arising from insurance operations	192	112	966
Interest payable	66	23	24
Other	4,216	7,870	5,806
Total accruals, deferred income and other liabilities	**5,921**	9,298	7,706
Analysed as:			
Expected to be settled within one year	4,941	8,342	6,307
Expected to be settled after one year	980	956	1,399
Total accruals, deferred income and other liabilities	**5,921**	9,298	7,706

32 Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group invests in structured entities such as:

- Pooled investment vehicles, including OEICs, unit trusts, SICAVs and limited partnerships.
- Debt securitisation vehicles, including collateralised debt obligations, mortgage-backed securities and other similar asset-backed securities.

Structured entities which the Group is deemed to control are consolidated in the consolidated financial statements. As at 31 December 2019 and 31 December 2018, the Group has not provided, and has no intention to provide, non-contractual financial or other support to consolidated or unconsolidated structured entities that could expose the Group to a loss.

32.1 Investments in unconsolidated structured entities

The table below shows aggregate carrying amounts of the investments in unconsolidated structured entities reported in the consolidated statement of financial position:

	As at 31 December	
	2019 **£m**	2018 £m
Statement of financial position line item:		
Equity securities and pooled investment funds	**11,086**	8,331
Debt securities	**3,527**	4,927
Total	**14,613**	13,258

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments. Further details on risks associated with financial assets and how they are managed are provided in Note 34.

Included in equity securities and pooled investment funds as at 31 December 2019 were £3,744m (2018: £3,270m) of investments in structured entities managed by the Group. Investment management fees for the year ended 31 December 2019 of £600m (2018: £593m) were recognised from managing these entities.

The maximum exposure to loss for unconsolidated structured entities in which the Group holds an investment is the carrying value of the Group's investment and the loss of future fees.

The Group also has interests in structured entities managed by the Group in which it holds no investment through the collection of investment management fees. The maximum exposure to loss for these interests is loss of future fees.

Investment management fees recognised for the year ended 31 December 2019 from managing these entities were £188m (2018: £157m).

33 Fair value methodology

33.1 Determination of fair value hierarchy

The fair values of assets and liabilities for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, by using quotations from independent third parties such as brokers and pricing services, or by using appropriate valuation techniques. Fair value is the amount for which an asset could be exchanged or a liability settled in an arm's length transaction.

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest-level input that is significant to that measurement.

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 1 principally includes exchange-listed equities, mutual funds with quoted prices, exchange-traded derivatives such as futures and options, and national government bonds, unless there is evidence that trading in a given instrument is so infrequent that the market could not be considered active. It also includes other financial instruments where there is clear evidence that the year-end valuation is based on a traded price in an active market.

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)
Level 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without discretionary participation features that are valued using observable inputs.

Level 3 – Significant inputs for the asset or liability are not based on observable market data (unobservable inputs)
Level 3 principally includes investments in private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

33 Fair value methodology (continued)

33.2 Valuation approach for level 2 assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or quotes from third-party brokers. These valuations are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain third-party broker quotes.

When prices are not available from pricing services, quotes are sourced directly from brokers. The Group seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those described below with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. The input assumptions are determined based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £44,683m as at 31 December 2019 (2018: £65,869m), £344m were valued internally (2018: £526m). The majority of such securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments, factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to judgement.

33.3 Level 3 assets and liabilities

33.3.1 Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions eg, market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon any available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time a significant volume of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases, the disclosed value cannot be realised in immediate settlement of the financial instrument. In accordance with the Group's Group Risk Framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

As at 31 December 2019, the Group held £38,904m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (2018: £37,439m). This included £1,462m of loans (2018: £1,603m) and corresponding borrowings of £1,422m (2018: £1,561m) held by a subsidiary of the Group, attaching to a portfolio of buy-to-let mortgages financed largely by external third-party (non-recourse) borrowings (see Note 19 for further details). The Group's exposure to this portfolio is limited to the investments held by the WPSF. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenants and location. The variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

33 Fair value methodology (continued)

33.3 Level 3 assets and liabilities (continued)

33.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 31 December 2019 were £11,218m (2018: £10,935m), representing 7.3% of the total fair-valued financial assets net of financial liabilities (2018: 7.7%).

Internal valuations are inherently more subjective than external valuations. These internally valued net assets and liabilities primarily consist of the following items:

- Debt securities of £10,187m as at 31 December 2019 (2018: £9,961m), of which £9,246m (2018: £9,344m) were valued using discounted cash flow models with an internally developed discount rate. The remaining debt securities were valued using other valuation methodologies such as enterprise valuation and estimated recovery (such as liquidators' reports).
- Private equity investments in both debt and equity securities of £548m as at 31 December 2019 (2018: £516m), of which investments of £357m (2018: £382m) were valued internally using a discounted cash flow model. The most significant inputs to the valuation are the forecast cash flows of the underlying business, discount rate, and terminal value assumption, all of which involve significant judgement. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments are held by the Group's consolidated private equity infrastructure funds.
- Equity release mortgage loans of £1,737m as at 31 December 2019 (2018: £1,579m) and a corresponding liability of £390m (2018: £355m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yields. During 2019, there was a change to the deferment rate assumption which resulted in an increase in assumed property values at redemption.
- Liabilities of £1,124m as at 31 December 2019 (2018: £948m), for the third-party interest in consolidated funds in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities were valued by reference to the underlying assets.

33.3.3 Governance of level 3

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by business unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities, the Group makes use of the extensive expertise of its asset management function. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

33 Fair value methodology (continued)

33.4 Fair value hierarchy for assets measured at fair value in the consolidated statement of financial position

The tables below presents the Group's assets measured at fair value by level of the fair value hierarchy for each component of business as set out in Note 34.

	As at 31 December 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	17,039	17,039
Loans	—	—	1,602	1,602
Derivative assets	67	3,225	—	3,292
Equity securities and pooled investment funds	48,532	2,219	7,154	57,905
Debt securities	21,913	28,430	5,008	55,351
Total with-profits	70,512	33,874	30,803	135,189
Unit-linked:				
Investment property	—	—	453	453
Derivative assets	3	3	—	6
Equity securities and pooled investment funds	12,968	352	987	14,307
Debt securities	2,382	5,908	—	8,290
Total unit-linked	15,353	6,263	1,440	23,056
Annuity and other long-term business:				
Investment property	—	—	1,644	1,644
Loans	—	—	1,737	1,737
Derivative assets	—	603	—	603
Equity securities and pooled investment funds	27	—	2	29
Debt securities	4,361	9,810	6,207	20,378
Total annuity and other long-term business	4,388	10,413	9,590	24,391
Other:				
Derivative assets	—	61	—	61
Equity securities and pooled investment funds	129	—	18	147
Debt securities	880	535	—	1,415
Total other	1,009	596	18	1,623
Group:				
Investment property	—	—	19,136	19,136
Loans	—	—	3,339	3,339
Derivative assets	70	3,892	—	3,962
Equity securities and pooled investment funds	61,656	2,571	8,161	72,388
Debt securities	29,536	44,683	11,215	85,434
Total assets at fair value	91,262	51,146	41,851	184,259

33 Fair value methodology (continued)

33.4 Fair value hierarchy for assets measured at fair value in the consolidated statement of financial position (continued)

	As at 31 December 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	15,725	15,725
Loans	—	—	1,702	1,702
Derivative assets	57	1,900	—	1,957
Equity securities and pooled investment funds	40,690	898	6,251	47,839
Debt securities	7,666	40,245	5,888	53,799
Total with-profits	48,413	43,043	29,566	121,022
Unit-linked:				
Investment property	—	—	618	618
Derivative assets	1	—	—	1
Equity securities and pooled investment funds	11,670	318	691	12,679
Debt securities	1,196	9,316	—	10,512
Total unit-linked	12,867	9,634	1,309	23,810
Annuity and other long-term business:				
Investment property	—	—	1,660	1,660
Loans	—	—	1,579	1,579
Derivative assets	—	555	—	555
Equity securities and pooled investment funds	61	—	2	63
Debt securities	917	14,424	6,304	21,645
Total annuity and other long-term business	978	14,979	9,545	25,502
Other:				
Derivative assets	—	111	—	111
Equity securities and pooled investment funds	223	—	8	231
Debt securities	—	1,884	—	1,884
Total other	223	1,995	8	2,226
Group:				
Investment property	—	—	18,003	18,003
Loans	—	—	3,281	3,281
Derivative assets	58	2,566	—	2,624
Equity securities and pooled investment funds	52,644	1,216	6,952	60,812
Debt securities	9,779	65,869	12,192	87,840
Total assets at fair value	62,481	69,651	40,428	172,560

33 Fair value methodology (continued)

33.5 Fair value hierarchy for liabilities measured at fair value in the consolidated statement of financial position

The table below presents the Group's liabilities measured at fair value by level of the fair value hierarchy:

	As at 31 December 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment contract liabilities without discretionary participation features	**—**	**15,651**	**—**	**15,651**
Third-party interest in consolidated funds	**6,897**	**3,611**	**1,135**	**11,643**
Borrowings and subordinated liabilities	**—**	**—**	**1,422**	**1,422**
Derivative liabilities	**32**	**2,172**	**—**	**2,204**
Accruals, deferred income and other liabilities	**—**	**—**	**390**	**390**
Total liabilities at fair value	**6,929**	**21,434**	**2,947**	**31,310**

	As at 31 December 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment contract liabilities without discretionary participation features	—	15,560	—	15,560
Third-party interest in consolidated funds	5,696	2,659	1,028	9,383
Borrowings and subordinated liabilities	—	—	1,606	1,606
Derivative liabilities	65	3,122	—	3,187
Accruals, deferred income and other liabilities	—	—	355	355
Total liabilities at fair value	5,761	21,341	2,989	30,091

33.6 Transfers between levels

The Group's policy is to recognise transfers into and transfers out of levels as at the end of each half year reporting period, except for material transfers, which are recognised as of the date of the event or change in circumstances that caused the transfer.

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 of the securities.

	For the year ended 31 December 2019 Transfers between levels		
	Equity securities and pooled investment funds £m	Debt securities £m	Total £m
From level 1 to level 2	**1,263**	**672**	**1,935**
From level 1 to level 3	**465**	**—**	**465**
From level 2 to level 1	**—**	**15,357**	**15,357**
From level 2 to level 3	**—**	**35**	**35**
From level 3 to level 2	**—**	**944**	**944**

33 Fair value methodology (continued)

33.6 Transfers between levels (continued)

	For the year ended 31 December 2018			
	Transfers between levels			
	Equity securities and pooled investment funds £m	Debt securities £m	Third-party interest in consolidated funds £m	Total £m
From level 1 to level 2	—	45	—	45
From level 1 to level 3	911	—	—	911
From level 2 to level 1	—	11	—	11
From level 2 to level 3	519	11,101	—	11,620
From level 3 to level 2	—	85	—	85

33.7 Reconciliation of movements in level 3 assets and liabilities

The movements during the year of level 3 assets and liabilities held at fair value, excluding assets and liabilities held for sale, are analysed in the tables below:

	For the year ended 31 December 2019										
Level 3 assets:	**At 1 Jan £m**	**Total gains/(losses) recorded in income statement £m**	**Foreign exchange £m**	**Purchases £m**	**Sales £m**	**Transfer to held for sale £m**	**Settled £m**	**Issued £m**	**Transfers into level 3 £m**	**Transfers out of level 3 £m**	**At 31 Dec £m**
Investment property	**18,003**	**(859)**	**32**	**2,333**	**(224)**	**(149)**	**—**	**—**	**—**	**—**	**19,136**
Loans	**3,281**	**147**	**—**	**120**	**(207)**	**—**	**(2)**	**—**	**—**	**—**	**3,339**
Equity securities and portfolio holdings in unit trusts	**6,952**	**262**	**(47)**	**1,558**	**(1,022)**	**—**	**(7)**	**—**	**465**	**—**	**8,161**
Debt securities	**12,192**	**693**	**(16)**	**689**	**(1,467)**	**—**	**—**	**33**	**35**	**(944)**	**11,215**
Total level 3 assets	**40,428**	**243**	**(31)**	**4,700**	**(2,920)**	**(149)**	**(9)**	**33**	**500**	**(944)**	**41,851**
Level 3 liabilities:											
Third-party interest in consolidated funds	**1,028**	**(59)**	**—**	**—**	**—**	**—**	**(142)**	**308**	**—**	**—**	**1,135**
Borrowings and subordinated liabilities	**1,606**	**—**	**—**	**—**	**—**	**—**	**(184)**	**—**	**—**	**—**	**1,422**
Other liabilities	**355**	**41**	**—**	**—**	**—**	**—**	**(6)**	**—**	**—**	**—**	**390**
Total level 3 liabilities	**2,989**	**(18)**	**—**	**—**	**—**	**—**	**(332)**	**308**	**—**	**—**	**2,947**

33 Fair value methodology (continued)

33.8 Gains and losses in respect of level 3 assets and liabilities

Of the total gains and losses recognised in the consolidated income statement in respect of assets and liabilities classified as level 3 for the year ended 31 December 2019, £276m related to unrealised losses on assets and liabilities classified as level 3 which were still held as at 31 December. The unrealised gains can be further analysed as follows:

	For the year ended 31 December 2019 £m
Investment property	**(857)**
Loans	**147**
Equity securities and pooled investment funds	**282**
Debt securities	**711**
Third-party interest in consolidated funds	**(48)**
Subordinated liabilities and other borrowings	**—**
Other financial liabilities	**41**
Total	**276**

33.9 Sensitivity of the fair value of level 3 instruments to changes in significant inputs

Where possible, the Group assesses the sensitivity of the fair values of level 3 assets to reasonable possible changes in significant unobservable inputs.

33.9.1 Investment property

As at 31 December 2019, the Group held £19,136m (2018: £18,003m) of investment property, excluding investment property held for sale, which is all held at fair value and is classified as level 3 in the fair value hierarchy. For £17,389m (2018: £16,548m) of these properties, the most significant unobservable inputs in determining the fair value are the equivalent yield and estimated rental value.

The sensitivity of the fair value of these properties to these inputs is presented below:

		As at 31 December	
Unobservable input	**Sensitivity**	**2019 Change in fair value £m**	2018 Change in fair value £m
Equivalent yield	Decrease by 50bps	**2,110**	1,867
	Increase by 50bps	**(2,425)**	(1,461)
Estimated rental value	Decrease by 10%	**(1,334)**	(1,294)
	Increase by 10%	**1,427**	1,379

As at 31 December 2019, investment property also included property under development and other properties amounting to £1,747m (2018: £1,455m) for which the above approach for assessing the sensitivity is not considered to be appropriate. For such properties, the Group has determined that the unobservable input is the fair value itself, therefore, sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase/decrease of 10% would result in the fair value increasing/decreasing by £175m (2018: £146m).

33 Fair value methodology (continued)

33.9 Sensitivity of the fair value of level 3 instruments to changes in significant inputs (continued)

33.9.2 Loans held at fair value

As at 31 December 2019, the Group held £3,339m (2018: £3,281m) of loans held at fair value, which were all classified as level 3 in the fair value hierarchy. Of these loans, £1,737m (2018: £1,579m) were equity release mortgage loans ("ERMs"). The ERMs have a no-negative equity guarantee ("NNEG") that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against.

The ERMs are valued using a discounted cash flow model. Future cashflows are estimated based on assumptions, including prepayment, death and entry into long-term care, and discounted using an appropriate discount rate. The NNEG is based on a Black-Scholes option pricing valuation, using assumptions including the current property value, future property growth and property rental yields, and is recognised as a deduction to the value of the loan.

The most significant unobservable inputs relate to the discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yield, with the following sensitivities:

(i) An increase of 50bps in the discount rate would decrease the fair value of the loans by £153m (2018: decrease of £155m) and a decrease of 50bps would increase the fair value by £171m (2018: increase of £171m).

(ii) An increase of 10% in the current property value would increase the fair value of the loans by £48m (2018: increase of £51m). A decrease of 10% in the current property value would decrease the fair value of the loans by £57m (2018: decrease of £61m).

(iii) An increase of 100bps in the assumed future annual property growth rate would increase the fair value of the loans by £151m (2018: increase of £174m). A decrease of 100bps in the assumed future annual property growth rate would decrease the fair value of the loans by £213m (2018: decrease of £245m).

(iv) An increase of 100bps in the assumed future annual property rental yield would decrease the fair value of the loans by £94m (2018: decrease of £103m). A decrease of 100bps in the assumed future annual property rental yield would increase the fair value of the loans by £91m (2018: increase of £101m).

As at 31 December 2019, in addition to the ERMs, the Group also held other mortgage and retail loans at fair value amounting to £1,602m (2018: £1,702m) which are valued using broker quotes received from an external pricing service. For such loans, the Group has determined that the unobservable input is the fair value itself, therefore, sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase/decrease of 10% in the fair value of these loans would result in a fair value increase/decrease of £160m (2018: £170m).

33.9.3 Other financial assets

As at 31 December 2019, the Group also held £19,376m (2018: £19,144m) of investments in debt and equity instruments which are classified as level 3 in the fair value hierarchy.

33.9.3.1 Equity securities and pooled investment funds

As at 31 December 2019, the Group held £8,161m (2018: £6,952m) of equity and pooled investment fund investments classified as level 3 in the fair value hierarchy. These investments predominantly comprise interests in partnerships, venture capital funds and private equity funds as well as unlisted property investment vehicles.

Of these investments, £7,993m (2018: £6,760m) is valued using net asset statements. A 10% increase in the net asset value of these investments would increase the fair value of the investments by £799m (2018: increase of £676m); a decrease of 10% would have an equal, but opposite, effect.

The remaining £168m (2018: £192m) related to equity investments held by the Group's consolidated private equity infrastructure funds which are further described below.

33.9.3.2 Infrastructure fund investments

As at 31 December 2019, £357m (2018: £382m) of other financial assets related to debt and equity investments held by the Group's consolidated private equity infrastructure funds which are classified as level 3 in the fair value hierarchy. These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2018). The methodology applied is a discounted cash flow approach using future expected cash flows. These cash flows include dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

The most significant inputs to the valuations are the forecast cash flows of the underlying business, discount rate and terminal value assumption, all of which involve significant judgement. Valuations are also benchmarked against comparable infrastructure transactions. An increase in the discount rate applied of 10% decreases the valuation of these investments by £43m (2018: decrease of £44m). A decrease in the discount rate applied of 10% increases the valuation of these asset by £52m (2-18: increase of £53m). An increase in the terminal multiple value of 10% would increase the value of the assets by £7m (2018: increase of £6m) and a decrease in the terminal multiple value of 10% would decrease the value by £7m (2018: decrease of £7m).

33 Fair value methodology (continued)

33.9 Sensitivity of the fair value of level 3 instruments to changes in significant inputs (continued)

33.9.3.3 Debt securities

As at 31 December 2019, the Group held £11,215m (2018: £12,192m) of debt securities classified as level 3 in the fair value hierarchy. These investments mainly comprise investments in private placement loans, income strips and unquoted corporate bonds. In addition, the Group's consolidated private equity infrastructure funds held £189m (2018: £190m) of debt securities classified as level 3 as described above.

As at 31 December 2019, the Group held £8,868m (2018: £9,019m) of private placement loans which are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a credit spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the discount rate applied. An increase of 85bps in the discount rate would decrease the fair value of the private placement loans by £690m (2018: decrease of £943m) and a decrease of 85bps would increase the fair value by £947m (2018: increase of £1,284m).

Also included within debt securities classified as level 3 in the fair value hierarchy as at 31 December 2019 are income strips with a fair value of £378m (2018: £325m). The income strips are valued using a discounted cash flow model where the discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the discount rate applied. An increase of 50bps in the discount rate used would decrease the fair value of the income strips by £38m (2018: decrease of £30m) and a decrease of 50bps would increase the fair value of the income strips by £47m (2018: increase of £36m).

As at 31 December 2019, the remaining £1,780m (2018: £2,658m) of debt securities classified as level 3 in the fair value hierarchy are unquoted corporate bonds which are valued using valuation techniques including broker quotes, enterprise valuation and estimated recovery (such as liquidators' reports). For such instruments, the Group has determined that the unobservable input is the fair value itself, therefore, sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase/decrease of 10% would result in the fair value of these bonds increasing/decreasing by £178m (2018: £266m).

33.10 Fair value of assets and liabilities at amortised cost

The tables below show the assets and liabilities carried at amortised cost on the statement of financial position for which fair value is disclosed. The assets and liabilities that are carried at amortised cost, where the carrying value approximates the fair value, are excluded from the analysis below:

	As at 31 December 2019				
	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Assets:					
Loans	**—**	**773**	**1,934**	**2,707**	**2,615**
Liabilities:					
Subordinated liabilities and other borrowings	**—**	**5,902**	**85**	**5,987**	**6,077**

	As at 31 December 2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Assets:					
Loans	—	546	2,151	2,697	2,628
Liabilities:					
Subordinated liabilities and other borrowings	—	2,407	73	2,480	2,479

The estimated fair value of subordinated liabilities are based on the quoted market offer price. The fair value of the other assets and liabilities in the tables above have been estimated from the discounted cash flows expected to be received or paid. Where appropriate, an observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities.

34 Risk management and sensitivity analysis

34.1 Risk overview

The Group's business involves the acceptance and management of risk. The Group's risk management process is governed by the Group Risk Framework ("GRF"). The GRF has been designed to identify, assess, measure, manage, monitor and report on the principal risks of the Group. Risk management is designed to increase the Group's understanding of the risks inherent in the business, improve decision-making and prevent the Group from failing to achieve its business objectives, including delivery of fair customer outcomes.

The GRF is codified through risk policies and business standards which set out the management framework for key risk types, including risk appetite, and minimum standards for the Group's operations. To ensure completeness and consistency when comparing risk information across the Group, a common methodology for categorising risk has been adopted.

Risk appetite is the amount and type of risk that is acceptable to the Group, as determined by the Board, and is a function of the Group's strategic and business objectives and its capital resources. Risk appetite therefore refers to the Group's attitude towards risk-taking and whether it is willing and able to tolerate either a high or a low level of specific risks or risk groups. As a result, risk appetite has a central role in informing decision-making across the Group and assisting in the optimisation of return on capital invested.

A number of risk factors affect the Group's results and financial position. The financial risk categories affecting the Group's financial instruments and insurance assets and liabilities are set out below:

Risk type	Definition
Market risk	The risk of loss or adverse change in the financial situation of the business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients, 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, such as downgrade or spread widening.
Demographic risk	The risk of loss for the Group, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of a number of demographic risk drivers. These include: – Mortality/longevity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse mortality and/or longevity experience compared to that estimated within pricing, underwriting and valuation. – Morbidity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse morbidity experience compared to that estimated within pricing, underwriting and valuation. – Persistency risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from an adverse persistency experience compared to that estimated within pricing and valuation.
Expense and margin pricing risk	The risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse experience in expenses other than those estimated within pricing and valuation when considering insurance contracts or funds under management.
Liquidity risk	Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (for example, claims, creditors and planned dividends) as they fall due. Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

The Group's exposure to risks arising from financial instruments and insurance assets and liabilities is different for each component of the Group's business. The Group's consolidated statement of financial position is presented on the following page for the different components of business.

34 Risk management and sensitivity analysis (continued)

34.1 Risk overview (continued)

Analysis of segmented statement of financial position by business type

		Shareholder-backed funds			
As at 31 December 2019	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangibles	248	—	38	1,153	1,439
Deferred acquisition costs	—	—	88	16	104
Investment in joint ventures and associates accounted for using the equity method	486	—	—	38	524
Property, plant and equipment	1,139	—	41	325	1,505
Investment property	17,039	453	1,644	—	19,136
Defined benefit pension asset	29	—	—	48	77
Deferred tax assets	1	—	24	53	78
Reinsurance assets	26	116	11,816	—	11,958
Loans	3,709	—	2,245	—	5,954
Derivative assets	3,292	6	603	61	3,962
Equity securities and pooled investment funds	57,905	14,307	29	147	72,388
Deposits	11,930	1,311	980	—	14,221
Debt securities	55,351	8,290	20,378	1,415	85,434
Current tax assets	176	—	157	42	375
Accrued investment income and other debtors	1,565	533	508	317	2,923
Assets held for sale	31	—	—	88	119
Cash and cash equivalents	4,056	198	819	973	6,046
Total assets	**156,983**	**25,214**	**39,370**	**4,676**	**226,243**
Liabilities:					
Insurance contract liabilities	42,717	5,396	30,367	—	78,480
Investment contract liabilities with discretionary participation features	78,022	—	26	—	78,048
Investment contract liabilities without discretionary participation features	3	15,598	50	—	15,651
Unallocated surplus of the With-Profits Fund	16,072	—	—	—	16,072
Third-party interest in consolidated funds	7,763	3,816	27	37	11,643
Subordinated liabilities and other borrowings	3,602	4	126	3,767	7,499
Defined benefit pension liability	11	—	17	—	28
Deferred tax liabilities	957	—	108	—	1,065
Current tax liabilities	45	42	173	38	298
Derivative liabilities	687	1	1,135	381	2,204
Lease liabilities	49	—	10	301	360
Other financial liabilities	3,158	—	159	200	3,517
Provisions	—	—	161	165	326
Accruals, deferred income and other liabilities	3,897	357	1,458	209	5,921
Liabilities held for sale	—	—	—	—	—
Total liabilities	**156,983**	**25,214**	**33,817**	**5,098**	**221,112**
Total equity					**5,131**
Total equity and liabilities					**226,243**

34 Risk management and sensitivity analysis (continued)

34.1 Risk overview (continued)

Analysis of segmented statement of financial position by business type (continued)

		Shareholder-backed funds			
As at 31 December 2018	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangibles	285	—	8	1,153	1,446
Deferred acquisition costs	—	—	87	18	105
Investment in joint ventures and associates accounted for using the equity method	672	—	—	37	709
Property, plant and equipment	870	—	19	378	1,267
Investment property	15,725	618	1,660	—	18,003
Defined benefit pension asset	162	—	—	—	162
Deferred tax assets	2	—	20	2	24
Reinsurance assets	1,130	115	1,567	—	2,812
Loans	3,852	—	2,057	—	5,909
Derivative assets	1,957	1	555	111	2,624
Equity securities and pooled investment funds	47,839	12,679	63	231	60,812
Deposits	10,117	1,138	765	—	12,020
Debt securities	53,799	10,512	21,645	1,884	87,840
Current tax assets	58	6	167	11	242
Accrued investment income and other debtors	1,721	499	1,015	1,159	4,394
Assets held for sale	36	—	10,785	—	10,821
Cash and cash equivalents	3,520	190	670	2,183	6,563
Total assets	**141,745**	**25,758**	**41,083**	**7,167**	**215,753**
Liabilities:					
Insurance contract liabilities	43,775	5,219	20,304	—	69,298
Investment contract liabilities with discretionary participation features	67,018	—	20	—	67,038
Investment contract liabilities without discretionary participation features	2	15,498	60	—	15,560
Unallocated surplus of the With-Profits Fund	13,433	—	—	—	13,433
Third-party interest in consolidated funds	4,678	4,684	21	—	9,383
Subordinated liabilities and other borrowings	3,948	4	71	62	4,085
Defined benefit pension liability	32	—	48	93	173
Deferred tax liabilities	832	—	130	—	962
Current tax liabilities	28	—	189	38	255
Derivative liabilities	1,265	3	940	979	3,187
Lease liabilities	21	—	11	284	316
Other financial liabilities	2,367	—	225	—	2,592
Provisions	—	—	377	135	512
Accruals, deferred income and other liabilities	4,346	350	1,256	3,346	9,298
Liabilities held for sale	—	—	10,727	—	10,727
Total liabilities	**141,745**	**25,758**	**34,379**	**4,937**	**206,819**
Total equity					**8,934**
Total equity and liabilities					**215,753**

Financial information

34 Risk management and sensitivity analysis (continued)

34.1 Risk overview (continued)

The financial assets and liabilities attaching to the Group's business are, to varying degrees, subject to the risks described previously and these risks may have a material effect on profit or loss and shareholders' equity. This is discussed below by component of business.

34.1.1 With-profits business

The with-profits consolidated statement of financial position includes the SAIF which, as at 31 December 2019, had total assets and liabilities of £4,865m (2018: £4,844m), and also assets and liabilities in respect of the DCPSF. The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). As at 31 December 2019, the WPSF included £10,061m (2018: £9,533m) of non-profit annuity liabilities.

WPSF

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is only sensitive to market and credit risk through the indirect effect of investment performance on declared policyholder bonuses. The investment assets of the With-Profits Fund are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS 4, movements in its value do not affect shareholders' profit and equity, so the shareholder is not directly exposed to changes in the assets and liabilities within the With-Profits Fund.

The shareholder results of the WPSF are currently one-ninth of the cost of bonuses declared to with-profits policyholders. For certain with-profits contracts, such as those invested in the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the 'smoothed' basis of bonus declaration, the sensitivity to short-term investment performance and other insurance risks is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, and this is described in Note 34.7.1.

DCPSF

The DCPSF is shown as part of the with-profits consolidated statement of financial position. For similar reasons to those described in relation to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges incurred on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

SAIF

SAIF is a ring-fenced fund, shown as part of the with-profits consolidated statement of financial position, in which, apart from asset management fees, shareholders have no entitlement to the profits of the fund. Accordingly, the Group's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities.

34.1.2 Unit-linked business

Unit-linked business represents a comparatively small proportion of the in-force business of the Group's insurance operations. Due to policyholder liabilities moving in line with attaching asset value movements, the shareholders' exposure to the unit-linked business is not directly affected by market or credit risk. Profits from unit-linked contracts primarily arise from the excess of charges to policyholders for management of assets over expenses incurred. The charges received are most sensitive to the movement in funds under management due to investment performance, as well as lapse and timing of death. The accounting impact of the expenses incurred is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profit is relatively insensitive to changes in mortality experience. Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

In the consolidated statement of financial position, the unit-linked business is shown as having no contribution to shareholders' equity. This is because the surplus assets of the unit-linked business have been allocated to the 'annuity and other long-term business' component for presentation purposes as they are pooled with the surplus assets of this business. Despite this presentation, shareholders are exposed to the risks arising from unit-linked business as described above.

34 Risk management and sensitivity analysis (continued)

34.1 Risk overview (continued)

34.1.3 Annuity and other long-term business

The Group's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with covering assets of an appropriate duration. The level of matching from year to year can vary depending on management actions and economic factors and therefore it is possible for a degree of mismatching exposure to arise. Aside from the extent of any asset/liability duration mismatch, the sensitivity to market risk arising from movements in the value of annuity liabilities net of covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk, as there are no offsetting liabilities. These assets are primarily debt securities.

Shareholders are directly exposed to credit risk (asset default, downgrade and spread widening) arising on the assets held within the shareholder-backed funds, and the corresponding impact on the measurement of the liabilities.

The shareholder-backed annuity results are particularly sensitive to changes in assumptions about future mortality improvements which impact the measurement of the liabilities, and also to the variance between actual and expected mortality experience each year. The results are also sensitive to changes in expense levels over the longer term.

The assets and liabilities of the other long-term business, which includes legacy protection business, are not significant in the context of the Group's financial assets and liabilities and therefore do not contribute significantly to the Group's risk exposure.

34.1.4 Other

This includes the financial assets and liabilities of the Group's asset management business and other Group-level functions, including, central and treasury operations. The Group is exposed to market and credit risk in respect of financial assets held by the 'Other' business component, although this direct exposure to market and credit risk is not significant to the results of the Group.

The ongoing profit arising from the asset management business is exposed to the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and property will affect income earned from investment management activities. The profit arising from this business is also sensitive to the level of net client flows, and also to the level of expenses.

34.2 IFRS profit after tax sensitivity analysis

The sensitivity of IFRS profit after tax to the key economic and non-economic risks which may impact profit is summarised below. These risks are described in further detail throughout this note, including the disclosure of additional market risk sensitivities.

Impact on IFRS profit after tax and shareholders' equity	Note	As at 31 December 2019 £m	As at 31 December 2018 £m
Economic sensitivities			
100bps increase in interest rates	34.3.1	**(718)**	(820)
100bps decrease in interest rates	34.3.1	**826**	956
10% fall in equity and property markets (excluding hedges)	34.3.2	**(139)**	(143)
10% fall in equity and property markets	34.3.2	**(9)**	(17)
5bps increase in credit default/downgrade allowance	34.4	**(82)**	(81)
Non-economic sensitivities			
1% decrease in base annuitant mortality assumptions	34.5	**(31)**	(34)
5% increase in maintenance expense assumptions	34.5	**(21)**	(25)

The sensitivities capture the immediate effects of an event occurring, as opposed to the longer-term or second-order effects which may impact future profits, and do not reflect management actions which could be taken to mitigate the impacts of these events occurring.

The interest rate stresses reflect a parallel shift in the nominal rate of interest at all durations. As described in Note 34.3.1, the impact on IFRS profit after tax predominantly arises from assets held in excess of the liabilities.

The equity and property sensitivities are presented both excluding and including the equity hedges relating to future shareholder transfers. As the majority of the hedges are in respect of shareholder transfers expected to arise in future years, which do not impact IFRS profit after tax until these emerge, the fair value movement in these hedges creates a temporary mismatch within IFRS profit after tax. The presentation of this sensitivity, excluding the impact of these hedges, is the view that management believes gives the most appropriate representation of the Group's risk exposure to equity and property risk, which in the short term primarily arises from investment property exposure.

The credit default/downgrade sensitivity represents a 5bps increase in the assumed level of defaults and downgrades allowed for within the valuation interest rate when valuing policyholder liabilities in respect of non-profit annuity business.

The annuitant mortality sensitivity is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to mortality improvement rates, for the Group's non-profit annuity business.

The maintenance expense sensitivity is a 5% increase in future maintenance expense assumptions across all lines of business.

34 Risk management and sensitivity analysis (continued)

34.2 IFRS profit after tax sensitivity analysis (continued)

The credit default/downgrade allowance, annuitant mortality and maintenance expense sensitivities show the impact on IFRS profit after tax of changes in the Group's key estimates and assumptions when valuing policyholder liabilities as described in Note 1.4 and Note 27.1. The impact of this sensitivity on IFRS profit after tax is directly through a change in the policyholder liabilities. However, for business written in the Group's With-Profits Fund, the change in the policyholder liabilities is directly offset by a corresponding change in unallocated surplus of the With-Profits Fund and therefore has no impact on IFRS profit after tax.

34.3 Market risk

Market risk is the risk of loss or adverse change in the financial situation of the Group's business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

Market risk comprises six types of risk, namely:

- Interest rate risk: fluctuations in the level and volatility of interest rates or the shape or curvature of the yield curve or spread relationships
- Inflation risk: fluctuations in actual or implied inflation rates
- Equity risk: fluctuations in the level or volatility of equity investments
- Property risk: fluctuations in the level or volatility of property investments
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures
- Alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above).

The primary market risks that the Group faces are equity risk, property risk and interest rate risk because most assets are investments that are either equity or property-type investments and subject to equity or property price risk, or bonds, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. The amount of risk borne by the Group's shareholders depends on the extent to which its customers share the investment risk through the structure of the Group's products. In particular, the shareholder is only directly exposed to market risk on the assets held within the 'annuities and other long-term business' and 'other' components of the statement of financial position, which are predominantly debt securities and investment properties in respect of the annuity funds.

The split of the Group's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Group has available. This mix of liabilities allows the Group to invest a substantial portion of its investment funds in equity and property investments that the Group believes produce greater returns over the long term.

34.3.1 Interest rate risk and inflation risk

The majority of the Group's interest rate exposure arises from shareholder-backed annuities. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The level of matching from year to year can vary depending on management actions and economic factors, and therefore it is possible for a degree of mismatching exposure to arise. In addition, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in an exposure to interest rate risk, as there are no offsetting liabilities.

The assets and liabilities for the with-profits business component are sensitive to interest rates, but the shareholder is not directly exposed to movements in these assets and liabilities.

The liabilities for the unit-linked business component are sensitive to interest rates, but as these move in line with the underlying assets there is no direct exposure for the shareholder.

The estimated sensitivity of profit to a movement in interest rates of 1% and 2% are as follows. The majority of this impact arises from the shareholder-backed annuities. These results do not included the 'other' component, but the exposure to interest rate risk from this component is not significant in the context of the Group.

The impact of the carrying value of assets, policyholder liabilities and deferred tax effects are in respect of the shareholder-backed business only.

	As at 31 December 2019			
	Decrease of 2% £m	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	7,027	3,150	(2,663)	(4,971)
Policyholder liabilities	(4,765)	(2,155)	1,798	3,312
Related deferred tax effects	(385)	(169)	147	282
Net sensitivity of profit after tax and shareholders' equity	**1,877**	**826**	**(718)**	**(1,377)**

34 Risk management and sensitivity analysis (continued)

34.3 Market risk (continued)

	As at 31 December 2018			
	Decrease of 2% £m	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	7,369	3,317	(2,792)	(5,193)
Policyholder liabilities	(4,784)	(2,162)	1,801	3,317
Related deferred tax effects	(446)	(199)	171	323
Net sensitivity of profit after tax and shareholders' equity	2,139	956	(820)	(1,553)

Inflation risk primarily arises from certain annuity contracts that have benefit escalation linked to a price index. The Group manages this exposure by matching inflation-linked annuity liabilities with corresponding inflation-linked assets.

34.3.2 Equity and property risk

While the Group holds significant amounts of equity and property assets on its consolidated statement of financial position, the direct exposure to equity and property risk for the with-profits and unit-linked business is minimal. Instead, the Group's direct exposure to this risk arises from the 'annuities and other long-term business' component's holdings in equity securities and property, which are not hedged or matched by corresponding liabilities.

Excluding any longer-term, indirect effects on profit due to the impact of policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business, a fall in the fair value of these investments would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity. These results exclude the impact from the 'other' component of business, but the direct exposure on the consolidated statement of financial position from this business is not significant in the context of the Group. The majority of the sensitivity arises in respect of investment property assets held in the annuity funds.

	For the year ended 31 December			
	2019		2018	
	Decrease of 20% £m	**Decrease of 10% £m**	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	**(334)**	**(167)**	(344)	(172)
Related deferred tax effects	**57**	**28**	59	29
Net sensitivity of profit after tax and shareholders' equity	**(277)**	**(139)**	(285)	(143)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20% fall in equity markets. If equity markets were to fall by more than 20%, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time, during which the Group would be able to put in place mitigating management actions.

As noted above, the analysis excludes the indirect exposure of ongoing profit to equity and property risk through the impact on policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business. For with-profits business, the impact of market risk is reduced due to the 'smoothed' basis of bonus declaration, so the sensitivity to short-term investment performance is relatively low. However, long-term investment performance may affect future shareholder transfers. The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The impact of these equity hedges is not allowed for in the above sensitivities, as the offsetting impact from the shareholder transfers occurs over the longer term. This presentation of the equity/property sensitivity is the view which management believes gives the most appropriate representation of the Group's risk exposure.

The impact of the sensitivities allowing for the equity hedges is shown below.

	For the year ended 31 December			
	2019		2018	
	Decrease of 20% £m	**Decrease of 10% £m**	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	**(14)**	**(11)**	(38)	(20)
Related deferred tax effects	**2**	**2**	6	3
Net sensitivity of profit after tax and shareholders' equity	**(12)**	**(9)**	(32)	(17)

34 Risk management and sensitivity analysis (continued)

34.3 Market risk (continued)

34.3.3 Currency risk

The Group invests significant amounts of policyholder funds in overseas assets as part of its investment strategy. The direct currency risk exposure to the shareholder from the with-profits and unit-linked business components is minimal. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity and other long-term business is mitigated through the use of derivatives.

As at 31 December 2019, the Group held 40% (2018: 38%) and 7% (2018: 9%) of its financial assets and financial liabilities respectively, in currencies, mainly US Dollar and Euro, other than pounds Sterling, the functional currency of the Group.

Of these financial assets, as at 31 December 2019, 90% (2018: 85%) are held by the With-Profits Fund, allowing the fund to obtain exposure to foreign equity markets. Of these financial liabilities, as at 31 December 2019, 64% (2018: 61%) are held by the With-Profits Fund, mainly relating to foreign currency borrowings. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

For the year ended 31 December 2019, exchange losses of £168m (2018: gains of £70m) were recognised in the income statement; mainly arising on investments of the With-Profits Fund. This excludes exchange gains and losses arising on financial instruments measured at FVTPL which are included as part of investment return, which is shown in Note 4. The majority of this movement is offset by changes in with-profits and unit-linked liabilities, and changes in the fair value of derivatives attributable to foreign exchange rates recognised in the income statement.

The Group is also exposed to structural currency translation risk as a result of overseas operations which contribute to equity. The assets and liabilities of foreign operations are translated into the Group's presentational currency, pounds Sterling. Foreign exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

34.4 Credit risk

The Group's exposure to credit risk primarily arises from the annuity funds, which hold large amounts of investments on which a certain level of defaults and downgrades are expected. The sensitivity of IFRS profit after tax and IFRS shareholders' equity to a change in the credit default and downgrade allowance within the valuation rate of interest of shareholder-backed non-profit annuities is shown in Note 34.2.

While the with-profits and unit-linked funds have large holdings of assets subject to credit risk, the shareholder results of the Group are not directly exposed to credit defaults on assets held in these components. The direct exposure of the Group's shareholders' equity to credit default risk in the 'Other' component is small in the context of the Group. However, the shareholder is indirectly exposed to credit risk on these components through lower shareholder transfers in respect of the with-profits business and lower charges levied in respect of the 'unit-linked' and 'other' components of the business.

34.4.1 Debt securities

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

As at 31 December 2019	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
With-profits	**5,672**	**9,002**	**12,634**	**15,256**	**2,211**	**10,576**	**55,351**
Unit-linked	**787**	**2,039**	**1,572**	**2,653**	**742**	**497**	**8,290**
Annuity and other long-term business	**2,548**	**5,404**	**3,989**	**1,811**	**85**	**6,541**	**20,378**
Other	**243**	**1,035**	**105**	**13**	**9**	**10**	**1,415**
Total debt securities	**9,250**	**17,480**	**18,300**	**19,733**	**3,047**	**17,624**	**85,434**

As at 31 December 2018	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
With-profits	6,890	9,332	11,779	14,712	2,892	8,194	53,799
Unit-linked	1,041	2,459	2,215	3,502	395	900	10,512
Annuity and other long-term business	3,007	6,413	4,651	1,514	158	5,902	21,645
Other	618	1,089	148	29	—	—	1,884
Total debt securities	11,556	19,293	18,793	19,757	3,445	14,996	87,840

34 Risk management and sensitivity analysis (continued)

34.4 Credit risk (continued)

The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch Solutions and their respective affiliates and suppliers ("Content Providers") is referred to here as the "Content". Reproduction of any content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

In the table above, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as below BBB. Debt securities with no external credit rating are classified as 'Other'.

Securities with credit ratings classified as 'Other' can be further analysed as follows:

	As at 31 December	
	2019	2018
	£m	£m
Internal ratings or unrated:		
AAA to A-	**9,165**	8,148
BBB to B-	**2,907**	3,034
Below B- or unrated	**5,552**	3,814
Total	**17,624**	14,996

Of these, securities amounting to £106m (2018: £124m) would be considered non-investment grade.

Excluded from the table above is £5,127m (2018: £7,116m) of assets backing unit-linked and index-linked contracts which are included within assets held to cover linked liabilities. The holders of these contracts bear the credit risk arising from these assets.

Asset-backed securities

The Group has holdings in asset-backed securities ("ABS") which are presented within debt securities on the consolidated statement of financial position. The Group's holdings in ABS, which comprise residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), collateralised debt obligations ("CDO") funds and other asset-backed securities were as follows:

	As at 31 December	
	2019	2018
	£m	£m
With-Profits Fund	**3,960**	5,270
Shareholder-backed funds	**1,167**	1,846
Total	**5,127**	7,116

The majority of holdings in the shareholder-backed funds are UK securities and relate to the Group's annuity business. Of the holdings of the With-Profits Fund as at 31 December 2019, £332m (2018: £1,823m) related to exposure to the US markets with the remaining exposure being primarily to the UK market.

34 Risk management and sensitivity analysis (continued)

34.4 Credit risk (continued)

Sovereign debt exposure

The Group exposures held by the With-Profits Fund and shareholder-backed funds in sovereign debt are analysed as follows:

	As at 31 December			
	2019		2018	
	With-Profits Fund £m	Shareholder-backed funds £m	With-Profits Fund £m	Shareholder-backed funds £m
Italy	60	—	57	—
Spain	19	47	18	36
France	—	21	50	—
Germany	226	188	281	239
Other Eurozone	70	—	34	103
Total Eurozone	375	256	440	378
United Kingdom	2,194	3,003	3,012	3,205
United States	1,788	—	1,261	—
Other	170	157	199	56
Total	4,527	3,416	4,912	3,639

Exposure to bank debt securities

The exposure to bank debt securities is shown below by type of debt and also by economy. Subordinated debt is a fixed interest debt that ranks below other debt in order of priority for repayment if the issuer is liquidated.

Holders are compensated for the added risk through higher rates of interest. The senior debt ranks above subordinated debt in the event of liquidation, whereas covered senior debt is also backed by other assets in the event of insolvency. These debt tier classifications are consistent with the treatment of capital for regulatory purposes.

	Senior debt			Subordinated debt			
As at 31 December 2019	Covered £m	Senior £m	Total senior debt £m	Tier 1 £m	Tier 2 £m	Total subordinated debt £m	Total £m
With-Profits Fund							
Italy	—	39	39	—	—	—	39
Spain	—	38	38	—	—	—	38
France	6	342	348	—	59	59	407
Germany	94	79	173	—	—	—	173
Netherlands	—	293	293	—	8	8	301
Other Eurozone	—	82	82	—	—	—	82
Total Eurozone	100	873	973	—	67	67	1,040
United Kingdom	996	808	1,804	16	302	318	2,122
United States	—	2,644	2,644	16	382	398	3,042
Canada	318	262	580	—	—	—	580
Australia	87	219	306	—	—	—	306
Norway	104	11	115	—	—	—	115
Sweden	72	105	177	—	—	—	177
Switzerland	—	171	171	15	—	15	186
Other	—	269	269	—	—	—	269
Total	1,677	5,362	7,039	47	751	798	7,837

34 Risk management and sensitivity analysis (continued)

34.4 Credit risk (continued)

As at 31 December 2019	Senior debt			Subordinated debt			
	Covered £m	Senior £m	Total senior debt £m	Tier 1 £m	Tier 2 £m	Total subordinated debt £m	Total £m
Shareholder-backed funds							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	16	16	32	—	—	—	32
Germany	3	—	3	—	83	83	86
Netherlands	—	23	23	—	—	—	23
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	19	39	58	—	83	83	141
United Kingdom	420	229	649	—	69	69	718
United States	—	230	230	—	30	30	260
Canada	—	—	—	—	—	—	—
Australia	—	—	—	—	—	—	—
Norway	—	—	—	—	—	—	—
Sweden	—	—	—	—	—	—	—
Switzerland	—	—	—	—	36	36	36
Other	—	10	10	—	—	—	10
Total	439	508	947	—	218	218	1,165

As at 31 December 2018	Senior debt			Subordinated debt			
	Covered £m	Senior £m	Total senior debt £m	Tier 1 £m	Tier 2 £m	Total subordinated debt £m	Total £m
With-Profits Fund							
Italy	—	38	38	—	—	—	38
Spain	—	17	17	—	—	—	17
France	6	247	253	—	95	95	348
Germany	140	46	186	—	—	—	186
Netherlands	—	248	248	—	1	1	249
Other Eurozone	—	74	74	—	—	—	74
Total Eurozone	**146**	**670**	**816**	**—**	**96**	**96**	**912**
United Kingdom	909	825	1,734	35	329	364	2,098
United States	—	2,398	2,398	16	295	311	2,709
Canada	314	267	581	—	—	—	581
Australia	65	238	303	—	—	—	303
Norway	127	9	136	—	—	—	136
Sweden	70	125	195	—	—	—	195
Switzerland	—	201	201	13	25	38	239
Other	—	265	265	—	—	—	265
Total	**1,631**	**4,998**	**6,629**	**64**	**745**	**809**	**7,438**

34 Risk management and sensitivity analysis (continued)

34.4 Credit risk (continued)

	Senior debt			Subordinated debt			
As at 31 December 2018	Covered £m	Senior £m	Total senior debt £m	Tier 1 £m	Tier 2 £m	Total subordinated debt £m	Total £m
Shareholder-backed funds							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	20	—	20	—	—	—	20
Germany	30	—	30	—	83	83	113
Netherlands	—	17	17	—	—	—	17
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	**50**	**17**	**67**	**—**	**83**	**83**	**150**
United Kingdom	592	168	760	—	63	63	823
United States	—	227	227	—	26	26	253
Canada	—	—	—	—	—	—	—
Australia	—	—	—	—	—	—	—
Norway	—	—	—	—	—	—	—
Sweden	—	6	6	—	—	—	6
Switzerland	—	—	—	—	34	34	34
Other	—	15	15	—	—	—	15
Total	**642**	**433**	**1,075**	**—**	**206**	**206**	**1,281**

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds, as the holders of these contracts bear the credit risk arising from these assets. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

34.4.2 Loans, receivables and reinsurance assets

Of the total loans and receivables held as at 31 December 2019, £1m (2018: £26m) were past their due date but were not impaired. Of the total past due but not impaired, all were less than one year past their due date. The Group expects full recovery of these loans and receivables.

Loans that were impaired are not significant to the Group. Further information on the loans portfolio is provided in Note 19.

The Group is also exposed to the risk of counterparty default on its reinsurance assets. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimise its exposure from reinsurer insolvencies. The split of the reinsurance asset by credit rating is shown below. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

	As at 31 December	
	2019 £m	2018 £m
AA	**305**	596
A	**—**	11
A-	**—**	—
BBB	**11,379**	1,086
Unrated	**274**	1,119
Total	**11,958**	2,812

The reinsurance asset within the BBB rating category primarily consists of annuity business reinsured to Rothesay Life plc. This asset is fully collateralised with assets that must meet certain eligibility criteria and are held in a custody account. The reinsurance assets within the 'unrated' category as at 31 December 2018 relates almost entirely to a quota-share reinsurance arrangement between PAC and Prudential Hong Kong Limited, a subsidiary of Prudential plc, in respect of annuity business contained within the With-Profits Fund. This reinsurance arrangement was terminated during 2019 leading to a significant reduction in the unrated category as at 31 December 2019.

34 Risk management and sensitivity analysis (continued)

34.4 Credit risk (continued)

34.4.3 Derecognition, collateral and offsetting

Securities lending and repurchase agreements

The Group has entered into securities lending and repurchase agreements whereby blocks of securities are transferred to third parties, primarily major brokerage firms, in exchange for collateral. Typically, the value of collateral assets pledged to the Group in these transactions is in excess of the value of securities transferred, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The securities lent and securities subject to repurchase agreements are not derecognised from the Group's consolidated statement of financial position. Collateral typically consists of cash, debt securities, equity securities and letters of credit. Cash collateral received is recognised in the consolidated statement of financial position and a financial liability for the obligation for the Group to repay the cash is also recognised. Non-cash collateral received is not recognised in the consolidated statement of financial position. Collateral pledged by the Group under reverse repurchase arrangements, aside from cash, is not derecognised from the statement of financial position as the risks and rewards are still retained by the Group. Cash collateral pledged is derecognised as it is pledged under right to use by the counterparty and a financial asset is recognised for the obligation for the counterparty to re-pay the cash to the Group.

As at 31 December 2019, the Group had £6,892m (2018: £8,245m) of collateral pledged under securities lending and repurchase agreements, primarily relating to the WPSF. The cash and securities collateral accepted under securities lending agreements was £6,229m (2018: £7,457m). As at 31 December 2019, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £11,574m (2018: £10,634m).

Collateral and pledges under derivative transactions

At 31 December 2019, the Group had pledged £1,141m (2018: £1,927m) for liabilities and held collateral of £2,560m (2018: £1,407m) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

Other collateral

At 31 December 2019, the Group had pledged collateral of £488m (2018: £396m) in respect of other transactions. This primarily arises from deferred purchase consideration on lifetime (equity release) mortgages.

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending 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 that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the consolidated statement of financial position.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

		Related amounts not offset in the consolidated statement of financial position			
As at 31 December 2019	Gross amount included in the consolidated statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral £m	Net amount £m
Financial assets:					
Derivative assets	**3,691**	**(996)**	**(2,379)**	**(74)**	**242**
Reverse repurchase agreements	**12,931**	**—**	**—**	**(11,181)**	**1,750**
Total financial assets	**16,622**	**(996)**	**(2,379)**	**(11,255)**	**1,992**
Financial liabilities:					
Derivative liabilities	**1,461**	**(996)**	**(62)**	**(402)**	**1**
Securities lending and repurchase agreements	**915**	**—**	**—**	**(915)**	**—**
Total financial liabilities	**2,376**	**(996)**	**(62)**	**(1,317)**	**1**

Financial information

34 Risk management and sensitivity analysis (continued)

34.4 Credit risk (continued)

As at 31 December 2018	Gross amount included in the consolidated statement of financial position £m	Related amounts not offset in the consolidated statement of financial position: Financial instruments £m	Cash collateral £m	Securities collateral £m	Net amount £m
Financial assets:					
Derivative assets	2,576	(1,098)	(1,377)	(1)	100
Reverse repurchase agreements	12,849	—	—	(11,158)	1,691
Total financial assets	15,425	(1,098)	(1,377)	(11,159)	1,791
Financial liabilities:					
Derivative liabilities	2,917	(1,098)	(709)	(1,058)	52
Securities lending and repurchase agreements	1,224	—	—	(1,205)	19
Total financial liabilities	**4,141**	**(1,098)**	**(709)**	**(2,263)**	**71**

In the tables above, the amounts of assets or liabilities included in the consolidated statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements, with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than the amounts presented in the tables. Reverse repurchase agreements shown in the tables above are included within deposits on the consolidated statement of financial position.

34.5 Demographic and expense risk

The Group is exposed to significant levels of demographic risk. This arises mainly from the annuity business in the form of longevity risk, which is the risk that the Group's (current and deferred) annuity customers live longer than expected in the Group's current pricing and reserving assumptions, and as a result future reserving and capital assumptions are changed. If mortality improvement rates significantly exceed the improvement assumed, the Group's results could be adversely affected. Further to this, any major medical breakthrough (for example, in the treatment of cancer or other life-threatening diseases) that would require the Group to strengthen its longevity assumptions would have an impact on the Group's results.

Longevity risk for both shareholder-backed business and policyholder-backed business has been predominantly managed through:

- Annual reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus best estimate assumptions
- Longevity research
- Longevity risk transfer transactions, assessed against principles and guidance provided in the Reinsurance Appraisal Framework
- Regular monitoring of longevity exposure

Other demographic risks such as persistency risk, non-annuitant mortality risk, and also expense risk, are subject to regular reviews, with frequency and intensity proportionate to the materiality of the risk. Further details of the sensitivity of profit and shareholders' equity to insurance risk are described below by the components of business. The sensitivity of IFRS profit after tax and IFRS shareholders' equity to annuitant mortality and expense risk is provided in Note 34.2.

34.5.1 With-profits business

Mortality and other insurance risk are relatively minor factors in the determination of the policyholder bonus rates. Adverse persistency experience can affect the level of profitability from with-profits contracts, but in any given year the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

34.5.2 Unit-linked business

By virtue of the design features of most of the contracts which provide low levels of mortality cover, profit is relatively insensitive to changes in mortality experience. Persistency experience variances can affect the level of profit in the year. The shareholder is also exposed to variances in expenses relative to the charges levied on these products.

34.5.3 Annuity and other long-term business

Profits from shareholder-backed annuity business are most sensitive to the following insurance risks:

- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities
- The variance between actual and expected mortality experience, and its impact on current mortality assumptions
- Changes in maintenance expense levels.

The insurance risk arising from the other long-term business is not significant in the context of the Group's overall liabilities.

34 Risk management and sensitivity analysis (continued)

34.6 Liquidity risk

The Group is exposed to two types of liquidity risk:

- Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (for example, claims, creditors and planned dividends) as they fall due.
- Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

The Group's IFRS results are indirectly exposed to fund liquidity risk, for example, through reputational damage leading to lower funds under management and lower revenue through charges collected. However, as the effect on the Group's IFRS results is indirect, this risk is not discussed further and the remainder of this section refers to treasury liquidity risk.

Liquidity management in the Group seeks to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

Liquidity risk is carefully managed, in particular in relation to: bank balances, cashflow forecasting, appropriate fund management (to ensure that assets are not unduly concentrated in less liquid investments) and detailed cashflow matching for the annuity business. Specific arrangements are also in place to manage liquidity in the unit-linked funds, particularly property funds where the underlying assets are relatively illiquid.

Most of the Group's assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contain discretionary surrender values or surrender charges, reduces the liquidity risk.

34.6.1 Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts 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 at the year end.

As at 31 December 2019	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Financial liabilities:									
Third-party interest in consolidated funds	**11,643**	**11,643**	**—**	**—**	**—**	**—**	**—**	**—**	**11,643**
Subordinated liabilities and other borrowings	**7,499**	**581**	**1,743**	**297**	**229**	**213**	**6,219**	**—**	**9,282**
Other financial liabilities	**3,517**	**3,517**	**—**	**—**	**—**	**—**	**—**	**—**	**3,517**
Accruals, deferred income and other liabilities	**5,921**	**4,941**	**269**	**69**	**95**	**110**	**265**	**172**	**5,921**
Total	**28,580**	**20,682**	**2,012**	**366**	**324**	**323**	**6,484**	**172**	**30,363**

As at 31 December 2018	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Financial liabilities:									
Third-party interest in consolidated funds	9,383	9,383	—	—	—	—	—	—	9,383
Subordinated liabilities and other borrowings	4,085	678	1,342	721	275	142	2,088	—	5,246
Other financial liabilities	2,592	2,592	—	—	—	—	—	—	2,592
Accruals, deferred income and other liabilities	9,298	8,182	185	63	90	109	320	349	9,298
Total	25,358	20,835	1,527	784	365	251	2,408	349	26,519

34 Risk management and sensitivity analysis (continued)

34.6 Liquidity risk (continued)

34.6.2 Maturity analysis of derivatives

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

	Carrying value of net derivatives			Maturity profile of net derivative position				
	Derivative assets £m	Derivative liabilities £m	Net derivative position £m	1 year or less £m	1-3 years £m	3-5 years £m	After 5 years £m	Total £m
As at 31 December 2019	**3,962**	**(2,204)**	**1,758**	**2,435**	**(377)**	**3**	**(303)**	**1,758**
As at 31 December 2018	2,624	(3,187)	(563)	421	(185)	9	(808)	(563)

The majority of derivative assets and liabilities have been included at fair value within the 'one year or less' column, representing the basis on which they are managed (to manage principally asset or liability value exposures). The Group has no cash flow hedges and in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments. The only exception is certain identified interest rate swaps which are fully expected to be held until maturity solely for the purposes of matching cash flows on separately held assets and liabilities. For these instruments the cash flows (including contractual interest amounts) due to be paid under the swap contract, assuming conditions are consistent with those at year end, are included in the column relating to the contractual maturity of the derivative.

34.6.3 Maturity analysis of investment contracts

The table below shows the maturity profile for investment contracts on undiscounted cash flow projections of expected benefit payments.

	Total carrying value £m	1 year or less £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
As at 31 December 2019	**93,699**	**9,709**	**33,208**	**31,388**	**21,217**	**12,585**	**16,445**	**11,073**	**135,625**
As at 31 December 2018	82,598	7,851	29,669	28,705	20,116	12,365	15,704	11,224	125,634

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean surrenders are unlikely to be exercised in practice.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Many of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets. As a result an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

34.7 Derivatives and hedging

The Group uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In doing so, the Group obtains cost-effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency, credit and other business risks. The Group has opted not to apply hedge accounting to derivatives.

The Group uses various interest rate derivative instruments such as interest rate swaps and swaptions to reduce exposure to interest rate volatility. The Group also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than pounds Sterling.

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and CSA (Credit Support Annexes). The Group has collateral agreements between the individual Group entities, of which the Group is one, and relevant counterparties in place under each of these market master agreements. The Group also has the ability to enter into cleared derivative positions under EMIR (European Market Infrastructure Regulation).

The total fair value balances of derivative assets and liabilities are shown in Note 20.

There are hedging arrangements in place for the with-profits liabilities. In addition to some product-specific arrangements, the main objective of the hedging arrangements is to broadly match a subset of the market-consistent liabilities and hence protect the capital position of the with-profits business against adverse market movements. The actual and required hedging positions are monitored at least monthly and rebalanced if required.

34 Risk management and sensitivity analysis (continued)

34.7 Derivatives and hedging (continued)

Under Article 11 of EMIR on derivatives, central counterparties and trade repositories and Commission Delegated Regulation (EU) 2016/2251 supplementing EMIR, market participants transacting in non-cleared over-the-counter ("OTC") derivatives are required to exchange collateral to cover variation and initial margin. However, trades between counterparties belonging to the same group are exempt from these margin requirements subject to certain criteria.

Prudential Capital plc (Legal Entity Identifier reference ("LEI") CHW8NHK268SFPTV63Z64) has entered into such derivative agreements with the following current and former Group entities. These counterparty pairings meet the criteria to be eligible for intra-group exemptions to the margin requirements:

Counterparty	Legal Entity Identifier	Relationship between parties	Type of exemption	As at 31 December 2019 Aggregate notional of OTC derivatives contract £m
Prudential Lifetime Mortgages Limited	5493001GSK4HF84IOB02	Part of the same group holding company	Full	**37**
Prudential Distribution Limited	549300I8LYOK91HBX439	Part of the same group holding company	Full	—
Prudential plc	5493001Z3ZE83NGK8Y12	Part of the same group holding company, until 21 October 2019 (i)	Full	—
Prudential Holdings Limited	549300JVAI8CZD4HD451	Part of the same group holding company, until 21 October 2019 (i)	Full	—
Prudential (US HoldCo 1) Limited	549300JNYGDP2XOLWR47	Part of the same group holding company, until 21 October 2019 (i)	Full	—
Prudential Corporation Holdings Limited	549300KDOPLFHAW51H26	Part of the same group holding company, until 21 October 2019 (i)	Full	—

(i) On 21 October 2019 the Group demerged from the Prudential plc group. The entities that remain with the Prudential plc group (and are therefore not part of the Group) benefitted from intra-group margin exemption with Prudential Capital plc up until 21 October 2019.

34.7.1 Hedges in respect of shareholder transfers arising from the with-profits business

The shareholders' exposure to market risk from with-profits business arises from the shareholder transfers which depend on investment return of the funds. These shareholder transfers, while smoothed, are particularly exposed to equity risk.

The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The effect for the year ended 31 December 2019 was an unrealised loss of £150m (2018: unrealised gain of £201m) and a realised loss of £100m (2018: realised loss of £48m).

The Group's shareholder fund has also entered into a risk management arrangement with the WPSF in relation to the shareholder transfers expected to emerge from the WPSF, specifically with regard to the PruFund new business written during 2018 and 2019. This arrangement is designed to protect the shareholders against extremely weak market returns. This arrangement resulted in a £25m unrealised loss for the year ended 31 December 2019 (2018: £nil).

34.7.2 Other shareholder hedging arrangements

During 2019, the Group's shareholder fund purchased interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2019, unrealised losses on these instruments were £60m.

35 Contingencies and related obligations

35.1 Litigation, tax and regulatory matters

In addition to the matters set out in Note 30 regarding regulatory provisions in relation to annuity sales practices, and in Note 9.3 regarding the portfolio dividend tax litigation, the Group is involved in various litigation and regulatory issues. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

35.2 Guarantees

Guarantee funds provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant, and adequate reserves are available for all anticipated payments for known insolvencies.

M&G plc has acted as a guarantor for the 10 Fenchurch Avenue lease between Saxon Land B.V. and M&G Prudential Services Limited.

The Group has also provided other guarantees and commitments to third parties entered into in the normal course of business, but the Group does not consider that the amounts involved are significant.

35.3 Support for the With-Profits Fund by shareholders

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of the With-Profits Fund, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn. In the unlikely circumstance that the depletion of the excess assets within the with-profits sub-funds was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

The following matters are of relevance with respect to the With-Profits Fund:

35.3.1 Pension mis-selling review

The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged, to ensure they have the opportunity to take part in the review. Currently, a provision amounting to £420m as at 31 December 2019 (2018: £777m) is being held in relation to this within insurance contract liabilities.

The key assumptions underlying the provisions are:

– Average cost of redressal per customer.
– Proportion of provision (reserve rate) held for soft-closed cases (where all reasonable steps have been taken to contact the customer but the customer has not engaged with the review).

Sensitivities of the value of the provision to change in assumptions are as follows:

		As at 31 December	
		2019	2018
Assumption	**Change in assumption**	**£m**	£m
Average cost of redressal	increase/decrease by 10%	**+/- 20**	+/- 53
Reserve rate for soft-closed cases	increase/decrease by 10%	**+/- 30**	+/- 12

Costs arising from this review are met by the excess assets of the with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. An assurance was given that these deductions from excess assets would not impact PAC's bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, the assurance provides that support would be made available to the sub-fund from PAC's shareholder resources for as long as the situation continued, so as to ensure that PAC's policyholders were not disadvantaged. PAC's comfort in its ability to make such support available was supported by related intra-group arrangements between Prudential plc and PAC, which formalised the circumstances in which capital support would be made available to PAC by Prudential plc. These intra-group arrangements terminated on 21 October 2019, following the demerger of M&G plc from Prudential plc, at which time intra-group arrangements formalising the circumstances in which M&G plc would make capital support available to PAC became effective.

35.3.2 SAIF

Policies within this sub-fund contain guaranteed benefits to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the WPSF would be liable to cover the deficiency in the first instance. In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £385m is held within the sub-fund as at 31 December 2019 (2018: £361m).

36 Commitments

The Group leases various offices to conduct its business. In line with the requirements of IFRS 16, the Group has recognised a lease liability in respect of these leases representing the obligation to make future lease payments.

The table below presents a maturity analysis of lease payments showing the undiscounted lease payments to be paid on an annual basis on these leases:

	As at 31 December	
	2019	2018
	£m	£m
Future minimum lease payments falling due during the following periods:		
Less than 1 year	**28**	16
1 to 5 years	**127**	105
Over 5 years	**310**	325

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment property as at 31 December 2019 were £593m (2018: £615m).

As at 31 December 2019, the Group had undrawn commitments of £3,598m (2018: £4,610m) to private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

37 Related party transactions

The Group and its related parties comprise members of the M&G plc Group, as well as the Group's joint ventures and associates, and any entity controlled by those parties.

37.1 Transactions with Prudential plc

The following transactions were carried out with members of the Prudential plc group who were considered related parties until demerger on 21 October 2019:

	For the year ended 31 December	
	2019	2018
	£m	£m
Revenue	**16**	13
Expenses	**63**	68

	As at 31 December
	2018
	£m
Amounts due from related parties	1,207
Amounts due to related parties	3,291

Details of related party capital support arrangements are included in Note 35.

37.2 Transactions with the Group's joint ventures and associates

The Group received dividends of £192m for the year ended 31 December 2019 (2018: £9m) and made additional capital injections of £4m in the year ended 31 December 2019 (2018: £181m) from/to joint ventures or associates accounted for using the equity method.

In addition, the Group had balances due from joint ventures or associates accounted for using the equity method of £132m as at 31 December 2019 (2018: £163m) and balances due to joint ventures or associates accounted for using the equity method of £nil as at 31 December 2019 (2018: £29m).

Furthermore, in the normal course of business a number of investments into/divestments from investment vehicles managed by the Group were made. This includes investment vehicles which are classified as investments in associates and joint ventures measured at FVTPL. The Group entities paid amounts for the issue of shares or units and received amounts for the cancellation of shares or units. These transactions are not considered to be material to the Group.

37.3 Compensation of key management personnel

Key management personnel for the year ended 31 December 2018 included Directors of the Company and their compensation was based on their role within the Group prior to the establishment of the Company. For the year ended 31 December 2019 the members of the Executive Committee, which was formed in 2019, are deemed to have power to influence the direction, planning and control the activities of the Group, and hence are also considered to be key management personnel.

37 Related party transactions (continued)

37.3 Compensation of key management personnel (continued)

Key management personnel of the Company may from time to time purchase insurance, asset management or annuity products marketed by the Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

Other transactions with key management personnel are not deemed to be significant either by virtue of their size or in the context of the key management personnel's respective financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

The summary of compensation of key management personnel is as follows:

	For the year ended 31 December	
	2019 £m	2018 £m
Salaries and short-term benefits	**11.1**	5.1
Post-employment benefits	**0.6**	0.4
Share-based payments	**5.9**	1.5
Total	**17.6**	7.0

Information concerning individual Directors' emoluments, interests and transactions are provided in the single figure tables in the Remuneration Report on pages 88 and 98.

38 Capital management

38.1 Capital regulations of entities within the Group

The Group is regulated under Solvency II and supervised as an insurance group by the Prudential Regulation Authority. The Group manages Solvency II own funds as its measure of capital. As at 31 December 2019 estimated Group Solvency II own funds are £14.9bn (2018: £13.9bn).

The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the Solvency Capital Requirement (SCR). Own funds is the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments. The SCR is calculated using the Group's internal model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

The regulated entities within the Group are also subject to local capital regulations. Capital is actively managed to ensure that local regulatory requirements are met. The main regulated entities in the Group and the regulatory framework to which they must adhere are listed below:

Entity	Main activity	Regulatory framework
M&G plc	Insurance	Solvency II
The Prudential Assurance Company Limited	Insurance	Solvency II
Prudential International Assurance plc	Insurance	Solvency II
Prudential Pensions Limited	Insurance	Solvency II
M&G Group Limited (including subsidiaries)	Investment management	BIPRU[i]

(i) Prudential Sourcebook for Banks, Building Societies and Investment Firms.

All Group entities that were subject to externally imposed regulatory capital requirements complied with them throughout the year.

38 Capital management (continued)

38.2 Group capital position

38.2.1 Regulatory capital position

The regulatory capital position of the Group takes into account all Group exposures, including that of the With-Profits Fund. This view of capital recognises the ring-fenced nature of the With-Profits Fund, and on consolidation surplus in the fund can only be recognised to the level of associated SCR with any excess surplus being eliminated as a ring-fenced fund restriction, effectively restricting the solvency coverage ratio of the With-Profits Fund to 100%. As such, the combined 'regulatory' solvency coverage ratio is highly resilient to movements in the With-Profits Fund's own funds.

The estimated and unaudited Solvency II capital position for the Group as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019 £bn	2018 £bn
Solvency II own funds	**14.9**	13.9
Solvency II SCR	**(10.4)**	(9.9)
Solvency II surplus	**4.5**	4.0
Solvency II coverage ratio(i)	**143%**	141%

(i) Solvency II coverage ratio has been calculated using unrounded figures.

As the Group was not a regulated insurance group prior to the demerger date, the capital position and accompanying information as at 31 December 2018 have been prepared on an illustrative basis, starting from the IFRS consolidated statement of financial position. In particular, merger accounting principles have been applied as described in Note 1.1 of the IFRS financial statements. This means that Prudential Capital Holdings Limited and its subsidiaries, and 10FA India Private Limited (formerly known as Prudential Global Services Private Limited) have been presented as if the entities had been part of the Group from 1 January 2018. Prudential Vietnam Finance Company has also been included within the Solvency II results as at 31 December 2018. As the Hong Kong subsidiaries were disposed prior to the 31 December 2018, these subsidiaries are not included in the results.

38.2.2 Shareholder capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more relevant reflection of the capital strength of the Group. The Group's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. Further information on the ring-fenced With-Profits Fund's capital position is provided in Section 1.4.6 of Supplementary Information.

The estimated and unaudited shareholder Solvency II capital position for the Group as at 31 December 2019 and 31 December 2018 is shown below. The shareholder Solvency II capital position as at 31 December 2018 has been prepared on a basis consistent with the illustrative Solvency II regulatory capital position shown in Note 38.2.1.

The results include transitional measures which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date, which at 31 December 2019 reflected the approved regulatory position.

	As at 31 December	
	2019 £bn	2018 £bn
Shareholder Solvency II own funds	**10.3**	9.7
Shareholder Solvency II SCR	**(5.8)**	(5.7)
Solvency II surplus	**4.5**	4.0
Shareholder Solvency II coverage ratio(i)	**176%**	170%

(i) Shareholder Solvency II coverage ratio has been calculated using unrounded figures.

38 Capital management (continued)

38.3 Meeting of capital management objectives

The Group manages its capital on a Solvency II basis to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the Solvency II balance sheet under the regulatory view resilient to stresses that affect the Group's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the regulator. The sensitivity of liabilities and other components of total capital vary, depending upon the type of business concerned, and this influences the approach to asset/liability management.

In addition, projections are performed to understand how the own funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the own funds position.

As well as holding sufficient capital to meet regulatory requirements, the Group also closely manages the cash it holds so that it can:

- Maintain flexibility, fund new opportunities and absorb shock events
- Meet liabilities to policyholders and other obligations
- Fund dividends
- Cover central costs and debt payments.

39 Share-based payments

The Group operates various share-based payment schemes that award M&G plc shares to participants upon meeting the required vesting conditions. Details of those schemes are stated below:

39.1 Description of the plans

Discretionary schemes:

Scheme	Description
Long-Term Incentive Plan (LTIP)	The LTIP is a conditional share plan: the shares awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to LTIP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including Group IFRS profit or business unit IFRS profit. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three-year business plan.
Annual Incentive Plan (AIP)	Certain senior executives participate in the AIP where a portion of the individual's bonus is delivered in the form of shares that are released after three years. There are no performance conditions associated with the plan.
Group Deferred Bonus Plan (GDBP)	Under these plans, a participant's annual bonus is paid in the form of a share award that vests after three years. Other than the service condition, there are no other performance conditions associated with this plan.
Restricted Share Plan (RSP)	Awards under this plan are discretionary and ad hoc, and the vesting of awards may be subject to performance conditions. These awards may be retention awards, new joiner awards and promotion-related awards.

Prior to demerger, all discretionary schemes mentioned above were based on Prudential plc awards. At the point of demerger and subsequent listing of M&G plc, all outstanding discretionary awards were replaced with equivalent awards based on M&G plc shares. The scheme rules for the awards remain the same in principle, except for the LTIP awards, for which the relevant metrics would be based on M&G plc as opposed to Prudential plc performance.

In accordance with IFRS 2, the replacement awards have been accounted for as a modification of the previous scheme and the expense in relation to the scheme will continue to be recorded over the remaining vesting period.

Up until the point of demerger, the schemes were treated as cash-settled as schemes were not based on M&G plc shares but it had the obligation to settle the award. At the point of demerger, the schemes were converted to equity-settled as the awards will be settled in M&G plc shares.

39 Share-based payments (continued)

39.1 Description of the plans (continued)

Approved schemes:

Share scheme	Description
Save As You Earn (SAYE) plans	The Group operates Save As You Earn (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 satisfying the monthly savings requirement.
Share Incentive Plan (SIP): free shares	In addition, to celebrate the demerger, all eligible employees were provided with M&G plc shares with a value of £2,000. The awards vest subject to the employee remaining in employment for two years.

All approved schemes are accounted for as equity-settled as the awards would be settled in M&G plc shares.

The previous approved SAYE and SIP schemes that operated prior to demerger were cancelled with all participants treated as good leavers. This resulted in an incremental expense of £0.8m recorded at the date of demerger. Prior to demerger, these schemes were accounted for as equity-settled as Prudential plc had the obligation to settle these awards.

39.2 Outstanding options and awards

As at 31 December 2019, movements in outstanding options and awards under the Group's share-based compensation plans since demerger are as follows:

	2019	
	Outstanding options under SAYE schemes	Awards outstanding under incentive plans
Outstanding as at 21 October	**—**	**29,893,748**
Granted	**12,978,387**	**7,212,236**
Exercised	**—**	**(944,044)**
Outstanding at 31 December	**12,978,387**	**36,161,940**
Options immediately exercisable at 31 December	**—**	**—**

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 2019	Weighted average remaining contractual life (years) 2019	Weighted average exercise price (£) 2019	Number exercisable 2019
Between £1 and £2	**12,978,387**	**3.49**	**1.84**	**—**

39.3 Fair value of options and awards

The fair value of all awards, except for the LTIP TSR award and the SAYE options, is based on the M&G plc share price at the date of grant.

The determination of the fair value of the LTIP TSR award and the SAYE options requires the use of various assumptions which are disclosed below:

	For the year ended 31 December 2019	
	LTIP TSR award	SAYE options
Dividend yield (%)	**n/a**	**7.3%**
Expected volatility (%)	**22.5%**	**20.0%**
Risk-free interest rate (%)	**0.8%**	**0.8%**
Expected option life (years)	**n/a**	**3.68**
Weighted average exercise price (£)	**n/a**	**1.84**
Weighted average share price at grant date (£)	**2.18**	**2.44**
Weighted average fair value at grant date (£)	**0.21**	**0.33**

The Group uses the Black-Scholes model to value the SAYE options whereas the TSR performance conditions are valued using a Monte Carlo simulation model. In determining the fair value of options granted, the historical volatility of the share price of suitable peers and a risk-free rate determined by reference to swap rates was also considered.

39 Share-based payments (continued)

39.4 Share-based payment expense charged to the consolidated income statement

Total expenses recognised in the year in the consolidated financial statements relating to share-based compensation is as follows:

	For the year ended 31 December	
	2019	2018
	£m	£m
Share-based compensation scheme:		
Accounted for as equity-settled	**26**	3
Accounted for as cash-settled	**—**	11
Total	**26**	14

Of the expense for the year ended 31 December 2019, £22m relates to the period until the point of demerger and £4m relates to the period post demerger.

The Group has no outstanding liabilities at the year end relating to awards which are settled in cash.

40 Post balance sheet events

On 26 February 2020, the With-Profits Fund declared a distribution of £2bn to the policyholders comprised of the annual with-profits bonus declaration, and an extra distribution to eligible policyholders.

41 Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of the Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20%), along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 31 December 2019 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS statements. The Group's consolidation policy is described in Note 1.5.

Direct subsidiary undertakings of the parent company, M&G plc (shares held directly or via nominees)

Key to classes of shares held; Limited by guarantee (LBG), Limited partnership interest (LPI), Ordinary shares (OS), Preference shares (PS), Units (U).

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Group Regulated Entity Holding Company Limited (formerly known as Pru Limited and now a direct subsidiary of M&G plc)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Prudential (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital Holding Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Prudential Assurance Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
10FA India Private Limited (formerly known as Prudential Global Services Private Limited)	OS	100%	Prudential House, Mumbai, India
ANRP II (AIV VI FC), L.P.	LPI	43%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
BWAT Retail Nominee (1) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Calvin F1 GP Limited (in liquidation)	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Calvin F2 GP Limited (in liquidation)	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Canada Property (Trustee) No 1 Limited	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Canada Property Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cardinal Distribution Park Management Limited	OS	66%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford (Nominee A) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford (Nominee B) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Investments Unit Trust	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford Limited Partnership	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Centaurus Retail LLP	LPI	50%	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	LPI	67%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	LPI	88%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	LPI	63%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	58%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	LPI	61%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
CJPT Real Estate Inc.	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 1 Trust	U	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	U	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway JV Limited	OS	50%	40 Broadway, London, SW1H 0BT, UK
Cribbs Causeway Merchants Association Limited	LBG	20%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP LLP	LPI	65%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Eastspring Investments – Asian Local Bond Fund	OS	97%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Smaller Companies Fund	OS	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Total Return Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Developed and Emerging Asia Equity Fund	OS	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Customized Equity Fund	OS	100%	26, Boulevard Royal, L-2449, Luxembourg

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments – Global Emerging Markets Dynamic Fund	OS	98%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Japan Equity Fund	U	87%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Japan Smaller Companies Fund	U	60%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	OS	36%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Equity Income Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Edger Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Edinburgh Park (Management) Limited	LBG	100%	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, UK
EF IV Schoolhill GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Falan GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	LPI	50%	1209 Orange Street, Wilmington, DE 19801, USA
Folios III Designated Activity Company	OS	49%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	OS	77%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	OS	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird Limited Partnership	LPI	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	OS	50%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Genny GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Genny GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
GGE GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Green GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Greenpark (Reading) General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Greenpark (Reading) Nominee No. 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GreenPark (Reading) Nominee No. 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GS R100 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Highcross Leicester (GP) Limited	OS	50%	Kings Place, 90 York Way, London, N1 9GE, UK
Holborn Bars Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
IGP Realisations I GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
IGP Realisations I Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (AIRI) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Belmond) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Bio) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Churchill) GP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (Churchill) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (GC) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (IT PPP) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Leo) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Novos) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital (Sense) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) SLP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital CI II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital F1 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 2 LLP	LPI	100%	Unit 2, Spinnaker Court, 1c Becketts Place, Hampton Wick, Kingston upon Thames, KT1 4EQ, UK
Infracapital GP II Limited	OS	100%	Unit 2, Spinnaker Court, 1c Becketts Place, Hampton Wick, Kingston upon Thames, KT1 4EQ, UK
Infracapital GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield DF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder LP	LPI	76%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I GP2 Limited	OS	100%	Unit 2, Spinnaker Court, 1c Becketts Place, Hampton Wick, Kingston upon Thames, Surrey, KT1 4EQ, UK
Infracapital Greenfield Partners I LP	LPI	22%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I SLP EF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP LP	LPI	36%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners II GP S.à r.l	OS	100%	6, rue Eugène Ruppert, L-2453, Luxembourg
Infracapital Greenfield Partners II Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II LP	LPI	26%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II Subholdings GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners III GP S.à r.l	OS	100%	6, rue Eugène Ruppert, L-2453, Luxembourg
Infracapital Partners III Subholdings (Euro) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	LPI	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital RF GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Sisu GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP EF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital SLP II LP	LPI	40%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Innisfree M&G PPP LLP	LPI	35%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Innisfree M&G PPP LP	LPI	62%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Invesco Managed Growth Fund (UK)	U	22%	Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK
IP Realisations II Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Leadenhall Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
LF Prudential European QIS Fund	OS	92%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Japanese QIS Fund	OS	98%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential North American QIS Fund	OS	96%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Pacific Markets Trust Fund	OS	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
LF Prudential UK Growth QIS Fund	OS	97%	65 Gresham Street, London, EC2V 7NQ, UK
Lion Credit Opportunity Fund Public Limited Company – Credit Opportunity Fund XV	OS	100%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
London Green Investments II SLP2 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 SP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G (Guernsey) Limited	OS	100%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
M&G Alternatives Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Asia Property Fund	OS	55%	16, Boulevard Royal, L-2449, Luxembourg
M&G Corporate Bond Fund	OS	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	24%	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Dividend Fund	OS	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European Credit Investment Fund	OS	20%	80, route d'Esch, L-1470, Luxembourg
M&G European High Yield Credit Investment Fund	OS	75%	80, route d'Esch, L-1470, Luxembourg
M&G European Loan Fund Ltd	OS	26%	Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland
M&G European Property Fund SICAV-FIS	OS	40%	16 Boulevard Royal, L-2449, Luxembourg
M&G European Select Fund	OS	39%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G FA Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Founders 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G General Partner Inc.	OS	100%	190 Elgin Avenue, George Town, Grand Cayman, KYI-9005, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	OS	58%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G IMPPP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments S.A.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G International Investments Switzerland AG	OS	100%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Funds (10) – M&G Absolute Return Bond Fund	OS	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) – M&G Positive Impact Fund	OS	55%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) – M&G Episode Allocation Fund	OS	23%	10 Fenchurch Avenue, London, EC3M 5AG, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Investment Funds (7) – M&G Global Convertibles Fund	OS	65%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investments (Americas) Inc.	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
M&G Investments (Australia) Pty Ltd	OS	100%	Level 6, 60 Martin Place, Sydney NSW 2000, Australia
M&G Investments (Hong Kong) Limited	OS	100%	6th Floor, Alexander House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	OS	100%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Investments (USA) Inc	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
M&G Investments Japan Co., Ltd.	OS	100%	3-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan
M&G Luxembourg S.A.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Management Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Pan European Select Smaller Companies Fund	U	27%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI Carry Partnership 2016 LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Platform Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Property Portfolio PAIF	OS	21%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Prudential Guernsey PCC Limited	OS	100%	PO Box 34, St Martin's House, St Peter Port, GY1 4AU, Guernsey
M&G Prudential Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE Espana, 2016, S.L.	OS	100%	Calle Fortuny, 6 – 4 A, 28010, Madrid, Spain
M&G RE UKEV (GP1) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1-A LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Asia PTE. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Funds Management S.à r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Real Estate Japan Co., Ltd.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	OS	67%	Jongno 1-ga, Kyobo Building, Seoul, Korea
M&G Real Estate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate UK Enhanced Value LP	LPI	50%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RED II Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100%	De Catapan House, Grange Road, St Peter Port, GY1 2QG, Guernsey
M&G RED II SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III GP Limited	OS	100%	De Catapan House, Grange Road, St Peter Port, GY1 2QG, Guernsey
M&G RED III SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RPF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RPF Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Securities Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SFF (CIP GP) Sárl	OS	100%	51, Avenue J.F. Kennedy, L-1855, Luxembourg
M&G SFF (GP) Sárl	OS	100%	51, Avenue J.F. Kennedy, L-1855, Luxembourg
M&G SIF Management Company (Ireland) Limited	OS	100%	5 George's Dock, IFSC, Dublin 1, Ireland
M&G Smaller Companies Fund	OS	42%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Sustainable Multi Asset Fund	OS	89%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Companies Financing Fund II LP	LPI	48%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Fund	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Residential Property Fund	LPI	20%	34-38, avenue de la Liberté, L-1931, Luxembourg
M&G UK Shared Ownership Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKCF II GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) General Partner LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Manchester JV Limited	OS	50%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
MCF S.r.l.	OS	45%	Via Montenapoleone 29 CAP, 20121, Milan, Italy
Minster Court Estate Management Limited	OS	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	OS	99%	300 E Lombard Street, Baltimore, MD 21202, USA
Oaktree Business Park Limited	OS	14%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Old Kingsway LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	OS	52%	Barrat House, Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PAP Trustee Pty Limited	OS	100%	Level 17 Tower One, International Towers, Barangaroo, Sydney, NSW 2000, Australia
PGDS (UK One) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGF Management Company (Ireland) Limited	OS	50%	5 George's Dock, Dublin 1, D01 X8N7, Ireland
PPM America Private Equity Fund III LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	LPI	40%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	LPI	46%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM Capital (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPM Funds – PPM Floating Rate Income Fund	OS	95%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM High Yield Core Fund	OS	100%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM Small Cap Value Fund	OS	86%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Managers GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM Ventures (Asia) Limited (In liquidation)	OS	100%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PPMC First Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Property Partners (Two Rivers) Limited	OS	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Pru Limited (formerly known as Prudential Leasing Services Limited)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudence Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential / M&G UKCF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital (Singapore) Pte. Ltd.	OS	100%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, 018983, Singapore
Prudential Capital Public Limited Company	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Credit Opportunities 1 S.a.r.l.	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities SCSp	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Distribution Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dynamic 0-30 Portfolio	OS	20%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 10-40 Portfolio	OS	32%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 20-55 Portfolio	OS	31%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 40-80 Portfolio	OS	32%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 60-100 Portfolio	OS	29%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 0-30 Portfolio	OS	52%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 20 – 55 Portfolio	OS	27%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Planning Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential GP Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Prudential Group Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Holborn Life Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential International Assurance plc	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential Investment (Luxembourg) 2 S.à.r.l.	OS	100%	16 Boulevard Royal, L-2449, Luxembourg
Prudential Lifetime Mortgages Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Lifetime Mortgages Limited	PS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Loan Investments 1 S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments SCSp	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Polska sp. z.o.o	OS	100%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS A class	75%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Portfolio Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investment Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investments Limited (in liquidation)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investments Limited (in liquidation)	PS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Protect Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Staff Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Trustee Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Services Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Venture Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential/M&G UK Companies Financing Fund LP	LPI	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Rift GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rift GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Schoolhill Sarl	OS	100%	20, rue de la Poste, Luxembourg
ScotAm Pension Trustees Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Finance Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Holdings Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Life Assurance Society	No share capital	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Pensions Investments Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Sectordate Limited	OS	33%	1st Floor, Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 2) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2005 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2006 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	LPI	100%	1 Carter Lane, London, EC4V 5ER, UK
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	1209 Orange Street, Wilmington, DE 19801, USA
St Edward Homes Limited	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Strand Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK

41 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Stableview Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Staple Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Car Auction Unit Trust	OS	50%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
The First British Fixed Trust Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Greenpark (Reading) Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Project Hoxton LP	LPI	100%	12 Throgmorton Avenue, London, EC2N 2DL, UK
The Strand Property Unit Trust	LPI	50%	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	OS	50%	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Three Snowhill Birmingham S.a.r.l.	OS	100%	5, rue Guilllaume Kroll, L-1882, Luxembourg
Two Rivers LP	LPI	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham S.a.r.l.	OS	100%	5, rue Guilllaume Kroll, L-1882, Luxembourg
Vanquish I Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish II Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties (UK) Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Vanquish Properties GP Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 1 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 2 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 3 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 4 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee A Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties LP Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Wessex Gate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wynnefield Private Equity Partners II, L.P.	LPI	99%	1209 Orange Street, Wilmington, DE 19801, USA

Company statement of financial position

As at 31 December 2019

	Notes	As at 31 December 2019 £m	2018 £m
Assets			
Investments in subsidiaries	A	**11,069**	12,065
Deferred tax	B	**68**	—
Loans	C	**1,200**	—
Current tax assets	B	**31**	1
Accrued investment income and other debtors	D	**30**	—
Cash and cash equivalents	E	**74**	18
Total assets		**12,472**	12,084
Equity			
Share capital	F	**130**	130
Share premium	F	**370**	370
Shares held by employee benefit trust	G	**(26)**	—
Retained earnings		**8,020**	11,581
Other reserves		**39**	—
Total equity		**8,533**	12,081
Liabilities			
Subordinated liabilities and other borrowings	H	**3,767**	—
Current tax liabilities	B	**3**	—
Provisions	I	**49**	—
Accruals, deferred income and other liabilities	J	**120**	3
Total liabilities		**3,939**	3
Total equity and liabilities		**12,472**	12,084

The Notes on pages 232 to 238 are an integral part of these financial statements.

The financial statements on pages 230 to 231 were approved by the Board and signed on its behalf, by the following Directors:

John Foley
Chief Executive

9 March 2020

Clare Bousfield
Chief Financial Officer

9 March 2020

Company statement of changes in equity

For the year ended 31 December 2019

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Equity compensation reserve £m	Retained earnings £m	Total equity £m
At 1 January 2018	130	—	—	—	—	130
Profit for the year	—	—	—	—	31	31
Total comprehensive income for the year	—	—	—	—	31	31
Issue of share capital	—	21,370	—	—	—	21,370
Share premium reduction	—	(21,000)	—	—	21,000	—
Dividends	—	—	—	—	(9,450)	(9,450)
Net increase/(decrease) in equity	—	370	—	—	11,550	11,920
At 31 December 2018	130	370	—	—	11,581	12,081
At 1 January 2019	**130**	**370**	**—**	**—**	**11,581**	**12,081**
Profit for the year	**—**	**—**	**—**	**—**	**1,272**	**1,272**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**1,272**	**1,272**
Transactions with equity holders:						
– Dividends paid	**—**	**—**	**—**	**—**	**(4,360)**	**(4,360)**
– Distribution in kind	**—**	**—**	**—**	**—**	**(570)**	**(570)**
Transfer to retained earnings for vested employee share-based payments	**—**	**—**	**2**	**—**	**(2)**	**—**
Movements in respect of share-based payments	**—**	**—**	**—**	**39**	**—**	**39**
Shares acquired by employee benefit trust	**—**	**—**	**(28)**	**—**	**—**	**(28)**
Tax effect of items recognised directly in equity	**—**	**—**	**—**	**—**	**99**	**99**
Net increase/(decrease) in equity	**—**	**—**	**(26)**	**39**	**(4,833)**	**(4,820)**
At 31 December 2019	**130**	**370**	**(26)**	**39**	**8,020**	**8,533**

The Notes on pages 232 to 238 are an integral part of these financial statements.

Notes to the Company financial statements

Company accounting policies

(a) Basis of preparation

These separate financial statements for the year ended 31 December 2019 have been prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the EU applicable for periods ending on or after 31 December 2018, but makes amendments where necessary in order to comply with the Companies Act 2006 as applicable to companies using FRS 101.

The financial statements have been prepared on a going concern basis under the historical cost basis and are presented rounded to the nearest million pounds Sterling.

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

- Statement of compliance with IFRS
- Outstanding shares comparative
- Requirement for minimum of two primary statements, including cash flow statements
- Additional comparative information
- Capital management disclosures
- Statement of cash flows
- Financial instruments disclosure
- Effect of IFRSs issued but not effective
- Related party transactions with wholly-owned subsidiaries

The Company adopted IFRS 9 Financial Instruments effective for the first time from 1 January 2018. This did not have a material impact on the Company as it does not hold significant financial instruments. This differs from the Group treatment whereby the Group has met the required eligibility criteria for temporary exemption and the adoption of IFRS 9 has been deferred until 1 January 2022 to coincide with the adoption of IFRS 17.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. The auditors' remuneration for audit and other services is disclosed in Note 8 of the Group financial statements. The Company has no employees.

(b) Critical accounting estimates and judgement in applying accounting policies

A full list of the Company's significant accounting policies is provided in section (c) of this Note below.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where judgements have the most significant effect on the amounts recognised in the Company's financial statements are as follows:

Financial statement area	Key estimate and assumptions	Accounting policy	Note
Impairment of investment in subsidiaries	When assessing impairment of subsidiaries where indicators of impairment exist the carrying value is compared to the recoverable amount, which is the higher of fair value less cost of disposal and value in use. The determination of the recoverable amount, especially in relation to the value in use calculation require the use of various assumptions that can have a significant impact on the valuation derived.	(C) (ii)	A

(c) Critical accounting policies

(i) Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

(ii) Investment in subsidiaries

Investment in subsidiaries is stated at cost less, where appropriate, allowances for impairment. Investments are reviewed annually to assess whether there are indicators of impairment. Where indicators of impairment exist, the carrying value of the investment in the subsidiary is compared against its recoverable amount, which is the higher of the fair value less cost to sell or the value in use, with any resulting impairment recorded in the income statement.

Company accounting policies (continued)

(c) Critical Accounting policies (continued)

(iii) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand with an original maturity date of 90 days or less. Cash and cash equivalents are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements of IFRS 9.

(iv) Tax

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or other comprehensive income.

Deferred tax

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12: Income Taxes does not require all temporary differences to be provided for, in particular, the Company does not provide for deferred tax on undistributed earnings of subsidiaries where the Company is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period.

(v) Share capital and share premium

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Where the consideration received from the issue or sale of existing shares exceeds the nominal value recorded in share capital, the difference is recorded in share premium. Share premium is recorded net of share issue costs.

(vi) Dividends

Dividends are recognised when the obligation becomes certain, ie, when the dividend is no longer at the discretion of the Company. In the case of interim dividends, this occurs when the dividends are paid. For final dividends, this occurs when they are recommended by the Board and approved by shareholders.

(vii) Subordinated liabilities

Subordinated liabilities include loan notes issued by the Company which are classified as financial liabilities as they have a fixed repayment date and do not represent a residual interest in the net assets of the Company on liquidation. The notes rank junior to all other liabilities of the Company in the event of liquidation, but above share capital.

Subordinated liabilities are initially recognised at fair value, net of transaction costs.

(viii) 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 or a Monte Carlo simulation 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 based on the number of equity instruments expected to vest over the vesting period, with the corresponding entry to equity.

For cash-settled share-based payments, the fair value of service rendered is based on the fair value of the related liability to the equity instrument granted. The fair value equity instrument granted is remeasured at each reporting date with any changes recognised in the share-based payment expense for the period.

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.

Company accounting policies (continued)

(c) Critical Accounting policies (continued)

(ix) Provisions and contingent assets and liabilities

Provisions are recognised on the statement of financial position when the Company has a present legal or constructive obligation resulting from a past event and it is more probable than not that a loss will be made in settling the obligation and the amounts can be estimated reliably.

Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

Contingent liabilities are possible obligations of the Company where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position, unless they are assumed by the Company as part of a business combination. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and is recognised as a liability.

Contingent assets which are possible benefits to the Company are only disclosed if it is probable that the Company will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the statement of financial position as an asset.

(x) Financial instruments

Recognition and initial measurement

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or FVTPL.

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

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

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

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

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

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

A. Investment in subsidiaries

	As at 31 December	
	2019	2018
	£m	£m
Cost at 1 January	**12,065**	—
Acquisition of subsidiaries	**68**	21,500
Capital contribution into subsidiary undertakings	**93**	15
Disposal of subsidiaries measured at cost	**—**	(9,450)
Cost at 31 December	**12,226**	12,065
Impairment at 1 January		
Impairment of subsidiaries- forgiveness of loans	**(74)**	—
Impairment of subsidiaries- return of capital	**(1,083)**	—
Impairment at 31 December	**(1,157)**	—
Investment in subsidiaries at 31 December	**11,069**	12,065

(i) Acquisitions

On 5 September 2018, the Company purchased £1 of £1 ordinary shares in its subsidiary M&G Prudential (Holdings) Limited and on 21 December 2018, made a capital contribution of £15m.

As part of a restructuring of the Group, on 23 November 2018, for consideration of shares, the Company acquired the entire issued share capital of M&G Group Limited, The Prudential Assurance Company Limited ("PAC"), Prudential Financial Services Limited and Prudential Property Services Limited from Prudential plc via a share-for-share exchange. The fair value of the subsidiaries transferred was £21,500m.

(ii) Disposals

PAC was transferred from Prudential plc on 23 November 2018 for a fair value of £16,900m. On 14 December 2018, PAC sold the beneficial interest of its Hong Kong subsidiaries, Prudential Hong Kong Ltd and Prudential General Insurance Hong Kong Limited to Prudential Corporation Asia Limited (a direct subsidiary of Prudential plc) with the legal ownership transferring on 19 December 2018. The fair value of the Hong Kong subsidiaries sold was £9,450m. The fair value of the Hong Kong subsidiaries was equivalent to the book value in PAC at the date of sale. Based on this transaction, the value of the Company's investment in PAC decreased by £9,450m. Further details are given in Note 2 of the Group financial statements.

(iii) Impairment

The impairment in 2019 represents the forgiveness of loans made to Prudential Financial Services Limited and Prudential Property Services Limited amounting to £73m and £1m respectively and a return of capital of £1,083m by PAC in September 2019 as part of preparations for the demerger from Prudential plc. The impairment loss has been recognised in the income statement.

The Company listed on the London Stock Exchange on 21 October 2019 following its demerger from Prudential plc. As at 31 December 2019, the market capitalisation of the Company was below its net assets, and given under IAS 36 this is an indication of impairment, in accordance with IAS 36 an impairment assessment of the Company's investment in subsidiaries was carried out.

An assessment of the recoverable amount was performed for each of the subsidiaries, including consideration of amounts indicated under fair value less costs to dispose and value in use. The assessment included consideration of the drivers for the difference between the market capitalisation of the Group at 31 December 2019 and the Company's net assets, in particular recognising that the Group had only been listed for a short period of time at the balance sheet date and therefore there is no significant history of share price data. Assessments of fair value less costs to dispose were performed using recognised valuation techniques and relevant market data, such as recent transaction multiples. A value in use assessment was performed for M&G Group Limited as at 31 December 2019 utilising the approach and assumptions set out in the goodwill impairment assessment in Note 13 of the Group financial statements. These assessments concluded that the recoverable amount for each subsidiary exceeded its carrying value. The Directors also considered external market sentiment and external views on expected target share price of the Company. The Directors considered that there was a sufficient basis to conclude that no impairment was required.

A. Investment in subsidiaries (continued)

(iv) Direct related undertakings

The direct related undertakings of the Company as at 31 December 2019 are listed below:

Company name	Country of incorporation or registration	Nature of business	% held
M&G Group Limited	United Kingdom	Holding company	100%
M&G Group Regulated Entity Holding Company Limited[i]	United Kingdom	Holding company	100%
M&G Prudential (Holdings) Limited	United Kingdom	Holding company	100%
Prudential Financial Services Limited	United Kingdom	Holding company	100%
Prudential Property Services Limited	United Kingdom	Service company	100%
Prudential Capital Holding Company Limited	United Kingdom	Holding company	100%
The Prudential Assurance Company Limited	United Kingdom	Long-term insurance	100%

(i) Formerly known as Pru Limited and now a direct subsidiary of the Company.

Details of the Company's subsidiaries are given in Note 41 of the Group financial statements.

B. Tax

Deferred tax assets and liabilities

Under IAS 12, deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period. Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted or tax losses utilised. Deferred tax assets and liabilities are only offset when there is both a legal right to set off and an intention to settle on a net basis.

Deferred tax in the statement of financial position

The table below shows movements on deferred tax assets and liabilities during the year.

	As at 31 December 2019	
	Short-term timing differences £m	Total £m
Deferred tax asset as at 1 January 2019	**—**	**—**
Income statement	**(1)**	**(1)**
Equity and other comprehensive income	**69**	**69**
As at 31 December 2019	**68**	**68**

(i) Short-term timing differences

The deferred tax asset on short-term timing differences relates wholly to the fair value movement on the debt from Prudential plc. The £69m movement in reserves represents a temporary difference arising on the initial fair value measurement. The income statement movement reflects the associated amortisation during the period. The total closing balance relates wholly to the UK.

There were no deferred tax assets or liabilities as at 31 December 2018.

Unrecognised deferred tax

Group investments in subsidiaries, branches and investments

Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation by virtue of parent company exemptions on dividends from subsidiaries and on capital gains on disposal. Consequently, the Group does not consider there to be any significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

B. Tax (continued)

Current tax

	As at 31 December 2019 £m	2018 £m
Corporation tax asset as at 1 January	**1**	—
Income statement	**25**	1
Reserves movement for the period	**32**	—
Corporation tax paid	**(30)**	—
	28	1
Corporation tax assets (UK)	**31**	1
Corporation tax liabilities (UK)	**(3)**	—
Net corporation tax asset as at 31 December	**28**	1

	As at 31 December			
	Corporation tax assets		Corporation tax liabilities	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Corporation tax recoverable/(due) within 12 months	**31**	1	**(3)**	—
As at 31 December	**31**	1	**(3)**	—

C. Loans

During the year, the Company provided loans to Prudential Capital plc of £1,200m (2018: £nil) which are repayable in full with accrued interest one year from the date of advancement. Accrued interest in the year was £0.3m (2018: £nil).

D. Accrued investment income and other debtors

	As at 31 December 2019 £m
Amounts owed by Group undertakings	**23**
Other	**7**
Total accrued investment income and other debtors	**30**
Analysed as:	
No contractual maturity	**23**
Expected to be settled within one year	**7**
Total accrued investment income and other debtors	**30**

There were no accrued investment income and other debtors as at 31 December 2018.

E. Cash and cash equivalents

	As at 31 December 2019 £m	2018 £m
Cash	**74**	18
Total cash and cash equivalents	**74**	18

F. Share capital and share premium

Details of the Company's share capital and share premium are given in Note 23 of the Group financial statements.

Details of the dividends paid on the ordinary shares by the Company are provided in Note 12 of the Group financial statements. Note 12 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2019.

G. Shares held by employee benefit trusts and other treasury shares

Details of the Company's shares held by trust are given in Note 24 of the Group financial statements.

H. Subordinated liabilities and other borrowings

Details of the Company's subordinated liabilities are given in Note 28.1 of the Group financial statements.

I. Provisions

Provisions of £49m as at 31 December 2019 (2018: £nil) are in relation to costs arising from the separation of the Group from Prudential plc group, which will be incurred in the four years to 2023.

J. Accruals, deferred income and other liabilities

	As at 31 December	
	2019	2018
	£m	£m
Amounts owed to Group undertakings	**70**	3
Accrued interest on subordinated debt	**41**	—
Other	**9**	—
Total accruals, deferred income and other liabilities	**120**	3
Analysed as:		
Expected to be settled within one year	**112**	3
Expected to be settled after one year	**8**	—
Total accruals, deferred income and other liabilities	**120**	3

K. Related party transactions

The Directors and key management personnel of the Company are considered to be the same as for the Group. See Note 37 of the Group financial statements for further information.

There were no other related party transactions in the years ended 31 December 2019 and 31 December 2018 other than those noted in Note C, Note D and Note J of the Company financial statements.

L. Contingencies and related obligations

Details of the Company's contingencies and related obligations are given in Note 35 of the Group financial statements.

M. Share-based payments

Details of the Company's share-based payments are given in Note 39 of the Group financial statements.

Supplementary information

1.1 Alternative performance measures

Overview of the Group's key performance measures

The Group measures its financial performance using a number of key performance measures ("KPM"). Two of these measures, referred to as alternative performance measures ("APM"), are derived from the financial statements prepared in accordance with the IFRS financial reporting framework or the Solvency II requirements, but are not defined under IFRS or Solvency II. The APMs are used to complement and not to substitute the disclosures prepared in accordance with IFRS and Solvency II, and provide additional information on the long-term performance of the Group.

All information included in this section is unaudited.

The Group's KPMs are summarised below, along with which of these measures are considered APMs by the Group. All of the measures in this section are presented on a continuing operations basis.

Key performance measure	Type	Definition	Reason for using
Adjusted operating profit before tax	**APM, KPM**	Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS total profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax, including adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations. The adjusted operating profit methodology is described in Section 1.2, along with a reconciliation of total IFRS profit to adjusted operating profit before tax.	Adjusted operating profit before tax is less affected by one-time impacts and other short-term investment movements than IFRS total profit before tax, and is therefore more representative of the long-term performance of the business.
Net client flows	**KPM**	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period.	Net client flows demonstrate how the Group is growing and how successful the Group is at retaining and attracting new customer investments to its products and funds.
Assets under management and/or administration (AUMA)	**KPM**	Closing AUMA represents the total market value of all financial assets managed and/or administered on behalf of customers at the end of each financial period.	AUMA is a key indicator of the scale of the business and demonstrates the potential earnings from investment return and fee income.
Shareholder Solvency II coverage ratio	**APM, KPM**	The regulatory Solvency II capital position considers the Group's overall own funds and Solvency Capital Requirements ("SCR"). The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II coverage ratio is described in Section 1.4.	Management focuses on a shareholder view of the Solvency II coverage ratio, which is considered to provide a more relevant reflection of the capital strength of the Group.
Total capital generation	**KPM**	Surplus capital is the amount by which own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations.	Total capital generation measures the change in surplus capital during the reporting period, and is therefore considered a key measure for the Group. It is integral to the running and monitoring of the business, capital allocation, investment decisions and ultimately the Group's dividend policy.
Operating capital generation	**KPM**	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs.	Operating capital generation is less affected by one-time impacts such as market movements or restructuring costs, than total capital generation, and is therefore more representative of the long-term performance of the business.

1.2 Adjusted operating profit before tax

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure. In determining the adjusted operating profit before tax of the Group, certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements, are made to IFRS profit before tax. These include adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations. Adjusted operating profit before tax is used by the Group for key decision-making and the internal performance management of its operating segments. The Group considers adjusted operating profit before tax to be more representative of the long-term performance of the business, as it is less affected by one-time impacts and short-term investment movements. It therefore enhances comparability from period to period.

For the Group's fee-based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses incurred to meet regulatory requirements and regular business development/restructuring and other costs. Costs associated with fundamental one-off Group-wide restructuring and transformation are not included in adjusted operating profit before tax.

For the Group's business written in the With-Profits Fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholders of lower future shareholder transfers, and can be separated into two types:

(i) Cash flow hedges: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers.

(ii) Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position, with no direct link to IFRS profits.

The realised gains or losses on the cash flow hedges are allocated to adjusted operating profit before tax in line with emergence of the corresponding shareholder transfer within IFRS profit. Any short-term temporary movements in the fair value of these instruments, not relating to the current year's shareholder transfers, are excluded from adjusted operating profit before tax. As the capital hedges do not explicitly hedge future IFRS profits, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

For the Group's shareholder annuity products written by the Heritage segment, adjusted operating profit before tax excludes impacts that are the result of credit experience variance relative to assumptions, including the impact of credit risk provisioning for actual upgrades and downgrades during the period, and the impact of defaults and other similar experience such as asset exchanges arising from debt restructuring. Total realised and unrealised fair value movements on surplus assets backing the shareholder annuity capital are also excluded from the adjusted operating profit before tax.

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Group, including profits or losses arising on corporate transactions and discontinued operations.

The key adjustments made to total profit before tax to derive adjusted operating profit before tax are shown below:

- Short-term fluctuations in investment returns: the adjustment to remove short-term fluctuations in investment returns from adjusted operating profit before tax represents the:
  i. difference between the assumed long-term investment return used to determine operating profit before tax for shareholder annuity and non-linked products and the short-term, unrealised market movements on these products; and
  ii. short-term, temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer.
- Profit/loss on corporate transactions: the profit or loss arising on the purchase or sale of a subsidiary, joint venture, associate or significant line of business is excluded from adjusted operating profit.
- Restructuring and other costs: the shareholders' allocation of costs associated with the merger, transformation, rebranding and other change in control costs. These costs represent fundamental one-off Group-wide restructuring and transformation, and are therefore excluded from adjusted operating profit before tax.
- Certain significant one-off items: items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Group. Such items will be considered on a case-by-case basis.
- Profit/(loss) before tax from discontinued operations: the profit and loss arising on those operations considered to be discontinued.

A reconciliation of IFRS profit after tax to adjusted operating profit before tax is outlined in Section 1.2 (iii).

1.2 Adjusted operating profit before tax (continued)

1.2 (i) Adjusted operating profit before tax by segment

	For the year ended 31 December							
	Savings and Asset Management		Heritage		Corporate Centre		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Adjusted operating profit before tax by segment	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Fee-based revenue	**1,191**	1,258	**96**	96	**—**	—	**1,287**	1,354
Annuity margin	**—**	—	**458**	1,129	**—**	—	**458**	1,129
With-profits shareholder transfer net of hedging gains/losses	**55**	54	**187**	201	**—**	—	**242**	255
Total adjusted operating income	**1,246**	1,312	**741**	1,426	**—**	—	**1,987**	2,738
Adjusted operating expenses	**(817)**	(779)	**(87)**	(125)	**(59)**	(13)	**(963)**	(917)
Other shareholder profit/(loss)	**30**	(81)	**98**	(136)	**(18)**	1	**110**	(216)
Share of joint ventures' and associates' adjusted operating profit before tax(i)	**15**	16	**—**	—	**—**	—	**15**	16
Adjusted operating profit/(loss) before tax	**474**	468	**752**	1,165	**(77)**	(12)	**1,149**	1,621

(i) Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

Each reportable segment reports adjusted operating income as its measure of revenue. Fee-based revenues and other income primarily represents asset management charges, transactional charges and annual management charges on unit-linked business. The annuity margin reflects the margin earned on annuity business and includes net earned premiums, claims and benefits paid, net investment return for assets backing the liabilities, net investment income for surplus assets backing the annuity capital, actuarial reserving changes, investment management expenses and administrative expenses. The with-profits shareholder transfer reflects the statutory transfer gross of attributable tax, net of hedging gains.

Adjusted operating expenses includes shareholders' operating expenses incurred outside the annuity and with-profits portfolios. Other net shareholder expenses include non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside the annuity portfolio.

Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method.

1.2 (ii) Adjusted operating profit before tax by source from continuing operations

	For the year ended 31 December	
	2019	2018
Adjusted operating profit before tax by source	**£m**	£m
Savings and Asset Management:		
Asset Management	**381**	473
With-profits	**55**	54
Other	**38**	(59)
Total Savings and Asset Management	**474**	468
Heritage:		
With-profits	**187**	201
Shareholder annuities	**458**	1,129
Other	**107**	(165)
Total Heritage	**752**	1,165
Corporate Centre	**(77)**	(12)
Adjusted operating profit before tax	**1,149**	1,621

Financial information

1.2 Adjusted operating profit before tax from continuing operations (continued)

Adjusted operating profit before tax arising from shareholder annuities is further analysed in the table below.

Breakdown of contribution from shareholder annuities to adjusted operating profit before tax	For the year ended 31 December 2019 £m	2018 £m
Return on excess assets and margin release	**216**	251
Asset trading and other optimisation	**110**	113
Longevity assumption changes	**126**	441
Amounts relating to the thematic review of annuity sales practices	**(24)**	166
Other (see table below for breakdown)	**30**	158
Shareholder annuities	**458**	1,129

Breakdown of other contribution from shareholder annuities to adjusted operating profit before tax	For the year ended 31 December 2019 £m	2018 £m
Mismatching profits/(losses)	**55**	(33)
Other assumption and model improvements	**32**	164
Experience variances	**4**	6
Other provisions and reserves	**(61)**	21
Other contribution	**30**	158

Mismatching profits/losses relates to short-term mismatches between the value of annuity liabilities and the long-term assets backing these liabilities due to the impact of market movements.

Other assumptions and model improvements include assumption changes other than those relating to longevity, the most significant of which are changes to the short-term credit allowance, the impact of expense assumption changes, and the impact of model improvements. In 2018 this item also includes an asset yield benefit from the retention of certain property assets following the reinsurance of part of the annuity portfolio to Rothesay Life plc.

Breakdown of other Savings and Asset Management adjusted operating profit	For the year ended 31 December 2019 £m	2018 £m
International business	**42**	(31)
Investment income	**25**	(17)
Other	**(29)**	(11)
Other Savings and Asset Management	**38**	(59)

International business includes our share of profits from our asset management associate in South Africa and profits from our European savings businesses. 2018 includes a £56m one-off cost related to the development of our business in Poland in 2018.

Investment income includes income arising in Asset Management, primarily in respect of seed capital investments.

1.2 Adjusted operating profit before tax (continued)

1.2 (iii) Reconciliation of adjusted operating profit before tax to IFRS profit after tax from continuing operations

	For the year ended 31 December 2019 £m	2018 £m
Adjusted operating profit before tax	**1,149**	1,621
Short-term fluctuations in investment returns	**298**	(3)
Profit/(loss) on disposal of business and corporate transactions	**53**	(508)
Restructuring and other costs	**(198)**	(109)
IFRS profit attributable to non-controlling interests	**3**	2
IFRS profit before tax attributable to equity holders from continuing operations	**1,305**	1,003
Tax from continuing operations	**(240)**	(192)
IFRS profit after tax attributable to equity holders from continuing operations	**1,065**	811

1.2 (iv) Reconciliation of adjusted operating profit before tax by segment to adjusted operating profit before tax by source

	Savings and asset management			Heritage			Corporate Centre
For the year ended 31 December 2019 £m	**Asset Management**	**With-profits**	**Other**	**Annuities**	**With-profits**	**Other**	**Other**
Asset Management fee based revenues	**1,033**	**—**	**—**	**—**	**—**	**—**	**—**
Other fee based revenues	**—**	**—**	**158**	**—**	**—**	**96**	**—**
Fee based revenues	**1,033**	**—**	**158**	**—**	**—**	**96**	**—**
Annuity margin	**—**	**—**	**—**	**458**	**—**	**—**	**—**
With-profits shareholder transfer net of hedging gains/(losses)	**—**	**55**	**—**	**—**	**187**	**—**	**—**
Adjusted operating income	**1,033**	**55**	**158**	**458**	**187**	**96**	**—**
Asset Management operating expenses	**(652)**	**—**	**—**	**—**	**—**	**—**	**—**
Other operating expenses	**—**	**—**	**(165)**	**—**	**—**	**(87)**	**(59)**
Adjusted operating expenses	**(652)**	**—**	**(165)**	**—**	**—**	**(87)**	**(59)**
Other shareholder profit/(loss)	**—**	**—**	**30**	**—**	**—**	**98**	**(18)**
Share of associates and joint ventures operating profit before tax	**—**	**—**	**15**	**—**	**—**	**—**	**—**
Adjusted operating profit before tax	**381**	**55**	**38**	**458**	**187**	**107**	**(77)**

	Savings and asset management			Heritage			Corporate Centre
For the year ended 31 December 2018 £m	Asset Management	With-profits	Other	Annuities	With-profits	Other	Other
Asset Management fee based revenues	1,113	—	—	—	—	—	—
Other fee based revenues	—	—	145	—	—	96	—
Fee based revenues	1,113	—	145	—	—	96	—
Annuity margin	—	—	—	1,129	—	—	—
With-profits shareholder transfer net of hedging gains/(losses)	—	54	—	—	201	—	—
Adjusted operating income	1,113	54	145	1,129	201	96	—
Asset Management operating expenses	(640)	—	—	—	—	—	—
Other operating expenses	—	—	(139)	—	—	(125)	(13)
Adjusted operating expenses	(640)	—	(139)	—	—	(125)	(13)
Other shareholder profit/(loss)	—	—	(81)	—	—	(136)	1
Share of associates and joint ventures operating profit before tax	—	—	16	—	—	—	—
Adjusted operating profit before tax	473	54	(59)	1,129	201	(165)	(12)

1.3 Assets under management and administration (AUMA) and net client flows

(i) Detailed AUMA and net client flows

	For the year ended 31 December 2019					
	At 31 December 2018 £bn	**Gross inflows £bn**	**Gross outflows £bn**	**Net client flows £bn**	**Market/Other movements £bn**	**At 31 December 2019 £bn**
Institutional Asset Management	**70.5**	**10.7**	**(10.8)**	**(0.1)**	**6.4**	**76.8**
Retail Asset Management	**76.4**	**21.2**	**(28.6)**	**(7.4)**	**5.9**	**74.9**
Retail Savings	**50.6**	**11.0**	**(4.8)**	**6.2**	**6.7**	**63.5**
of which: PruFund	**43.0**	**10.2**	**(3.8)**	**6.4**	**4.4**	**53.8**
Other	**0.2**	**—**	**—**	**—**	**0.5**	**0.7**
Total Savings and Asset Management	**197.7**	**42.9**	**(44.2)**	**(1.3)**	**19.5**	**215.9**
Shareholder annuities	**24.9**	**0.2**	**(2.3)**	**(2.1)**	**12.7**	**35.5**
Traditional with-profits	**84.6**	**0.6**	**(5.7)**	**(5.1)**	**5.3**	**84.8**
Other	**14.0**	**(0.2)**	**(0.2)**	**(0.4)**	**0.1**	**13.7**
Total Heritage	**123.5**	**0.6**	**(8.2)**	**(7.6)**	**18.1**	**134.0**
Corporate assets	**—**	**—**	**—**	**—**	**1.6**	**1.6**
Group total	**321.2**	**43.5**	**(52.4)**	**(8.9)**	**39.2**	**351.5**

	For the year ended 31 December 2018					
	At 31 December 2017 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/Other movements £bn	At 31 December 2018 £bn
Institutional Asset Management	73.6	11.2	(13.6)	(2.4)	(0.7)	70.5
Retail Asset Management	90.3	26.3	(33.8)	(7.5)	(6.4)	76.4
Retail Savings	44.0	12.3	(4.1)	8.2	(1.6)	50.6
of which: PruFund	35.9	12.0	(3.5)	8.5	(1.4)	43.0
Other	0.2	—	—	—	—	0.2
Total Savings and Asset Management	208.1	49.8	(51.5)	(1.7)	(8.7)	197.7
Shareholder annuities	39.1	(0.7)	(0.6)	(1.3)	(12.9)	24.9
Traditional with-profits	91.4	0.5	(5.8)	(5.3)	(1.5)	84.6
Other	12.1	(0.1)	(0.3)	(0.4)	2.3	14.0
Total Heritage	142.6	(0.3)	(6.7)	(7.0)	(12.1)	123.5
Group total	350.7	49.5	(58.2)	(8.7)	(20.8)	321.2

1.3 Assets under management and administration (AUMA) and net client flows (continued)

(ii) AUMA by asset class

	For the year ended 31 December 2019								
	On balance sheet AUMA					External AUMA			Total
	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Retail £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Equities	**56**	**11**	**—**	**—**	**67**	**32**	**2**	**34**	**101**
Public fixed income	**46**	**3**	**20**	**1**	**70**	**38**	**36**	**74**	**144**
of which Government	**8**	**1**	**6**	**1**	**16**	**18**	**15**	**33**	**49**
of which Corporate	**38**	**2**	**14**	**—**	**54**	**20**	**21**	**41**	**95**
Private fixed income	**5**	**—**	**3**	**—**	**8**	**1**	**19**	**20**	**28**
Real estate	**11**	**1**	**1**	**—**	**13**	**2**	**12**	**14**	**27**
Alternatives	**9**	**—**	**(1)**	**—**	**8**	**—**	**3**	**3**	**11**
Other	**16**	**1**	**14**	**1**	**32**	**2**	**5**	**7**	**39**
Other assets under administration	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**
Total	**143**	**16**	**37**	**2**	**198**	**75**	**77**	**152**	**352**

	For the year ended 31 December 2018								
	On balance sheet AUMA					External AUMA			Total
	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Retail £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Equities	41	10	—	—	51	27	1	28	79
Public fixed income	48	7	21	—	76	44	45	89	165
of which Government	10	1	7	—	18	20	26	46	64
of which Corporate	38	6	14	—	58	24	19	43	101
Private fixed income	9	1	3	—	13	—	11	11	24
Real estate	16	—	2	—	18	2	9	11	29
Alternatives	8	—	—	—	8	—	2	2	10
Other	9	(1)	—	—	8	3	3	6	14
Other assets under administration	—	—	—	—	—	—	—	—	—
Total	131	17	26	—	174	76	71	147	321

1.3 Assets under management and administration (AUMA) and net client flows (continued)

(iii) AUMA by geography

	For the year ended 31 December 2019 £bn	2018 £bn
UK	**288**	261
Europe	**49**	49
Asia-Pacific	**8**	4
Middle East and Africa	**6**	6
Americas	**1**	1
Total AUMA	**352**	321

AUMA by geography is based on the country of the underlying client.

1.4 Solvency II capital position

1.4.1 Solvency II overview

The Group is supervised as an insurance group by the Prudential Regulation Authority. Individual insurance undertakings within the Group are also subject to the supervision of the Prudential Regulation Authority (or other EU competent authorities) on a solo basis under the Solvency II regime.

The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the Solvency Capital Requirement ("SCR"). Own funds is the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments. The SCR is calculated using the Group's internal model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

1.4.2 Basis of preparation for comparative Solvency II information

As the Group was not a regulated insurance group prior to the demerger date, the capital position and accompanying information as at 31 December 2018 have been prepared on an illustrative basis, starting from the IFRS consolidated statement of financial position. In particular, merger accounting principles have been applied as described in Note 1.1 of the Group financial statements. This means that Prudential Capital Holdings Limited and its subsidiaries, and 10FA India Private Limited (formerly known as Prudential Global Services Private Limited) have been presented as if the entities had been part of the Group from 1 January 2018. Prudential Vietnam Finance Company has also been included within the Solvency II results as at 31 December 2018. As the Hong Kong subsidiaries were disposed prior to 31 December 2018, these subsidiaries are not included in the results.

1.4.3 Estimated and unaudited reconciliation of IFRS shareholders' equity to Group Solvency II own funds

	As at 31 December 2019 £bn	2018 £bn
IFRS shareholders' equity	**5.1**	8.9
Add back unallocated surplus of the With-Profits Fund	**16.1**	13.4
Deduct goodwill and intangible assets	**(1.3)**	(1.3)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**0.3**	0.1
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.5)**	(1.7)
Fair value assets and liabilities not held at fair value under IFRS	**(0.1)**	—
Other	**0.1**	—
Solvency II excess of assets over liabilities	**18.7**	19.4
Subordinated debt capital	**3.8**	—
Ring-fenced fund restrictions	**(7.6)**	(5.5)
Solvency II eligible own funds	**14.9**	13.9

The key items in the reconciliation are explained below:

- *Unallocated surplus of the With-Profits Fund*: this amount is treated as a liability under IFRS, but considered surplus assets under Solvency II.
- *Goodwill and intangible assets*: these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.
- *Policyholder liability and reinsurance asset valuation differences*: there are significant differences in the valuation of technical provisions between IFRS and Solvency II. The most material differences relate to the exclusion of prudent margins in longevity assumptions under Solvency II, and also the use of different discount rates, both in relation to the valuation of annuity liabilities.

1.4 Solvency II capital position (continued)

- *Solvency II risk margin (net of transitional measures):* the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.
- *Subordinated debt capital:* subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- *Ring-fenced fund restrictions:* any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

1.4.4 Composition of own funds

The Group's total estimated and unaudited own funds are analysed by Tier as follows:

	As at 31 December	
	2019 £bn	2018 £bn
Tier 1 (unrestricted)	**11.1**	13.9
Tier 1 (restricted)	**—**	—
Tier 2	**3.8**	—
Tier 3	**—**	—
Total own funds	**14.9**	13.9

The Group's Tier 2 capital consists of subordinated debt instruments. The terms of these instruments allow them to be treated as capital for the purposes of Solvency II. The instruments were originally issued by Prudential plc, and subsequently substituted to the parent company, as permitted under the terms and conditions of each applicable instrument, prior to demerger. The details of the Group's subordinated liabilities are shown in Note 28 of the financial statements. The Solvency II value of the debt differs to the IFRS carrying value due to a different basis of measurement on the respective balance sheets.

1.4.5 Estimated and unaudited shareholder view of the Solvency II capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more relevant reflection of the capital strength of the Group.

The estimated and unaudited shareholder Solvency II capital position for the Group as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019 £bn	2018 £bn
Shareholder Solvency II own funds	**10.3**	9.7
Shareholder Solvency II SCR	**(5.8)**	(5.7)
Solvency II surplus	**4.5**	4.0
Shareholder Solvency II coverage ratio[i]	**176%**	170%

(i) Shareholder Solvency II coverage ratio has been calculated using unrounded figures.

The Group's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. Further information on the ring-fenced With-Profits Fund's capital position is provided in Section 1.4.6.

In accordance with the Solvency II requirements, these results include:

- A Solvency Capital Requirement which has been calculated using the Group's internal model. The Group received approval from the Prudential Regulation Authority prior to demerger to amend the existing internal model to apply at the level of the Group, rather than at the level of Prudential plc group.
- Transitional measures, which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The recalculated transitional measures align to the regulatory position as at 31 December 2019 and will therefore be reflected in the formal regulatory Quantitative Reporting Templates and Group SFCR.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority.
- M&G Group Limited and other undertakings carrying out financial activities consolidated under local sectoral or notional sectoral capital requirements.

1.4 Solvency II capital position (continued)

Breakdown of the shareholder Solvency II SCR by risk type

Group shareholder undiversified risk capital	As at 31 December 2019 £bn
Equity	**1.4**
Property	**0.9**
Interest rate	**0.4**
Credit	**3.8**
Currency	**0.8**
Longevity	**1.6**
Lapse	**0.2**
Operational and expense	**1.5**
Sectoral(i)	**0.5**
Total undiversified	**11.1**
Diversification, deferred tax, and other	**(5.3)**
Shareholder SCR	**5.8**

(i) Includes entities included within the Group's Solvency II capital position on a sectoral or notional sectoral basis, the most material of which is M&G Group Limited.

Sensitivity analysis of the shareholder Solvency II coverage ratio

The estimated sensitivity of the Group's shareholder Solvency II coverage ratio to significant changes in market conditions are shown below. All sensitivities are presented after an assumed recalculation of transitional measures on technical provisions.

	As at 31 December 2019
Base shareholder Solvency II coverage ratio	**176%**
20% instantaneous fall in equity markets	**170%**
50 bps reduction in interest rates	**170%**
100 bps widening in credit spreads	**172%**
20% credit asset downgrade(i)	**170%**

(i) Average impact of one full letter downgrade across 20% of assets exposed to credit risk.

1.4.6 Estimated and unaudited With-Profits Fund view of the Solvency II capital position

The With-Profits Fund view of the Solvency II capital position represents the standalone capital strength of the Group's ring-fenced With-Profits Fund. This view of Solvency II capital takes into account the assets, liabilities, and risk exposures within the ring-fenced With-Profits Fund, which includes the WPSF, SAIF and DCPSF.

The estimated and unaudited Solvency II capital position for the Group under the With-Profits Fund view as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019 £bn	2018 £bn
With-Profits Fund Solvency II own funds	**12.2**	9.7
With-Profits Fund Solvency II SCR	**(4.6)**	(4.2)
With-Profits Fund Solvency II surplus	**7.6**	5.5
With-Profits Fund Solvency II coverage ratio(i)	**267%**	231%

(i) With-Profits Fund Solvency II coverage ratio has been calculated using unrounded figures.

1.4 Solvency II capital position (continued)

The estimated and unaudited Solvency II capital position for the Group under the 'regulatory' view as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019 £bn	2018 £bn
Solvency II own funds	**14.9**	13.9
Solvency II SCR	**(10.4)**	(9.9)
Solvency II surplus	**4.5**	4.0
Solvency II coverage ratio(i)	**143%**	141%

(i) Solvency II coverage ratio has been calculated using unrounded figures.

1.5 Capital generation (estimated and unaudited)

The level of surplus capital is an important financial consideration for the Group. Capital generation measures the change in surplus capital during the reporting period, and is therefore considered a key measure for the Group. It is integral to the running and monitoring of the business, capital allocation and investment decisions, and ultimately the Group's dividend policy.

The overall change in Solvency II surplus capital over the period is analysed as follows:

Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations.

Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs as defined under adjusted operating profit before tax. It has two components:

a. Underlying capital generation, which includes: the underlying expected surplus capital from the in-force life insurance business; the change in surplus capital as a result of writing new life insurance business; the adjusted operating profit before tax and associated capital movements from Asset Management; and other items, including head office expenses and debt interest costs.

b. Other operating capital generation, which includes non-market related experience variances, assumption changes, modelling changes and other movements.

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.28% for the year ended 31 December 2019 and 4.25% for the year ended 31 December 2018. For annuity business, the assumed average return on assets backing capital was 2.44% for the year ended 31 December 2019 and 1.89% for the year ended 31 December 2018.

The Group's capital generation results in respect of the years ended 31 December 2019 and 31 December 2018 are shown below alongside a reconciliation of the total movement in the Group's Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in Section 1.4.

The capital generation results and comparatives have adopted a basis of preparation consistent with the IFRS financial statements. In particular:

- The reduction in the Group's own funds and SCR arising from the disposal of the Hong Kong subsidiaries has been included within capital generated from discontinued operations for the year ended 31 December 2018. This amount includes the loss of diversification with the remaining business.
- The capital generated from the Prudential Vietnam Finance Company Limited for the year ended 31 December 2018, and the capital impact arising on disposal of this entity during 2019, have been reflected within capital generated from discontinued operations.
- Merger accounting principles have been applied as described in Note 1.1. of the IFRS financial statements, meaning that Prudential Capital Holdings Limited ("PruCap") and its subsidiaries, and 10FA India Private Limited (formerly known as Prudential Global Services Private Limited) have been included within the Group's capital generation results from 1 January 2018. The movements in capital attributable to the discontinued corporate treasury activity of PruCap has been included within capital generated from discontinued operations.
- Total capital generation includes £923m of surplus capital generated from entering into a reinsurance arrangement with Rothesay Life plc in March 2018. This is included as a non-recurring item within "Restructuring and other". The impact was previously excluded from the capital generation results for the year ended 31 December 2018, as the business was classified as held for sale.

1.5 Capital generation (continued)

	Savings and Asset Management 2019 £m	Savings and Asset Management 2018 £m	Heritage 2019 £m	Heritage 2018 £m	Corporate Centre 2019 £m	Corporate Centre 2018 £m	Total 2019 £m	Total 2018 £m
	For the year ended 31 December							
Underlying capital generation	**442**	389	**459**	523	**(80)**	(12)	**821**	900
Other operating capital generation	**17**	56	**517**	895	**(79)**	(9)	**455**	942
Operating capital generation	**459**	445	**976**	1,418	**(159)**	(21)	**1,276**	1,842
Market movements	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**538**	12
Restructuring and other[i]	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**(133)**	814
Tax	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**(172)**	(299)
Total capital generation	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,509**	2,369

(i) Includes capital generation of £923m during 2018 in relation to the reinsurance transaction with Rothesay Life plc.

Reconciliation of movement in Group Solvency II surplus		2019 Own funds[i] £m	2019 SCR[i] £m	2019 Surplus £m	2018 Own funds[i] £m	2018 SCR[i] £m	2018 Surplus £m
		For the year ended 31 December					
Underlying capital generation							
Savings and Asset Management	Asset Management	**381**	**(2)**	**379**	472	(75)	397
	With-profits	**130**	**(130)**	**—**	125	(150)	(25)
	– *of which: In-force*	**96**	**(35)**	**61**	50	(23)	27
	– *of which: New business*	**34**	**(95)**	**(61)**	75	(127)	(52)
	Other	**65**	**(2)**	**63**	20	(3)	17
	Savings and Asset Management underlying capital generation	**576**	**(134)**	**442**	617	(228)	389
Heritage	With-profits	**71**	**—**	**71**	178	(26)	152
	Shareholder annuity and other	**255**	**133**	**388**	220	151	371
	Heritage underlying capital generation	**326**	**133**	**459**	398	125	523
Corporate	**Interest and head office cost[ii]**	**(84)**	**4**	**(80)**	(12)	—	(12)
Underlying capital generation		**818**	**3**	**821**	1,003	(103)	900
Other operating capital generation							
	Savings and Asset Management	**1**	**16**	**17**	(66)	122	56
	Heritage	**222**	**295**	**517**	690	205	895
	Corporate Centre	**17**	**(96)**	**(79)**	(9)	—	(9)
Operating capital generation		**1,058**	**218**	**1,276**	1,618	224	1,842
	Market movements	**983**	**(445)**	**538**	(391)	403	12
	Restructuring and other[iii]	**(168)**	**35**	**(133)**	(343)	1,157	814
	Tax	**(139)**	**(33)**	**(172)**	(225)	(74)	(299)
Total capital generation		**1,734**	**(225)**	**1,509**	659	1,710	2,369
Capital generation from discontinued operations		**70**	**88**	**158**	(4,882)	1,044	(3,838)
Total capital generation including discontinued operations		**1,804**	**(137)**	**1,667**	(4,223)	2,754	(1,469)
Dividends and capital movements		**(1,213)**	**2**	**(1,211)**	(664)	—	(664)
Total increase/(decrease) in Solvency II surplus		**591**	**(135)**	**456**	(4,887)	2,754	(2,133)

(i) Own funds and SCR movements shown as per the shareholder Solvency II capital position, and do not include the own funds and SCR in respect of the ring-fenced With-Profits Fund.

(ii) Underlying capital generated by the Corporate Centre is largely consistent with adjusted operating profit before tax with the exception of the valuation of financing costs resulting in a different impact on a Solvency II basis compared to IFRS.

(iii) Includes capital generation of £923m during 2018 in relation to the reinsurance transaction with Rothesay Life plc.

1.6 Financial ratios (unaudited)

Included in this section are details of how some of the financial ratios used to help analyse the performance of the Savings and Asset Management business are calculated.

(i) Cost/income ratio for M&G Group Limited

Cost/income ratio is a measure of cost efficiency which analyses costs as a percentage of revenue.

	For the year ended 31 December	
	2019	2018
	£m	£m
Total costs[i]	**(652)**	(640)
Total Revenue	**1,031**	1,086
Add:		
Profit from associate	**15**	16
Performance fees and carried interest	**27**	15
Adjusted operating profit for M&G Group Limited	**421**	477
Cost/income ratio (%)	**63%**	59%

(i) Costs exclude restructuring and other costs of £39m (2018: £52m).

Adjusted operating profit for M&G Group Limited is split as follows:

	For the year ended 31 December	
	2019	2018
	£m	£m
Asset Management	**380**	473
Other	**41**	4
Adjusted operating profit for M&G Group Limited	**421**	477

(ii) Average fee margin

This represents the average fee revenue yield on fee business and demonstrates the margin being earned on the assets we manage or administer.

	For the year ended 31 December					
	2019			2018		
	Average AUMA[i]	**Revenue**	**Revenue margin**	Average AUMA[i]	Revenue	Revenue margin
	£bn	**£m**	**bps**	bn	£m	bps
Retail Asset Management	**102**	**584**	**57**	116	695	60
Institutional Asset Management	**165**	**429**	**26**	162	404	25
Total Savings and Asset Management	**267**	**1,013**	**38**	278	1,099	40

(i) Average AUMA represents the average total market value of all financial assets managed and administered on behalf of customers during the financial period. Average AUMA is calculated using a 13-point average of monthly closing AUMA for full year periods.

Financial information

Shareholder information

M&G plc maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Company's financial calendar: www.mandg.com

Annual General Meeting

M&G plc's inaugural Annual General Meeting (AGM) will be held at 200 Aldersgate, London on 27 May 2020 at 10:00am. A poll will be called on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website.

In accordance with relevant legislation, shareholders holding 5% or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Group Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM.

Company constitution

M&G plc is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles) which are available on the Company's website. The Company's Articles state that the Board may appoint Directors but that those Directors are required to offer themselves up for re-election annually at the AGM. The Articles can only be amended with shareholder approval.

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling M&G plc ordinary shares; please see the Equiniti address or telephone +44 (0)371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling M&G plc shares. For telephone sales, call +44 (0)345 603 7037 between 8.00am and 4.30pm, Monday to Friday, and for internet sales log on to: www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may obtained from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

Registrar

M&G plc's share register is managed and administered by Equiniti.

By post

Equiniti Limited, Aspect House, Spencer Road
Lancing, West Sussex, BN99 6DA, UK

By telephone

Tel +44 (0)371 384 2543
Textel +44 (0)371 384 2255 (for hard of hearing)

Lines are open from 8.30am to 5.30pm (UK), Monday to Friday.

International shareholders
Tel +44 (0)121 415 1280

Glossary

Term	Definition
Adjusted operating profit before tax	Adjusted operating profit before tax is the Group's key alternative performance measure. It is defined in the alternative performance measure section on page 239.
Alternative performance measure (APM)	An alternative performance measure (APM) is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations. The Group's APMs are adjusted operating profit before tax and the shareholder Solvency II coverage ratio.
Annuity policy	Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium.
Asset-backed security (ABS)	A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.
Assets under management and administration (AUMA)	Assets under management and administration refers to the total market value of all financial assets managed and/or administered on behalf of customers.
Average fee margin	The average fee margin is calculated from fee-based revenues earned in the period, excluding performance fees, divided by average AUMA for the period. It demonstrates the revenue margin that was earned on the assets we manage.
Board	The Board of Directors of the Company.
Bonuses	Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus: Regular bonus: expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and Final bonus: an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.

Term	Definition
Brexit	The term used to refer to the United Kingdom's departure from the European Union after 31 January 2020.
Chief Operating Decision Maker	The Group Executive Committee.
Company	M&G plc, a public limited company incorporated in England and Wales with registered number 11444019 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
Company	See M&G plc.
Cost/income ratio	The cost/income ratio represents total operating costs (ie excluding any restructuring costs which qualify as non-operating) divided by total revenue. This excludes performance fees and M&G's share of the profits of its South African joint venture.
Demerger	The demerger of the Group from the The Prudential plc Group on 20 October 2019.
Director	A Director of the Company.
Defined benefit pension scheme	A pension scheme where an employer/sponsor promises a specified benefit on retirement that is predetermined by the scheme rules based on the employee's earnings history, length of service and age, instead of depending directly on investment returns.
Defined contribution pension scheme	A pension scheme where the benefits at retirement are determined by contributions paid into the fund by the member and the employer. The amount in each fund at retirement depends upon the investment returns achieved and member and employer contributions.
Earnings per share (EPS)	Earnings per share (EPS) is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.
Employee benefit trust (EBT)	An employee benefit trust (EBT) is a trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards.

Term	Definition
Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the income statement.
FCA	The Financial Conduct Authority (FCA) is the body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.
Group	This refers to the Group of companies that includes M&G plc, and its affiliated companies which include The Prudential Assurance Company Limited and M&G Group Limited.
Group Executive Committee	The Group Executive Committee is composed of Board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). All publicly listed groups in the European Union are required to apply IFRS in preparing consolidated financial statements. The Group's consolidated financial statements are prepared in accordance with IFRS as endorsed by the European Union.
Key performance measure (KPM)	The Group measures its financial performance using a number of key performance measures. These include: adjusted operating profit before tax, net client flows, AUMA, shareholder Solvency II coverage ratio, total capital generation and operating capital generation.
Leverage ratio	The leverage ratio is calculated as nominal value of debt as a percentage of total Group own funds.
Long-term incentive plan (LTIP)	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to the Group's strategy.
M&G Group Limited	(MGG) is a private limited company incorporated in England and Wales with registered number 00633480 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.

Term	Definition
M&G plc	M&G plc is a company incorporated and with its principal place of business in England. M&G plc and its affiliated companies constitute a savings and investments business. M&G plc is the direct parent company of The Prudential Assurance Company Limited and M&G Group Limited. Throughout this document, unless otherwise stated, the term "M&G plc" should be taken as a reference to the Group of companies that includes M&G plc, and its affiliated companies.
Merger and Transformation Programme	In August 2017, Prudential plc announced the merger of its UK and Europe business with the asset manager M&G to form the Group (the Merger). In conjunction with the Merger, and as part of the execution of its business strategy, the Group is implementing a transformation programme, with a number of initiatives and programmes. This is expected to be completed in 2022.
Net client flows	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are funds withdrawn by clients and customers during the period.
Net Promoter Score (NPS)	Net Promoter Score is a measure of the willingness of a company's customers to recommend its products or services to others.
Operating capital generation	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring costs.
Own funds	Own funds refers to the Solvency II measure of capital available to meet losses and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments.
Parent Company	See M&G plc.
Paris Agreement	The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change, dealing with greenhouse gas emissions mitigation, adaptation, and finance, agreed in 2015.
PRA	The Prudential Regulation Authority (PRA) is the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Term	Definition
Prudential Group	Prudential plc and its subsidiaries and subsidiary undertakings.
Prudential plc	Prudential plc is a public limited company incorporated in England and Wales with registered number 1397169 whose registered office is 1 Angel Court, London EC2R 7AG, United Kingdom.
PruFund	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
Restructuring costs	Restructuring costs primarily reflect costs associated with the Merger and Transformation Programme and rebranding and other change in control costs. These costs represent fundamental one-off Group-wide restructuring and transformation.
Rothesay Life	Rothesay Life plc.
Scottish Amicable Insurance Fund (SAIF)	SAIF is a ring-fenced sub-fund of The Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of M&G plc have no entitlement to the profits of this fund although they are entitled to asset management fees on this business.
Shareholder Solvency II coverage ratio	Shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund shareholder Solvency II coverage ratio is an APM.
Solvency Capital Requirement (SCR)	Solvency Capital Requirement represents the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to. The SCR is calculated using the Group's Solvency II internal model.
Solvency II	The regime for the prudential regulation of European insurance companies that came into force on 1 January 2016.
Solvency II surplus	Solvency II surplus represents the own funds held by the Group less the Solvency Capital Requirement.

Term	Definition
The Prudential Assurance Company (PAC)	The Prudential Assurance Company Limited is a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
Thematic review of annuity sales practices (TRASP)	This review, conducted by the Financial Conduct Authority, assessed how firms provided information to customers, on a non-advised basis, about shopping around for enhanced annuities.
Total capital generation	Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generation from discontinued operations.
Transitional measures on technical provisions (TMTP)	An adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January 2016. This decreases linearly over 16 years following the implementation of Solvency II, but may be recalculated in certain cases, subject to agreement with the PRA.
Total Shareholder Return (TSR)	Total Shareholder Return represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.
Unallocated surplus of the With-Profits Fund	Unallocated surplus of the With-Profits Fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders.
Unit-linked policy	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.
With-Profits Fund	The Prudential Assurance Company's fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. It is also known as a participating fund as policyholders have a participating interest in the With-Profit Funds and any declared bonuses. Generally, policyholder and shareholder participation in the with-profits funds in the UK is split in a 90:10 ratio.

Contact us

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London
EC3M 5AG
United Kingdom

Website
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Telephone
+44 (0)207 626 4588

Registered number
11444019

M&G plc is incorporated and registered in England and Wales. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.

Disclaimer on forward-looking statements

This document may contain certain 'forward-looking statements' with respect to M&G plc ("M&G") and its affiliates (the "M&G Group"), its plans, its current goals and expectations relating to future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements.

By their nature, forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may be beyond the M&G Group's control. A number of important factors could cause M&G's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union and the impact of Covid-19); market-related conditions and risk, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, corporate liquidity risk and the future trading value of the shares of M&G; investment portfolio-related risks, such as the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G's business and results from, in particular, mortality and morbidity trends, longevity assumptions, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions, such as transformation programmes, failing to meet their objectives; the impact of operational risks, including risk associated with third party arrangements, reliance on third party distribution channels and disruption to the availability, confidentiality or integrity of M&G's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which the M&G Group operates; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits.

Any forward-looking statements contained in this document speak only as of the date on which they are made. M&G expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, or other applicable laws and regulations.

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