M&G plc
Annual Report and
Accounts 2020

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

Making a difference the M&G way...

Performance highlights

Financial highlights from continuing operations[i]

Read more
Page 30

KPM APM REM

Adjusted operating profit before tax[ii]

£788m

(2019: £1,149m)

KPM

IFRS profit after tax

£1,142m

(2019: £1,065m)

KPM REM

Total capital generation

£995m

(2019: £1,509m)

KPM APM

Shareholder Solvency II coverage ratio[iii]

182%

(2019: 176%)

KPM

Assets under management and administration

£367.2bn

(2019: £351.5bn)

KPM

Savings and Asset Management net client outflows

£6.6bn outflow

(2019: £1.3bn outflow)

Non-financial highlights

REM

Female representation on the Group Executive Committee and their direct reports

30%

(2019: 29%)

REM

Employee sustainable engagement score

80%

(2019: 68%)

REM

Net Promoter Score (Retail Savings and Heritage)

+9

(2019: +8)

Carbon disclosure rating[iv]

A-

(2019: B)

REM

Direct carbon emissions: Scope 1 and 2 (tCO_2e)

3,126 (tCO_2e)

(2019: 4,007)

Key

KPM	Key performance measure (defined in glossary)
APM	Alternative performance measure (defined in glossary)
REM	Linked to remuneration measures for Executive Directors

i Continuing operations in 2019 excluded our Asia insurance operations and treasury services provided to Prudential plc which were presented as discontinued operations.

ii 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.

iii Shareholder Solvency II coverage ratio is the ratio of our own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The Solvency II position is presented assuming a recalculation of transitional measures in line with management's estimate of market and operating conditions as at the valuation date.

iv Awarded by CDP, a global environmental disclosure body. The score is an indicator of how we measure, disclose and manage our carbon emissions footprint.

> "In these very difficult times, we have two priorities: keeping colleagues safe and continuing to serve our customers and clients to the best of our abilities."

John Foley
Chief Executive

Strategic Report

Governance

Financial information

Other information

For further information see our website
www.mandgplc.com

M&G plc at a glance

A leader in savings and investments

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 values

Care

We act with care – treating customers, clients and colleagues with the same level of respect that 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.

Read more
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Our business model

Our business model as an asset manager and asset owner brings us strategic advantages.

Read more
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£367.2bn[i]	£232.3bn[ii]	£133.7bn
Total assets under management and administration	**Savings and Asset Management assets under management and administration**	**Heritage assets under management and administration**

i Includes Corporate AUMA of £1.2bn.
ii Includes Institutional AUMA of £85.5bn.

Our brands

M&G Investments

Our international asset manager, established in 1931.

PRUDENTIAL

Founded in 1848, manages long-term savings for customers in the UK and Europe.

M&G Real Estate

Our global real estate business, one of the world's largest commercial property investors.

Infracapital

Invests in and builds essential infrastructure that society needs.

M&G Wealth[i]

Our new integrated wealth management offering, established in 2020.

Our global reach

28
Markets globally

25
Offices worldwide

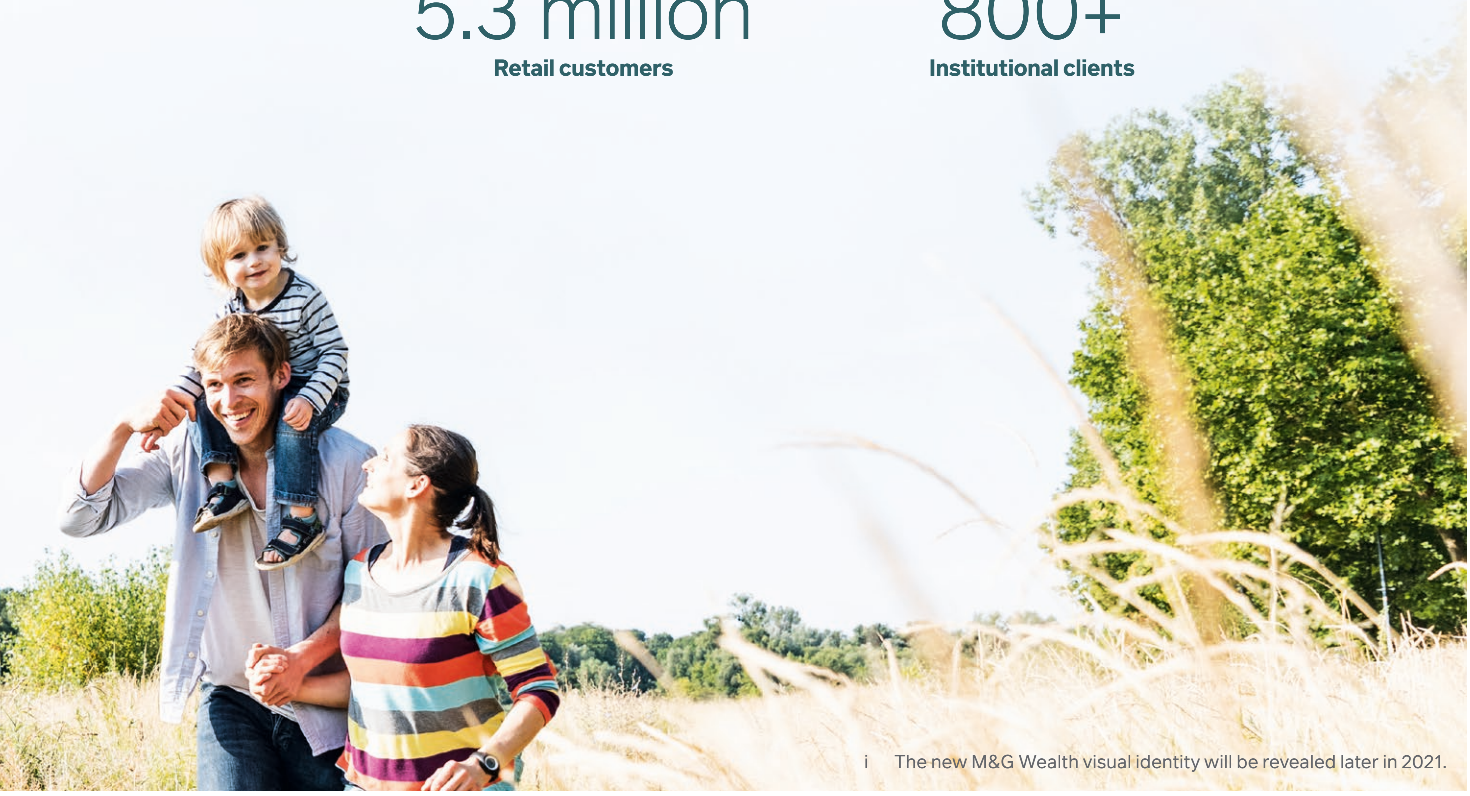
5
Continents

Read more about our locations
www.mandgplc.com

Who we serve

5.3 million
Retail customers

800+
Institutional clients



i The new M&G Wealth visual identity will be revealed later in 2021.

Committed to great outcomes for our customers and clients

With our wide-ranging investment expertise, we can offer individual customers and institutional clients innovative solutions to meet their changing needs

Making a difference the M&G way

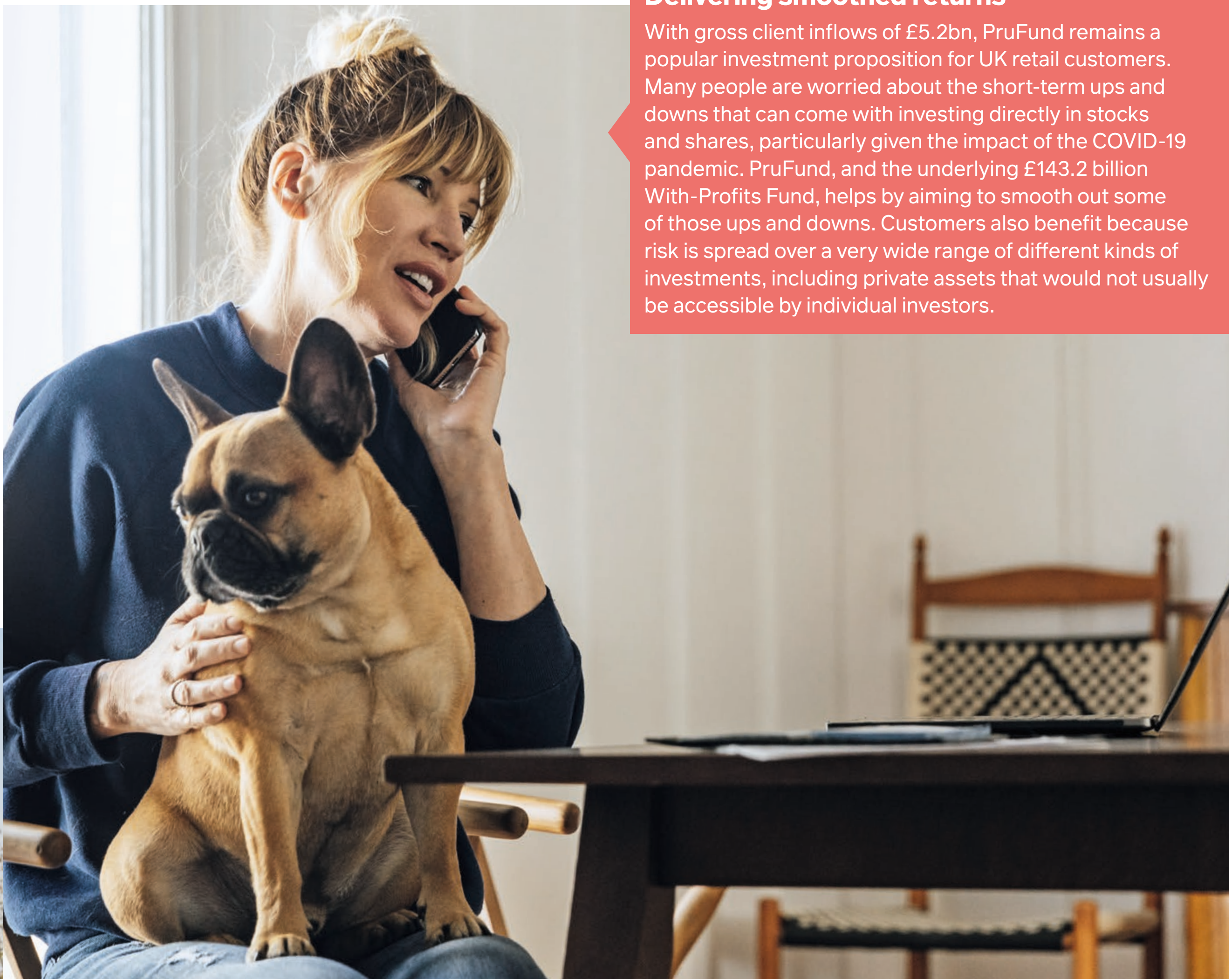
Investments at work for good

For the last 60 years, M&G Charifund has been helping charities to make their money work hard, so they can help more people in need. Buckinghamshire-based Roger and Jean Jefcoate Trust, which awards grants to smaller healthcare and disability charities, has earned over £3.5 million from its investment in M&G Charifund. In 2020, the Trust was able to support 27 charities with grants totalling £189,000 – including the likes of the British Tinnitus Association, ME Research UK and wheelchair sport charity WheelPower.

Making a difference the M&G way

Helping families invest for the future

York-based customer James Clarke (pictured) has invested with us for over 30 years. A decade ago, he cashed in his investments with M&G to buy a house and, shortly after, opened a Junior ISA with us for his youngest son. Mr Clarke hopes that when his son is old enough he can put the money towards a deposit for a house, travel or university. "It's not getting easier for young people, but having something there is really important," he says.



Making a difference the M&G way

Delivering smoothed returns

With gross client inflows of £5.2bn, PruFund remains a popular investment proposition for UK retail customers. Many people are worried about the short-term ups and downs that can come with investing directly in stocks and shares, particularly given the impact of the COVID-19 pandemic. PruFund, and the underlying £143.2 billion With-Profits Fund, helps by aiming to smooth out some of those ups and downs. Customers also benefit because risk is spread over a very wide range of different kinds of investments, including private assets that would not usually be accessible by individual investors.

Making a difference the M&G way

Helping local government workers to secure a comfortable retirement

The Local Government Pension Scheme is one of the biggest public sector pension plans in the UK. When one of its pension fund asset pools, LGPS Central Limited, began an emerging market bond manager search, it sought candidates that displayed transparency, value for money and – importantly – commitment to responsible investment. M&G Investments was selected to manage a £300 million mandate. Our appointment is testament to the strength of our credit research and the importance we place on integrating environmental, social and governance (ESG) considerations into some of our investments.

Doing the right things for sustainable long-term growth

We're investing in new global investment capability, an integrated wealth management offering and digital innovation to ensure we're ready for the future

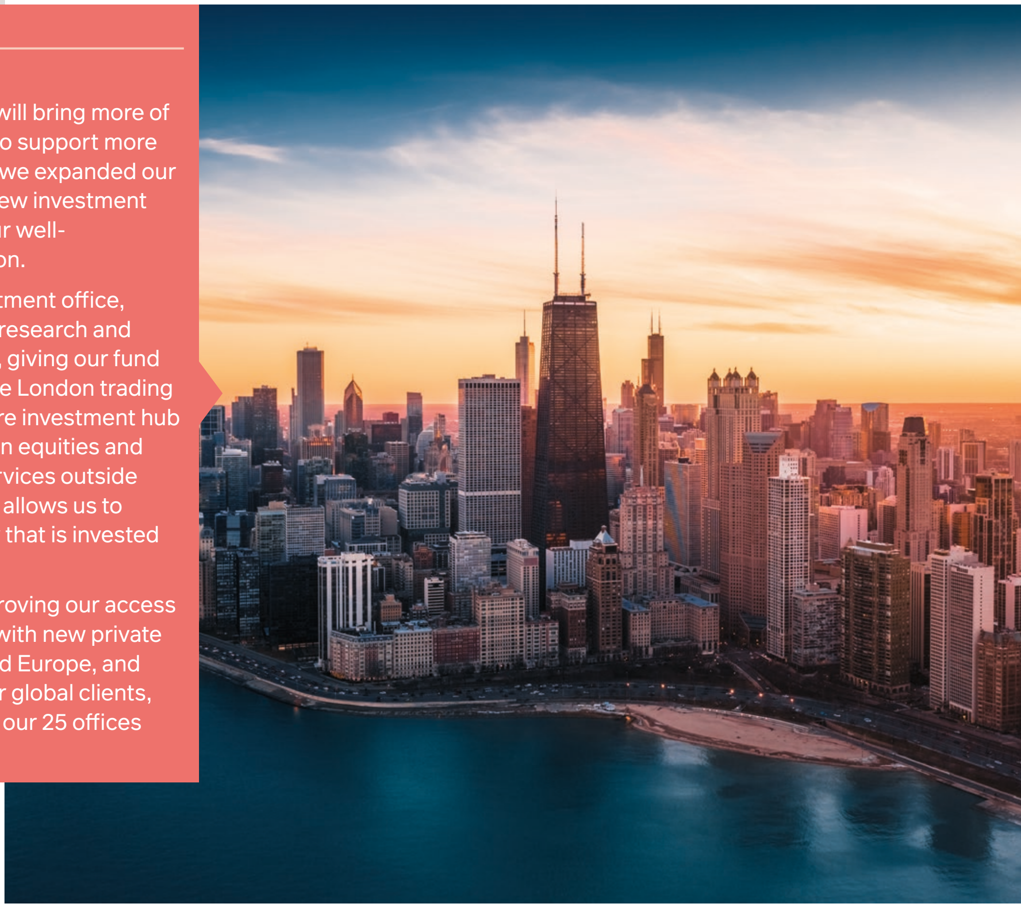
Making a difference the M&G way

Extending our global reach

Our ambitious international growth plans will bring more of our expertise in investments and savings to support more customers, across more markets. In 2020 we expanded our global investment reach, bringing online new investment hubs in the US and Asia to complement our well-established investment operation in London.

In Q3 2020, we opened our Chicago investment office, housing some portfolio management and research and US equity and fixed income dealing desks, giving our fund managers better access to liquidity outside London trading hours. In September, M&G's new Singapore investment hub went live taking over all our dealing in Asian equities and providing Asian portfolio management services outside London trading hours. This new capability allows us to manage more of our policyholders' money that is invested in Asia ourselves.

Throughout the year, we've also been improving our access to international investment opportunities with new private asset teams in the US, India, Singapore and Europe, and we've brought expertise even closer to our global clients, with more investment specialists based in our 25 offices around the world.



Making a difference the M&G way

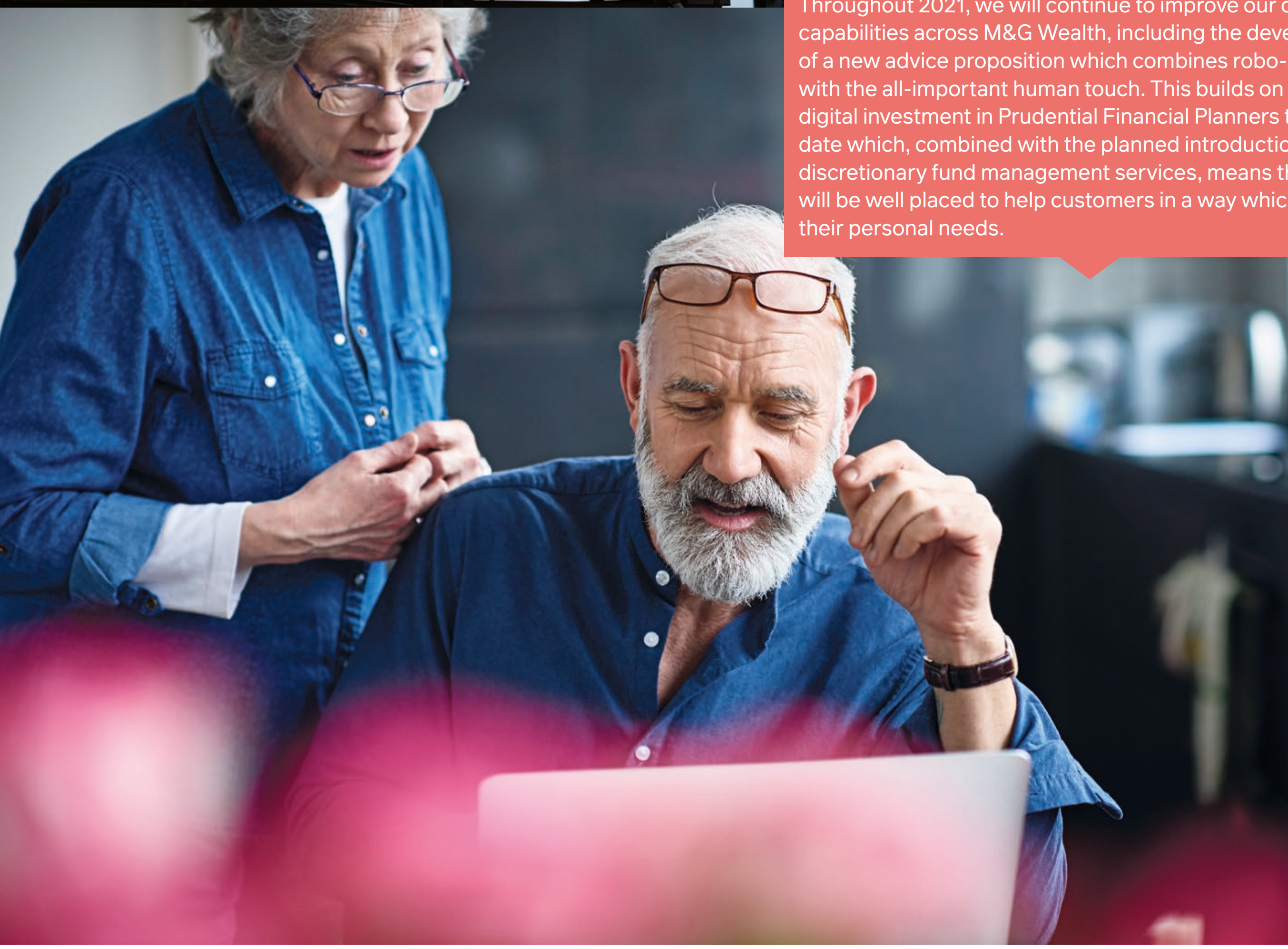
M&G Wealth – a powerful new force in the market

In 2020 we established M&G Wealth to meet rising demand for high-quality advice and investment solutions as people take more responsibility for their financial future.

We've brought together Ascentric, the platform acquired from Royal London in September 2020, Prudential Financial Planning, The Advice Partnership (TAP) and the M&G Direct funds business to form an integrated wealth management offering with £28 billion assets under management and administration, providing a wide range of investment services and solutions to customers.

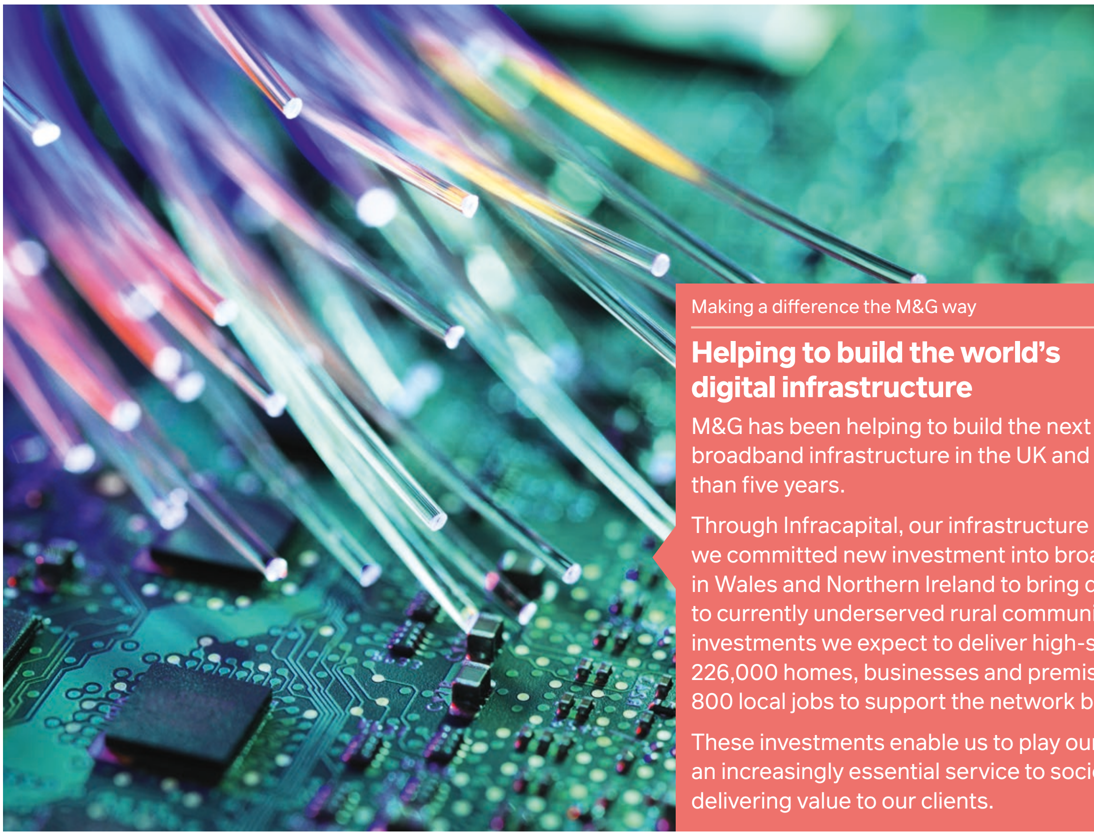
These established advice, platform and investment management capabilities will help us take advantage of this exciting growth opportunity within the UK savings market. We are already expanding our advice business through the self-employed TAP model. By developing and improving the Ascentric platform, we aim to attract external advisers to use the platform.

Throughout 2021, we will continue to improve our digital capabilities across M&G Wealth, including the development of a new advice proposition which combines robo-advice with the all-important human touch. This builds on the digital investment in Prudential Financial Planners to date which, combined with the planned introduction of discretionary fund management services, means that we will be well placed to help customers in a way which suits their personal needs.



Investing in a better future for the planet and society

We're playing a leading role in sustainable and impact investing, to deliver resilient long-term returns for customers, clients and shareholders, and a better future for the world



Making a difference the M&G way

Helping to build the world's digital infrastructure

M&G has been helping to build the next generation of broadband infrastructure in the UK and Europe for more than five years.

Through Infracapital, our infrastructure business, in 2020 we committed new investment into broadband companies in Wales and Northern Ireland to bring digital connectivity to currently underserved rural communities. Through these investments we expect to deliver high-speed broadband to 226,000 homes, businesses and premises and create over 800 local jobs to support the network build-outs.

These investments enable us to play our role in delivering an increasingly essential service to society in tandem with delivering value to our clients.

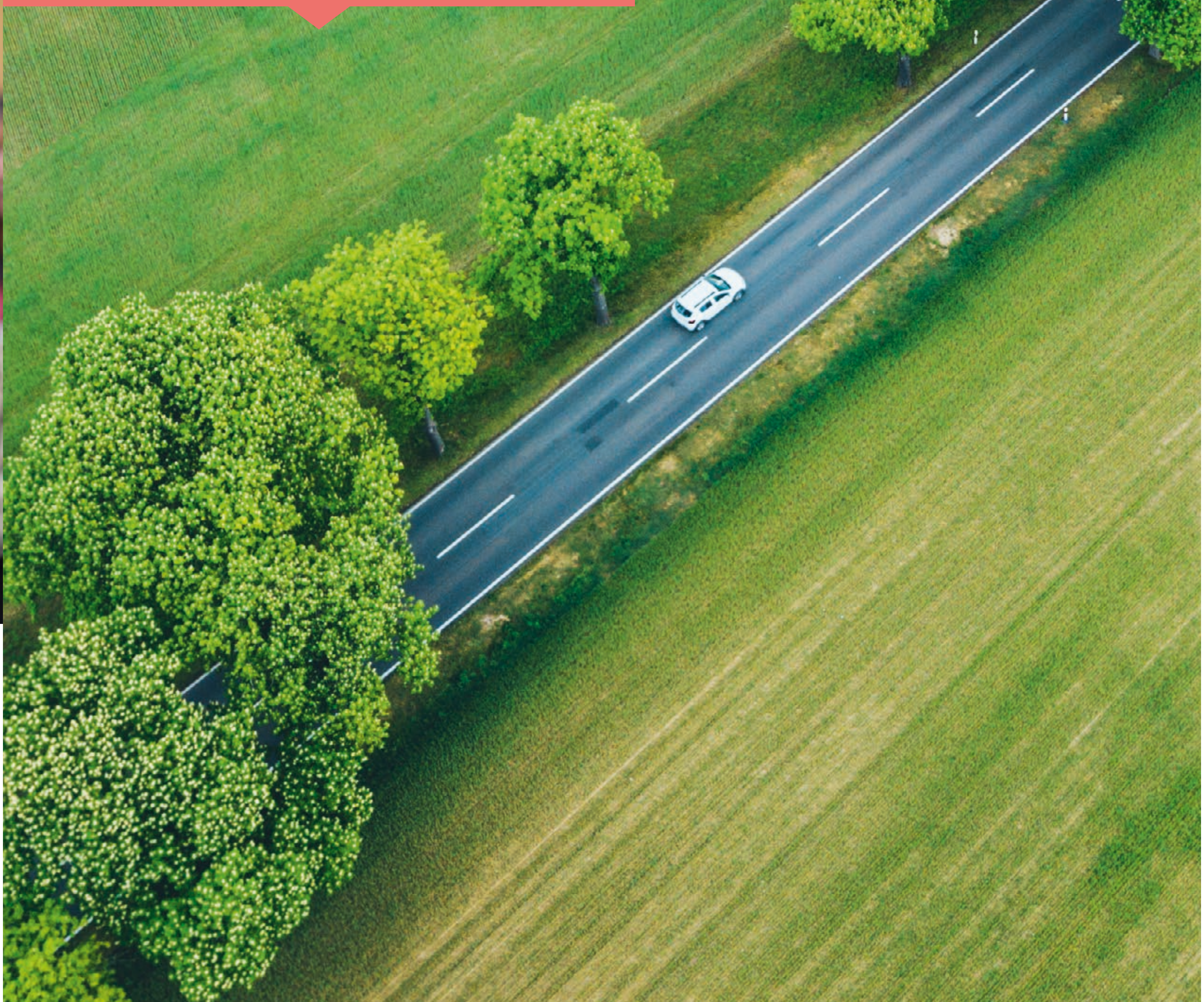
Making a difference the M&G way

Investing in the green economy

M&G is helping the UK to move to cleaner forms of transport through its investments in new battery technology and electric vehicles.

Infracapital has invested £150 million to help Zenobe Energy accelerate the UK's transition to a green energy system through grid-scale battery services and electric vehicle charging infrastructure services. Within two years, Zenobe Energy expects to deploy around 1,000 more electric buses or vehicles through its network, saving approximately 770,000 tonnes of CO_2 over 15 years – a carbon saving equivalent of 2.5 million trees.

This is just one example of how institutional capital can be used to support the development of new technology that will combat climate change and improve air quality for us all.



Interim Chair's statement

Welcome to our 2020 Annual Report

It is my privilege as Interim Chair of your Company to introduce the 2020 M&G plc Annual Report, which covers our first full year as an independent business dedicated to helping people to manage and grow their savings

Mike Evans, our Chair, has taken a temporary leave of absence due to a stress-related illness. I hope you will join me in wishing Mike a speedy recovery.

If Mike were writing this introduction, I am sure he would have said that 2020 was not the year he expected. It has been a year dominated by the COVID-19 pandemic, which has created unprecedented challenges for businesses and governments everywhere. Millions of people around the world have been affected by economic hardship, illness and the loss of people close to them.

On behalf of all of us at M&G, I would like to express my sincere condolences to those of you who have lost much-loved relatives and friends during the year, and our sympathies for the difficulties so many more have faced. The discovery of effective vaccines gives us all hope, and although it is likely to be some time before societies re-open fully, we remain optimistic about the future.

Times like these are a test of purpose and of our core values of care and integrity. We are proud of how our business has risen remarkably to the challenges we have faced this year: in the way in which we have looked after our customer and clients, supported our colleagues and given back to our communities. Throughout all the trials that 2020 has brought, we have never lost sight of who we are here to serve.

It is a testament to the incredible dedication, hard work and professionalism of our M&G colleagues, partners and suppliers that we have continued to operate with great resilience and minimal disruption to the customers and clients who have depended on us to look after their money.

We believe that now more than ever, good governance and running our business in a sustainable way will deliver stronger returns in the long-term for our customers, clients and shareholders, and better outcomes for society.

> "We believe that now more than ever before, good governance and running our business in a sustainable way will deliver stronger returns over the long-term for our customers, clients and shareholders, and better outcomes for society."

Fiona Clutterbuck
Interim Chair

The principles of sustainability are at the heart of everything we do at M&G. As the stewards of £367.2 billion in assets under management and administration, we have a responsibility to make a positive difference to society and the environment, as well as continuing to deliver good outcomes for customers and clients, and attractive returns to shareholders. The Board gives full consideration to environmental, social and governance (ESG) factors when assessing the impact of decisions.

The Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making. We are complying with that requirement and have set out how our Directors have discharged this duty. You can read more in our Section 172 Statement on page 84 of the governance section of this report, and on pages 4, 60 and 64 of the Strategic Report.

Governance

As M&G plc grows its global presence, we have been keen to broaden the membership of the Board to introduce more diverse perspectives. In April, Massimo Tosato was appointed as a Non-Executive Director, bringing more than 30 years of experience in international asset management to M&G plc. In addition to joining the Remuneration Committee, Massimo has also become Chair of M&G Group Limited.

In October, I joined the Board as Senior Independent Director, replacing Caroline Silver, who stepped down earlier in the year due to other demands on her time.

I also joined the Audit, Risk, Remuneration and Nomination Committees. While I am Interim Chair, Clare Thompson, Chair of the Audit Committee, has taken on the responsibilities of the Senior Independent Director.

We also say farewell to Robin Lawther, who will step down from the Board on 15 March 2021 due to other professional commitments.

Replacing Robin as Non-Executive Director and Chair of the Remuneration Committee is Clare Chapman. Clare brings a wealth of leadership experience from both the public sector and international business, including senior executive roles at BT Group, the UK Department of Health and Social Care and Tesco. She has also held a number of Non-Executive roles at listed companies over the past decade. Her appointment is effective from 15 March 2021. Let me take this opportunity on behalf of the Board to record our gratitude to both Robin and Caroline for the invaluable contributions they have made in helping to establish M&G plc as an independent Company, and to welcome Clare to M&G.

You can find a summary of our Board evaluation process and the outcomes and actions on page 96.

Dividend

The Board's policy is to pay stable or increasing dividends over time. We were pleased to be able to maintain our dividend policy in 2020 during the COVID-19 pandemic, recognising the importance of dividend income to many long-term savers and investors at this time. Having paid an interim dividend in September 2020 of 6.00p per share, the Board proposes a second interim dividend in respect of 2020 of 12.23p per share. Payable in April 2021, this will maintain the total ordinary dividend at the previous year's level.

Thank you to all our shareholders, customers, clients, colleagues and partners for your support this year, and best wishes to you all in 2021.

Fiona Clutterbuck
Interim Chair

> "It's a testament to the dedication, hard work and professionalism of all M&G colleagues, partners and suppliers that we've continued to operate with resilience throughout the pandemic."
>
> **Fiona Clutterbuck**
> Interim Chair

Market and industry trends

Opportunities for growth

Long-term structural changes are driving demand for active, high-value savings and investments solutions globally

The market forces shaping the global savings and investments industry

The savings and investments industry is large, with $21 trillion of assets in Europe alone. We expect this to increase rapidly in the coming years, driven by four long-term economic and demographic trends:

Longer lives

Improvements in medicine, diet and working conditions are enabling most of us to live longer lives. Across Europe, the number of people aged 65 or over is expected to increase by more than 50 million over the next 40 years, according to Eurostat. That's a total of 150 million retirees, equivalent to 30% of the region's total population.

Greater life expectancy requires everyone to save more in order to fund a longer retirement. At the same time, the ever increasing old-age dependency ratio (the ratio of people beyond working age to those of working age) reduces the resources available to governments to fund public pension schemes. This is leading more countries to defer the statutory retirement age.

Savings gap

Ageing societies place greater financial strain on both retirees and on governments supporting them. Across the world, this is leading to a widening gap between the amount that people have saved and the amount they actually need in order to maintain a comfortable retirement. In the UK alone, the World Economic Forum estimates this gap will grow from an already substantial $8 trillion in 2015, to $33 trillion by 2050.

It is therefore increasingly important that people start saving earlier, save more and invest in assets which generate good investment returns. Trusted partners like M&G can help people achieve these goals and live the lives that they want.

Cash yields

In Europe, there are over €11 trillion of deposits sitting idle in cash, of which €1.8 trillion is in the UK alone. In many countries, household cash savings increased to record levels during the pandemic. However, most of these cash deposits are earning very low or negative real returns, due to continued ultra-low interest rates and the effects of inflation. Many savers want alternative options which offer the potential for better returns than cash, but with less risk than full exposure to stock market volatility.

New economy

The concept of sustainable investing was little more than an idea at the turn of the century but, in just 20 years, it has transformed the savings and investments market, establishing itself as one of its largest and fastest-growing segments. This shift has defined new norms for investors, as they are now expected to maximise not only financial returns, but also the positive impact they have.

As the world tackles the climate emergency, businesses that are helping the transition to a lower carbon economy need large amounts of capital to develop innovative technical solutions and build new energy infrastructure. This means growing opportunities to put savers' money to work investing in companies and projects which will transform our environment and society for the better, as well as offering the potential for sustainable financial returns.

Economic and financial market developments

Global investor confidence was badly shaken in the first half of 2020 with the outbreak of COVID-19. Equity markets fell steeply in March as investors anticipated the inevitable recession which would result from the economic impact of the measures needed to contain the virus. At its trough towards the end of March, the FTSE 100 index of leading UK companies was down by more than one-third from the start of the year.

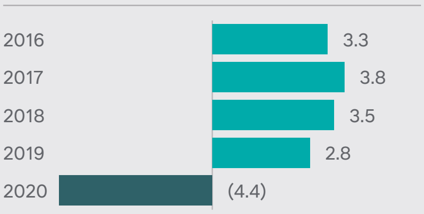
Since then, there has been a marked recovery in both bond and equity markets, bolstered by supportive economic policies from governments and, towards the end of the year, positive news on vaccines for COVID-19.

Credit spreads on corporate bonds tightened to pre-pandemic levels, while many equity markets rallied sharply to regain losses. In fact, the S&P 500 index of leading US shares ended the year 16% higher.

Appetite for risk assets continues to be buoyed by historically low interest rates, with the cost of borrowing now negative or close to zero in many of the world's major economies.

Global GDP growth

%



Source: IMF, World Economic Outlook, October 2020

+50m

Growth in estimated number of people aged 65 or over in Europe in the next 40 years

+$33trn

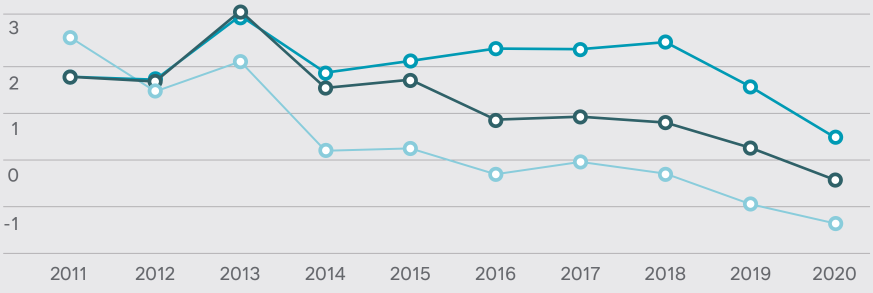
UK estimated pension savings gap growth by 2050

€11trn+

Deposits sitting idle in cash in Europe

10-year interest rates

%



UK US Europe

Source: Bloomberg, European Central Bank

Savings and investments industry developments

There are now three well-established trends in the propositions being developed by the global savings and investments industry for customers and clients:

- the rise of passive strategies in public markets
- high and growing demand for actively managed private asset portfolios
- environmental, social and governance (ESG) factors and sustainable investing is rising exponentially

Passive strategies are taking a growing share of public market assets, but at very low revenue margins. As much as 24% of global assets under management will be in passive strategies by 2024, up from 18% in 2018, according to estimates from international consultancy Boston Consulting Group, but with their share of the overall fee pool remaining static at just 6%.

At the same time, demand for actively managed private assets is high and rising. In part, this is being driven by the compression of investment returns available in public markets as a result of central bank action since the 2008 global financial crisis. Though such assets tend to be less liquid than public market assets, the additional returns available make them an ideal fit for investors with long-term liability profiles such as pension and insurance funds.

The third major trend in savings and investments is the increasingly mainstream use of ESG investment strategies. Annual growth in assets managed in line with ESG considerations is running at 16%, compared with 3% for conventional investment approaches, according to GSIA Global Sustainable Investment Review 2018.

Shifts in global policy, especially in respect of climate change, are fueling this trend, as well as an increased appetite among both individual and institutional investors for their long-term savings to have a positive impact on society and the environment.

Outlook

Structural changes to the global economy, largely driven by ageing populations, will continue to provide long-term support to the savings and investments industry.

In the near term, the vast amount of cash earning little or no return in deposit accounts is a clear opportunity for asset managers which are able to provide diversified investment solutions offering consistent returns.

At the same time, the desire among individuals and institutions for their long-term savings to have more of a positive impact on the planet will favour those asset managers which put sustainability at the heart of their business.

Given these supportive macro-trends in the savings and investments market, we're optimistic about the growth trajectory of our business. Over the medium-term, we plan to broaden our range of propositions in our different geographic locations – bringing more of our expertise in savings and investments to more customers and clients, in more markets.

Our business model

What we do and how we do it

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.

What we do

Savings and Asset Management

- We provide a range of savings and asset management solutions to retail, wholesale and institutional customers and clients globally.
- Our solutions range from mutual funds to smoothed solutions backed by our leading With-Profits Fund, through to pooled and bespoke segregated mandates for institutional clients.

£332m
Adjusted operating profit before tax

£232.3bn
Assets under management and administration

Heritage

- We manage the investments for annuity customers and other customers with long-term savings products such as traditional with-profits policies.
- Our Heritage business is closed to new customers, but the long-term nature of solutions written in the past means we expect existing customers to be with us for many years to come.

£699m
Adjusted operating profit before tax

£133.7bn
Assets under management and administration

How we do it

Savings and Asset Management

- Our solutions are backed by investment management capabilities spanning both public and private markets. Our approach to investing is active, thoughtful, long-term and responsible.
- Our distribution is diversified. In UK Retail, our solutions are distributed through independent financial advisers and through our own wealth management platform. Internationally, we partner with local and global banks. Solutions for our institutional clients are typically arranged directly or in cooperation with specialist consultants.
- We continually invest in new technologies to help our customers and their advisers interact more easily and effectively with us, while improving efficiency.

Heritage

- For our annuity customers, we carefully manage investments in order to generate the regular income we've agreed to pay them for their retirement.
- Heritage customers are invested in the same With-Profits Fund which powers smoothed solutions in our Savings and Asset Management segment. This is a £143.2 billion global multi-asset fund with a strong track record of smoothed returns spanning decades.
- In our Heritage business, we hold capital to protect customers' outcomes and in doing so we actively manage our balance sheet to be as efficient as possible with our financial resources.
- Heritage customers also benefit from our ongoing investments in technology and innovation.

Read more
Pages 42-46

Sustainability in everything we do

We believe that a well governed business runs in a sustainable way, delivers stronger, more resilient investment returns in the long-term for customers, clients and shareholders, and better outcomes for society. That's why we are incorporating sustainable thinking into everything we do; from the way we invest, to the way we operate our offices and interact with our customers and clients.

Making a difference the M&G way

We have a strong business model

As an asset manager and asset owner, we are best placed to bring value to retail customers, institutional clients and shareholders through:

A diversified and resilient source of earnings.

In-house sponsorship of innovation and access to seed capital, to deliver new investment propositions to meet changing customer and client needs.

An integrated retail offering that supports customers along the entire savings and investments value chain.

Access to diverse and specialised asset management capabilities which provide scope for higher asset returns for customers and clients and higher margins for shareholders.

Investment expertise and financial strength to make a difference in sustainable investing.

The outcomes we achieve for our key stakeholders

Customers and clients

Strong investment outcomes delivered through innovative propositions that address their financial needs.

Colleagues

A great place to work. Growth and talent development opportunities. At the forefront of new ways of working.

Investors

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

Communities and charities

Resilient, inclusive communities in which people can live the lives they want.

More information on all our stakeholders
Pages 84-89

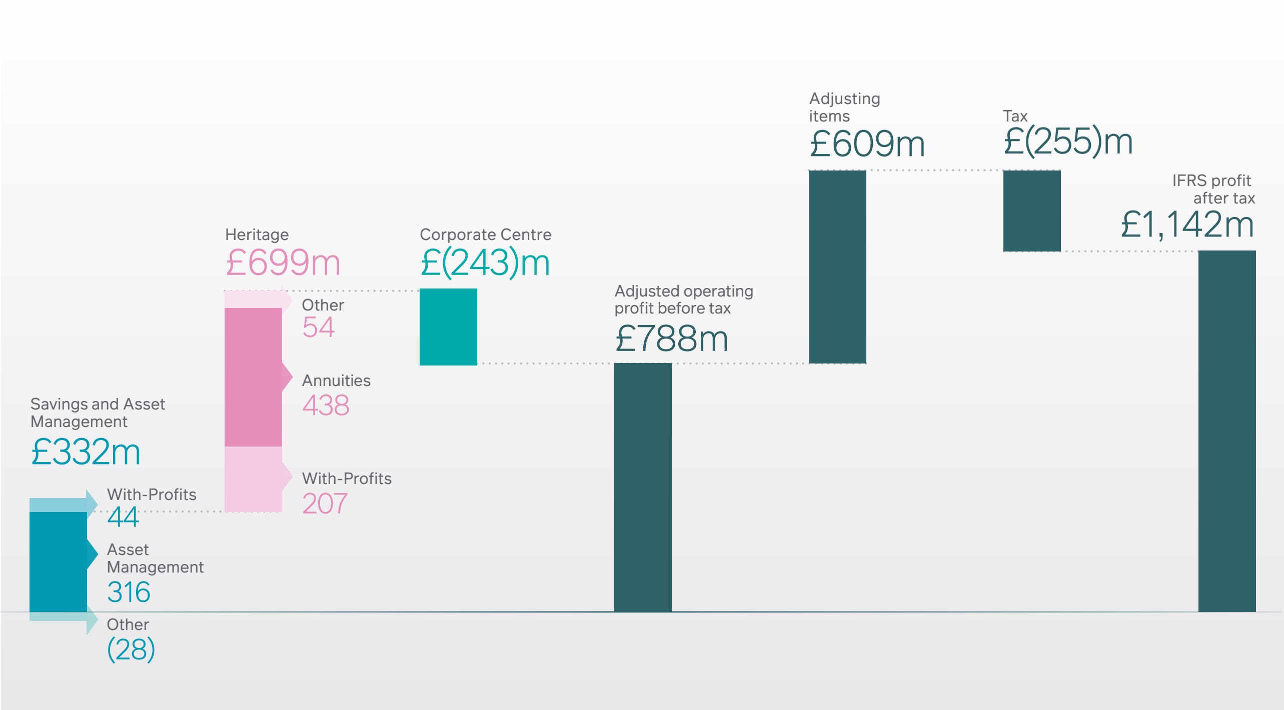
How we create shareholder value

IFRS profit after tax

Profit after tax is a key performance measure as it demonstrates to our shareholders the financial performance of the Group during the year on an IFRS basis. Adjusted operating profit before tax is also a key performance measure as it demonstrates the Group's longer-term performance and is less affected by short-term market volatility and non-recurring items than IFRS profit. IFRS profit after tax is adjusted operating profit before tax plus adjusting items and tax.

More on adjusted operating profit before tax
Page 30

IFRS profit drivers



Asset Management

Our Asset Management business manages assets on behalf of external retail customers and institutional clients, as well as most of our own internal funds. We generate revenues by charging fees which are typically based on the level of assets under management. The fee level will depend on the type and size of customer or client, and the type of assets being managed. Adjusted operating profit before tax is the margin remaining after deducting operating expenses from revenue earned.

Annuities

Our book of Annuities is a business whereby our customers have paid us a lump sum in exchange for a regular stream of retirement income for the rest of their lives. We invest these lump sums in assets which generate cash flows closely matched to the expected future payments. The expected value of all future payments is booked as a liability on the balance sheet with a margin of prudence. The main recurring sources of profit are the investment return on assets in excess of those allocated to match liabilities, and the release of prudent margins as the business runs off.

Changes to assumptions over time can increase or decrease the liability, resulting in a gain or loss. Life expectancy is the most important of such assumptions. Gains or losses may also be generated by changes in asset allocation or trading, and by other provision and reserve movements.

With-Profits

Customers in our Heritage segment, and in the Savings and Asset Management segment through our PruFund offering, invest in our unique £143bn With-Profits Fund. Typically, we structure solutions on a 90:10 basis, which means our customers receive 90% of the total returns generated by the fund, and the remaining 10% is allocated to shareholders. The portion allocated to shareholders is recognised as profit when customers access their savings, meaning profit tends to arise at the end of the contract. We refer to this profit as the shareholder transfer, and we enter into hedging activities to reduce volatility in this profit emergence.

Other

Other profits and losses arise across both the Savings and Asset Management and Heritage segments. They are derived from business outside of Asset Management, Annuities and With-Profits, and include profits and losses from platform and service entity functions as well as gains and losses on our seed capital investments and smaller international operations.

Corporate Centre

The Corporate Centre includes the expenses relating to the operation of our Head Office functions, and interest costs related to the £3.2 billion nominal value of debt in issue.

Adjusting items and tax

There are two significant components excluded from adjusted operating profit before tax.

Firstly, short-term investment fluctuations which, for our annuity business, include credit experience variances and fair value movements on surplus assets. For our with-profits business, it includes fair value movements on instruments held today to hedge shareholder transfers expected to emerge in the future. Driven by market conditions, gains on such instruments were key factors behind the positive results of 2020.

The second key component is one-off Group-wide restructuring and transformation costs.

Further detail on our adjusted operating profit before tax methodology can be found on page 188.

Taxes are primarily corporation tax on profits. The effective tax rate in 2020 was 18.3%, closely aligned to the UK corporate tax rate.

Total capital generation

In addition to profit measures we also consider capital generation as a key performance measure. Capital generation analyses the movement in surplus regulatory capital, as measured by the Solvency II regulations, before dividends and capital movements. The movement in surplus is driven by both the change in available capital (known as own funds under Solvency II), and the change in regulatory capital requirements. Capital generation is integral to the running and monitoring of our business and ultimately our dividend policy. We analyse the drivers of capital generation in a similar way to IFRS profit after tax, considering both operating capital generation and total capital generation as key performance measures.

More on capital generation
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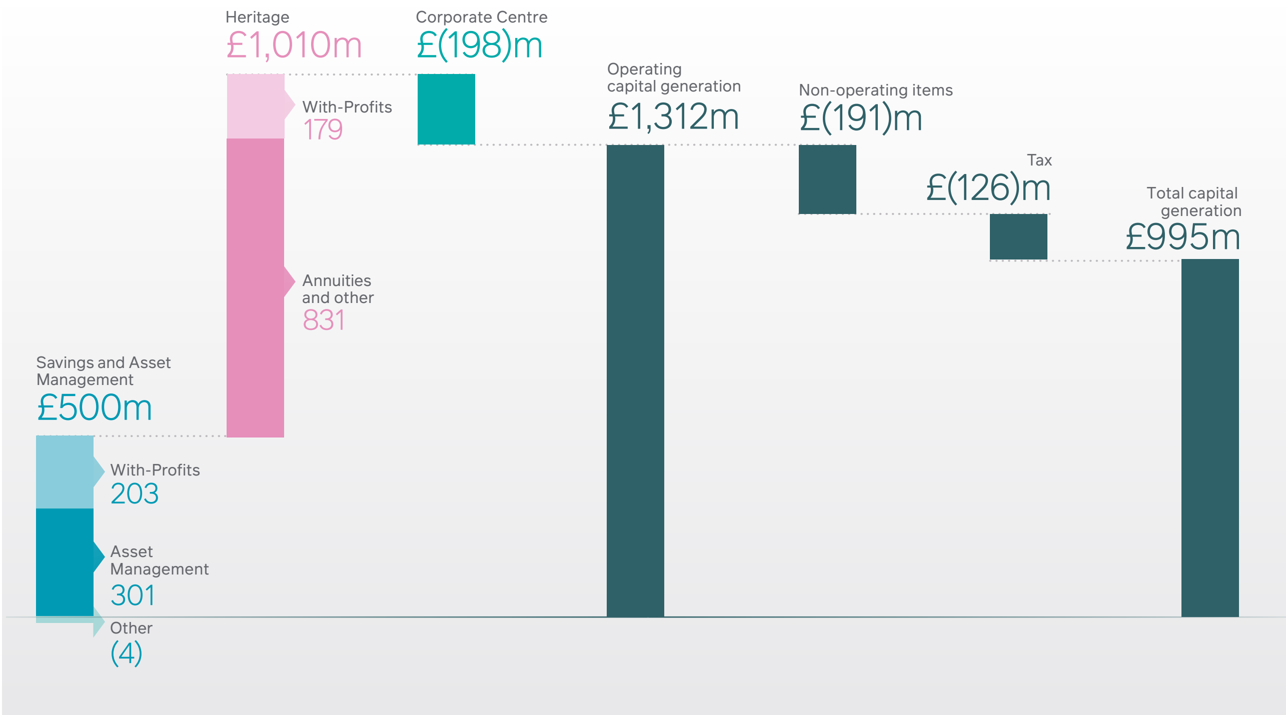
Capital generation drivers



Asset Management

The key components of Asset Management operating capital generation are the same as adjusted operating profit. The difference between adjusted operating profit and operating capital generation is usually expected to be small, and reflects the movement in regulatory capital requirements which are not captured within adjusted operating profit.

Annuities

At a high level, the main value drivers of operating capital generation are the same as adjusted operating profit, although the calibration of the assumptions typically differ. In normal circumstances, the capital requirements for the annuity business are not expected to be utilised, so these get released as the business runs off over time. As annuities are relatively capital intensive, operating capital generation is generally expected to be higher than adjusted operating profit.

With-Profits

Solvency II is a market-based framework. Instead of recognising profit towards the end of the contracts, as described for IFRS profit, the future expected profit – which we refer to as the present value of shareholder transfers – contributes to our available capital, and we hold a corresponding capital requirement reflecting the risks inherent within those future transfers. Operating capital generation in the year reflects the movement in these two items, before tax and other non-operating items. The movement in the value of the future shareholder transfers is driven primarily by the emergence of expected real world returns, instead of the risk-free rate which Solvency II requires these transfers to be valued with. The change in capital requirements is the net of capital released as older business matures, capital requirements created when new business is written, and changes in our hedging programme.

Other

Drivers of operating capital generation from other business in the Savings and Asset Management and Heritage segments are similar to those described for adjusted operating profit. Differences in quantum are normally expected to be relatively small and relate to movement in regulatory capital requirements and other valuation differences.

Corporate Centre

The impact of our Head Office and debt interest costs under Solvency II are comparable to adjusted operating profit, although some differences do arise, primarily in relation to the Solvency II treatment of the debt, the inclusion of regulatory capital requirements and other valuation differences.

Non-operating items and tax

The nature of elements excluded from operating capital generation are similar to the 'adjusting items' in IFRS profit, but the impact, particularly with respect to market movements, can differ significantly, as is the case in 2020. This is mostly due to Solvency II also reflecting market movements in our regulatory capital requirements, along with the present value of shareholder transfers for with-profits business.

Tax is presented on a Solvency II basis and therefore typically differs from IFRS tax.

A foundational year

In less than ideal conditions, we have achieved much in our first full year as an independent business, laying the foundations for our return to sustainable growth

Throughout the COVID-19 pandemic, M&G continued to deliver on our commitments to customers, clients and shareholders, thanks to our diversified and integrated business model and the resolve of my colleagues.

We also laid the foundations for M&G's return to growth, including fixing Retail Asset Management and the acceleration of our expansion into UK wealth management.

Above all, we are pivoting the entire business to sustainable investing, so that as the stewards of the long-term savings of millions of people, we can make an even bigger difference to people and the planet.

A strong and resilient performance

In an extremely challenging operating environment, total assets under management and administration (AUMA) ended the year 4% higher at £367.2 billion.

Adjusted operating profit before tax was £788 million, a good outcome given that, as an independent company, we incurred Head Office and debt costs for the first full year.

Our shareholder Solvency II coverage ratio strengthened to 182%, higher than its pre-crisis levels, higher even than its level at our market listing, and well above our risk tolerance.

Despite market volatility, total capital generation was £995 million for the year.

We remain committed to our policy of a stable or increasing dividend and to our ambitious three-year total capital generation target of £2.2 billion.

However, the COVID-19 pandemic is not over yet and financial markets have continued to be relatively volatile, so we need to be mindful that markets can drive large changes in capital generation in a short period of time.

Strength through diversification

This strong and resilient financial performance owes much to our diversified and integrated business model.

As asset owner, our proactive management of the Heritage business underpinned our earnings and our dividend policy.

In Asset Management, our Institutional business grew attracting £5.1 billion of net client inflows in 2020, driven by strong investment performance and continued investment innovation.

Total AUMA on behalf of external institutional clients grew 11% to £85.5 billion. Revenue margins strengthened by two basis points during the year as clients moved more assets into higher-value strategies.

The success of the Institutional business helped to partially offset another difficult year in Retail Asset Management. Redemptions increased during the year due to weak investment performance of some of our larger funds.

In Retail Savings, net client inflows into PruFund, our market-leading smoothed solution for UK savers, remained positive at £400 million, but were down on the previous year mainly due to pandemic-related restrictions on face-to-face advice. Withdrawals were stable.

The £143.2 billion With-Profits Fund, which underpins PruFund, continued to generate strong financial outcomes. Over the five years to the end of 2020, the With-Profits Fund produced net investment returns of 6.6% p.a[i].

Our people

The passion and resolve of all colleagues has been critical to our operational resilience throughout the COVID-19 pandemic. I am extremely proud of how, together, we responded to the challenge.

"Our integrated business model and our diversified earnings position us well for future growth."

John Foley
Chief Executive

i Based on the main life fund (OBMG) return for the five years to end of 2020. The return is net of 30bps p.a. approximate deduction for fees. Note that the actual return for the fund will be slightly different post hypothecation.

£2.2bn

Our ambitious three-year total capital generation target to the end of 2022

The new vaccines give us hope for a return to some kind of normality. In the meantime, our priority remains the well-being and safety of colleagues while they continue to serve customers and clients.

As the pandemic spread around the globe, we responded swiftly and effectively. Within two weeks in March, almost all of our circa 6,000 staff were equipped to work safely from home, wherever in the world they are based.

We put no colleague on furlough and received no financial assistance from governments.

Flexible working patterns and allowances for equipment helped our colleagues to remain productive and safe while serving our customers and clients from their homes.

We encouraged colleagues to prioritise care for dependents and help for their local communities. M&G donated more than £1.3 million to charities and non-profit groups helping those worst affected by the COVID-19 pandemic.

The Group Executive Committee and I are profoundly grateful to colleagues for their passionate commitment to customers and clients, and to our business during these difficult times.

Fixing Retail Asset Management

In August we set out what we were doing to reinvigorate our retail funds business and we have made good progress.

We have begun the revamp of the product range, refreshing some funds and consolidating others.

Our new propositions, like the Climate Solutions Fund launched in November, are aimed at the growing market for sustainable savings and investment strategies.

We also cut fees across our UK retail fund range to be more competitive, while passing on the benefit of economies of scale to European clients.

To improve fund performance, we have introduced institutional investment disciplines, moved to team-oriented management and bolstered data modelling.

Performance of our mutual fund range markedly improved in the second half of 2020, with 66% of funds, weighted by size, performing above median on a 6-month basis, and 78% on a 3-month basis (as at 31 December 2020).

Over time, we are confident that these measures will help us to retain assets and return to net inflows.

Making a difference the M&G way

Using AI to deliver strong returns

Launched in December 2019, the M&G (Lux) Global Maxima Fund approaches investing in a very different way to other M&G equity strategies. Fund managers use artificial intelligence to analyse historic data about thousands of companies to learn what drives share price outperformance, using this information to make selections to the portfolio. Maxima's performance for its first customers, in our Prudential South Africa business, has been promising, delivering a 19.02% return in 2020 compared to its MSCI AC World index benchmark of 16.8%[i].

80%

Employee sustainable engagement score

i Source: Morningstar, performance of M&G (Lux) Global Maxima Fund USD Acc 12/12/2019-11/12/2020 net of fees, vs MSCI ACWI NR USD index.

M&G Wealth

In September, we acquired the Ascentric adviser business from insurer Royal London, accelerating our expansion into the fast-growing market for UK wealth management services.

Ascentric brought £15.5 billion of new assets under management and administration, as well as 95,000 new customers and relationships with more than 4,000 advisers.

Critically, it gave us an important component for our integrated wealth business: an adviser platform on which their customers' long-term savings can be consolidated and administered.

In the autumn, we formally combined Ascentric with our two restricted advisory arms, Prudential Financial Planning and The Advice Partnership, as well as the reinvigorated M&G direct funds business.

Together, they form M&G Wealth. With £28 billion of assets under management and administration, we see M&G Wealth as a powerful new force in UK wealth management.

Our aim is to put PruFund, our market-leading smoothed solution for UK customers, on to the M&G Wealth platform, opening up access to the proposition to a wider group of advisers and savers.

Sustainable investing

It is our belief that a sustainably-run and well-governed company will deliver better overall outcomes for customers and clients, and stronger, more resilient returns to shareholders.

We are embedding the principles of sustainability across our business, with ambitious corporate targets on net zero carbon emissions and on diversity and inclusion.

On our client investment portfolios, we are committed to achieving net zero carbon emissions by 2050, in line with the Paris Agreement.

We see the rapid growth in sustainable investing and environmental, social and governance (ESG) strategies as a permanent, structural change in the behaviour of customers and clients.

Only active investment managers are equipped to deliver the full benefits of sustainable investing, through exclusion and the active direction of capital for impact.

M&G has a long history as a responsible steward of savers' capital and we are well-placed to champion sustainable investing because of our combination as asset owner and asset manager.

It gives us a number of competitive advantages, including our ability as asset owner to direct capital to sustainable opportunities and its sponsorship of innovation in investment.

An example of this is the With-Profits Fund's allocation of £5 billion to a new innovative private assets strategy which aims to make a positive contribution to society and the environment.

Making a difference the M&G way

Growing global private assets

Building on our long established expertise in private credit and private equity, in 2020 we established Catalyst, a new global investment team financing privately owned businesses which have traditionally found it hard to access institutional capital. Catalyst will be investing on behalf of our With-Profits Fund and external institutional clients, with a focus on investments which aim to create a more sustainable future for the planet.

350,000

Prudential customers using our MyPru online portal

To implement this strategy, we formed a new global team of private asset investors called Catalyst, whose job is to identify sustainable investment opportunities among new and emerging private companies.

Catalyst is one in a series of innovations in this field, which included the launch of the Climate Solutions Fund in November.

Later this year, we will launch a sustainable version of PruFund, our market-leading smoothed solution for UK retail savers.

Further modernisation

We continued with our five-year digital transformation programme to strengthen the operations of the Heritage business, to improve outcomes for our 5.3 million retail customers, and to achieve business efficiencies.

We have now moved the accounts of more than 800,000 customers from a mix of legacy systems on to the administration platform of our strategic IT partner Diligenta, part of Tata Consultancy Services.

In addition, we increased the number of Prudential customers with online access to detailed and up-to-the-moment information on their accounts through the MyPru application, a real innovation in our digital service.

Across the IT estate, our goal is to simplify, and we remain on track to reduce the number of applications by c.50%.

Adoption of a digital-first approach to business was accelerated by the demands of the COVID-19 pandemic.

We introduced restricted financial advice via video calls to UK savers who cannot or do not wish to leave their homes. This raised the productivity of our advisers, while cutting our carbon emissions by 80% over the year.

The transformation programme remains on track to deliver annual run-rate shareholder cost savings of £145 million in 2022.

In 2020, we identified further savings from modernisation as we reshaped the business in the face of the pandemic.

In line with our priority of supporting colleague well-being during the crisis, we dropped our target for a 10% reduction in staff costs during the year.

Nonetheless, 250 colleagues took voluntary redundancy and we continue to seek to reduce costs.

Ready for growth

Our growth strategy is to leverage the asset owner and asset manager combination, while modernising our business, the targeted acquisition of new capabilities, and further innovation.

We are doing this while pivoting the entire business to the rapidly growing global market for sustainable investing.

As this report shows, we laid firm foundations for future growth by resetting parts of the business and strengthening others, while still meeting our commitments to customers, clients, colleagues and shareholders.

In Europe, we expanded our sub-advisory business. A PruFund-like proposition is operationally ready for European clients. We are working on the necessary approvals for its distribution.

International operations were strengthened with a new investment hub in Chicago and a new fixed income team. We also opened a European asset management desk to Brexit-proof our Asset Management business.

We agreed to take majority control of our South African operation, which has £12 billion of assets under management.

In Institutional, aside from winning £13 billion of new mandates, we began the repatriation of £25 billion of North American and Asian With-Profits Fund mandates from our former parent, Prudential plc.

Alongside this, we created a greater sense of One M&G among colleagues, built around shared values and collaboration.

I led a company-wide programme on culture and conduct to ensure our people live up to our values of care and integrity.

Positive outlook

The foundational work we have undertaken over the past 12 months means that we are well-positioned to seize the structural growth opportunities in our markets.

Demand for high-value savings and investment solutions will continue to be driven for many decades by ageing populations, the widening savings gap, low interest rates and the shift to sustainable investing.

In the UK, we will complete the revamp of our retail funds offering and continue to expand M&G Wealth by adding to the range of propositions and tax wrappers.

Internationally, we will deepen our relationships with our European partners to obtain a greater share of investment wallet, while growing our investment capabilities in Singapore and the US.

Above all, we will champion sustainable investing, with a series of innovations for customers and clients, including PruFund Planet, the sustainable version of our market-leading smoothed savings solution.

Our financial focus will remain on capital generation to create long-term value for shareholders and to underpin our policy of a stable or increasing dividend.

We will also continue with the work to improve the operational efficiency of our entire business through further modernisation, while balancing this against the need to invest for growth.

As ever, there will be headwinds. But the resilience of the M&G business model has been demonstrated by the demands of the COVID-19 pandemic and I am confident we are now in a much stronger position to return to growth.

John Foley
Chief Executive

Sustainability at the heart of M&G

A short conversation with John Foley, Chief Executive

Why is sustainability so important for M&G?

John: We think that a well-governed business, run in a sustainable way, will deliver better overall outcomes for customers and clients and stronger, more resilient returns to shareholders.

That holds true for us as an international company employing almost 6,000 people around the world – and as the stewards of £367.2 billion of savers' capital.

Companies which fail to take the path to sustainability – or do so with insufficient urgency – will become non-investable and, in time, wither away.

So how has M&G put its own operations on a more sustainable footing?

John: Since we became an independent company in October 2019, we have worked hard to embed the principles of sustainability into all our activity.

We have ambitious corporate targets on climate and on improving diversity and inclusion across our workforce.

Our goal is to reduce the carbon emissions from our own operations to net zero by 2030, at latest.

We are also committed to 40% female representation at senior levels of the business and 20% representation from Black, Asian and ethnic minorities by 2025.

For obvious reasons, our top priority has been our response to the COVID-19 pandemic. Yet even that has helped, as our switch to digital restricted advice cut carbon emissions in the sales division by 80%.

To ensure the appropriate management focus, we have introduced a number of sustainability metrics into our remuneration schemes.

When you talk of a pivot to sustainable investing, what does that really mean?

John: Our responsibility at M&G is to be good stewards of the capital that our customers and clients entrust to us.

We also want to help make the world a little better along the way and we think that many of our customers want that too.

That means not only delivering the financial outcomes they expect, but also giving them the opportunity to make a positive difference to society or the environment.

So for new M&G investment propositions, we are encouraging a dual goals approach, where there is both a financial objective and a sustainability objective.

And we are actively looking for opportunities to channel new capital to those companies developing solutions to tackle societal or environmental issues.

What are you doing about existing investments which do not have a sustainability objective?

John: Many clients are already asking us to switch their investments and we will encourage others to join us in this action. Environmental, social and governance factors are integrated to a high standard across our retail fund range in the UK and in Europe.

With more clarity around emerging international standards, we want to convert some portfolios to join our Planet+ range, which includes ESG+, sustainable and impact funds. In other cases, we may offer a sustainability-focused version of an existing retail proposition or institutional mandate. For example, in UK retail savings we are planning a sustainability-focused version of our market leading PruFund.

Does this mean M&G will start to divest from certain sectors and companies?

John: We will use our influence as a leading global investor to persuade companies to transition to a sustainable future at pace.

For example, we want to see investee companies completely phase out mining and use of thermal coal by 2030 for developed countries, and 2040 for the rest of the world.

Our preference has always been to engage rather than exclude. But we will sell the shares and debt of companies which resist this transition.

> "We are weaving sustainability into everything we do."
>
> **John Foley**
> Chief Executive

Why do you think M&G can make a positive difference in sustainable investing?

John: We have some unique advantages stemming from our combination as asset manager and asset owner.

With £143.2 billion under management in our With-Profits Fund, the asset owner has the scale and influence to push for positive change through its allocation of capital.

That's why we are channeling £5 billion into new private companies which aim to make a difference to people or the planet.

The asset owner is also a sponsor of innovation in sustainable investing, seeding new strategies, particularly in infrastructure and private assets.

And as asset manager, we have built up a reputation for the quality of our engagement with investee companies.

In a sense, this is not new to us. After all, we have been responsible stewards of savers' capital for more than 170 years.

Delivering superior outcomes

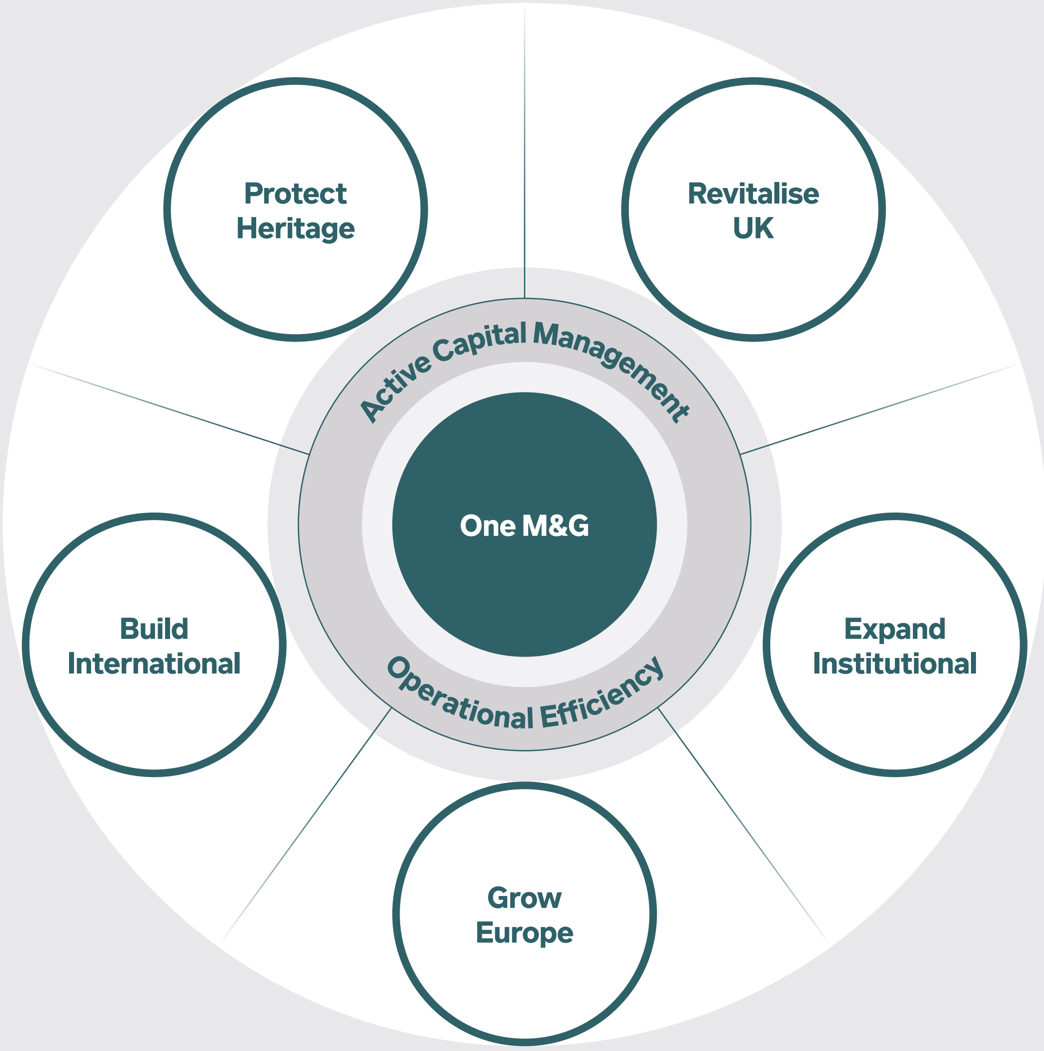
Our strategy supports our vision to become the best-loved and most successful savings and investment business

With an established track record in growing our business and entering new markets, we're ideally placed to capitalise on supportive long-term economic trends, deliver superior outcomes for customers and clients and to generate sustainable value for shareholders. Our approach is based on key strategic pillars, covering our growth markets within Retail Savings and Asset Management, and the active management of our Heritage business.

Our strategy also includes the promotion of One M&G, which aims to embed the vision, culture and benefits of the combined Group as a single entity, fostering a spirit of collaboration, supporting new ways of working and embedding sustainability as we pursue long-term growth.

Execution of the Group's strategy is supported by four new Mega-Propositions, which aim to produce a new generation of products and solutions for our customers and clients. Active+ represents our core investment and stewardship capabilities; Smooth+ combines our active asset management and balance sheet to provide insured solutions; Planet+ underpins our sustainability and impact propositions; and Custom+ offers sub-advised solutions as a service through a customised set of active asset management components.

Our strategic priorities

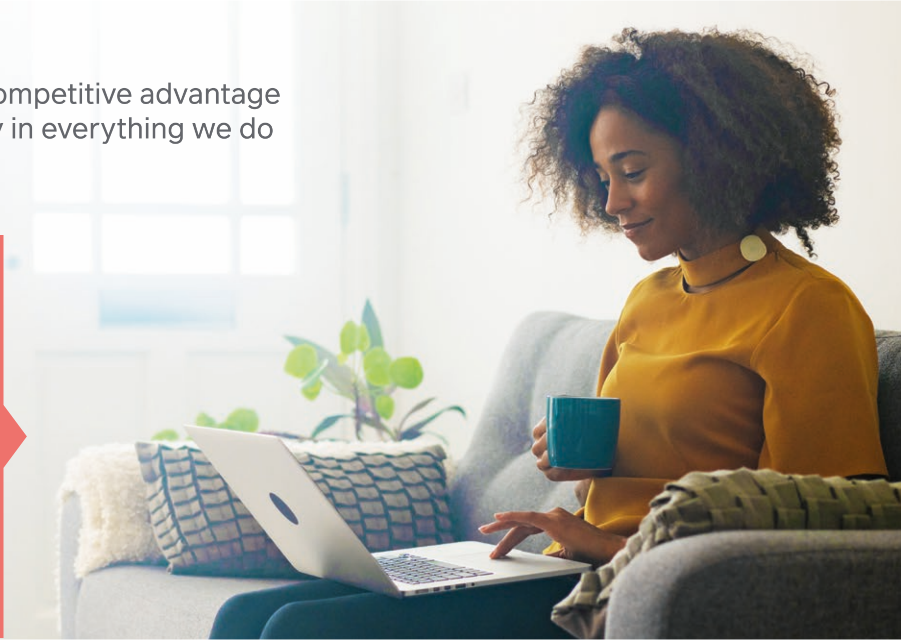


See pages 24-29 for how we're delivering on our strategy
See pages 35 for more on Active Capital Management and Operational Efficiency

How we deliver on our strategy

One M&G

Turn collaboration into competitive advantage and embed sustainability in everything we do



Making a difference the M&G way

Creating an inclusive culture

Our leaders are key to creating a strong, inclusive culture. During 2020, over 1,000 people managers, including all senior leaders and members of the Group Executive Committee, took part in virtual training on how to lead with respect, care and integrity. Our 100 most senior leaders also participated in a 360-degree feedback exercise.

As a recently merged and newly-independent business, we continue to make organisational changes and to modernise so that we can capture the competitive advantages and other benefits of operating as a single entity. We're working hard to deliver our vision through new ways of working, greater collaboration across the business and by embedding the principles of sustainability in everything we do, considering both the opportunities and risks. This way we will create a sustainable business for the long-term.

Our priorities

- **Support the culture of One M&G**: Realise the vision, promote the culture and access the benefits of M&G plc as a single merged entity – one team aligned around one purpose, one vision and one mission.
- **Promote diversity and inclusion**: Our Global D&I strategy lays out our priorities and goals around gender, LGBT+, disability, ethnicity/nationality and life stages. During the year we announced our commitment for 40% of senior leaders to be women and 20% to be from a Black, Asian or minority ethnic background by 2025, in the process becoming the first savings and investment company to announce an ethnicity target.
- **Embed sustainability considerations in everything we do**: Strengthen our role in driving societal change and promote better alignment with our clients' ESG objectives, both as a corporate, with significant invested assets of our own, and as an asset manager.
- **Embrace change**: Support growth through new ways of working and ongoing transformation, underpinning colleagues' welfare and reducing our carbon footprint. Greater use of digital technology will improve effectiveness and efficiency, leading to better customer and client engagement and response.

Our progress in 2020

- We've successfully established a new M&G Code of Conduct to help bring our culture to life. Our Code guides colleagues on coming together to work as one team, and creating an environment where we all feel safe, valued and heard. It outlines how we put our values and behaviours into action every day and how we're always doing the right thing by our customers, clients, investors, regulators, communities, and each other.
- During 2020, we made a commitment to achieve net zero carbon emissions on our total book of assets under management and administration by 2050, in line with the Paris Agreement. Within our investments business, we've invested in improving our research and analysis capability and developing proprietary analytical tools across assets, sectors and geographies. This will improve our data on our investments' exposure to the financial risks and opportunities from climate change, and other societal and environmental issues, to help us better determine the actions we need to take.
- We've also committed to reducing our operational carbon emissions as a corporate entity to net zero by 2030. Much is still to be done, but during 2020 we've achieved RE100 compliance – which measures our use of renewable energy – four years ahead of schedule. Over 99% of our global office estate is now powered by renewable energy or Energy Attribute Certificates (EAC) purchase. We're also now offsetting the carbon impact of all business travel and the estimated energy use of our colleagues working from home.
- Our business and our colleagues adapted quickly to the new ways of working following the pandemic-related restrictions of office occupation. Home-working capacity increased to include almost all of our nearly 6,000 colleagues within two weeks in March, ensuring we were able to keep serving our customers and clients with minimal disruption.

Key performance indicators

30%
Female representation among the executive committee and their direct reports
(2019: 30%)
Read more Page 60

80%
Employee sustainable engagement score
(2019: 68%)
Read more Page 63

3,126
Direct Carbon Emissions: Scope 1 and 2 (tCO_2e)
(2019: 4,007)
Read more Page 47

Revitalise UK

Reinvigorating our business in our largest market to meet changing customer and client needs

Our current retail presence is focused on the mass market in retail savings – where we have a strong presence through PruFund and the Retirement Account (a flexible personal pension to enable policyholders to save for retirement and take an income from the same plan) – and on more affluent customers in our range of mutual funds. We're looking to protect this position, and increase our exposure to additional opportunities by accessing a wider range of distribution channels, while also developing propositions that specifically cater for targeted customer segments.

Our priorities

- **Develop and grow M&G Wealth**: Access new customers and their advisers in more affluent segments of the market, via digital delivery of a multi-wrapper proposition through Ascentric and the planned development of model portfolio and discretionary solutions.
- **Rejuvenate our Retail Asset Management business**: Unlock growth potential with new distribution partners following a refresh and re-pricing of our fund range, a focus on improving investment performance and the launch of new investment strategies to improve the proposition offered to our customers.
- **Create sustainable with-profits investments**: Leverage our established and unique position, developing additional propositions to meet customer needs. This includes the planned launch of a sustainability-focused version of PruFund, our innovative solution for customers who value smoothed investment returns while knowing that their money is delivering positive environmental and societal impacts.

Our progress in 2020

- In October, we established M&G Wealth in the UK. This brings together our well-established adviser businesses of Prudential Financial Planning and The Advice Partnership, together with Ascentric, the digital wealth management platform we acquired during the year, and M&G Direct. Together these businesses comprise over 90,000 clients, with assets under administration of £28 billion, and underpin our strategy to expand our service offering for independent advisers, their clients and our wider customer base, by meeting the growing demand for high-quality advice and supporting wealth solutions.
- We undertook a review of our UK fund range, taking relevant actions to ensure we are offering products to our customers at competitive pricing. We continue to work on a number of initiatives to improve investment performance and to develop and launch new strategies to diversify and enhance our client offering, such as our new range of volatility-managed sustainable multi-asset funds, and the M&G Climate Solutions fund.
- Our with-profits proposition continues to provide customers with a smoothed return, reducing the volatility of direct investing in the markets and providing access to a wide range of asset strategies.

Key performance indicators
UK Retail Savings and UK Asset Management (excludes Institutional Asset Management)

£109.7bn	£2.2bn
AUMA	**Net client outflows**
(2019: £93.8bn)	(2019: £2.6bn inflows)

Making a difference the M&G way

Tackling climate change through targeted investment strategies

We recently launched our M&G Climate Solutions strategy, providing customers with the opportunity to address the climate emergency while putting their savings to work. Through its two funds, this positive impact strategy invests in companies that aim to provide solutions to the challenge of climate change while seeking to deliver attractive investment returns. It focuses on three main areas: clean energy, green technology and the promotion of the circular economy.

Expand Institutional

Broaden our capabilities and internationalise

Our trusted-partner and problem-solving approach, combined with our first-class credit investment capabilities, have enabled us to build a strong position in UK Institutional Asset Management over the past two decades. Mandates tend to be large, long-term, and are minimally impacted by market cycles. High-demand alternative investment strategies provide scope for clients to earn higher asset returns, with the potential for us attract better margins for this expertise. We're now looking to grow our Institutional business, particularly internationally.

Our priorities

- **Leverage relationships with global pension clients**: Take our proven trusted-partner approach from the UK into growing international pension markets, using our deep credit investment capabilities and by enhancing existing local distribution capabilities in Europe and Asia.
- **Continue to build pipeline of innovative client solutions**: We remain focused on creating funds that meet the specific needs of our clients, developing new strategies in proven areas of expertise, such as private debt, cash flow driven investments, sustainability-focused funds and emerging markets debt.
- **Grow private assets**: Continue to expand the geographic reach and range of our investment strategies in private assets, building on our existing strong and differentiated positions in private credit, infrastructure and real estate.

Our progress in 2020

- 2020 was another year of strong progress, with net client inflows of £5.1 billion, mainly into public debt offerings including the European credit fund, reflecting ongoing strong investment performance. We continue to work on developing our capabilities in Europe and Asia, with coverage currently extending to the Netherlands, Switzerland, Norway, South Korea and Japan.
- We combined our private and alternative assets capabilities into a single team. This will help us to grow our international sourcing and business development advantages, and develop stronger innovation through greater collaboration between teams.
- In December 2020 we created Catalyst, a new team specialising in sourcing attractive sustainable and impact investment opportunities in privately held businesses. Catalyst will manage a £5 billion internal mandate on behalf of the With-Profits Fund, as well as investing on behalf of external institutional investors seeking private credit exposure.

Key performance indicators
Institutional Asset Management

£85.5bn	£5.1bn
AUMA	**Net client inflow**
(2019: £70.5bn AUMA)	(2019: £0.1bn outflow)

Making a difference the M&G way

Focus on Institutional

Our long-term commitment to this business and the breadth of our offering to institutional investors means that we continue to grow relationships five, 10 or even 20 years after the initial investment. It is not unusual for clients to develop several funds with us over time as they deepen their strategic partnership with us. For example, one client has been with us for 12 years, and now has £1.5bn invested across five different strategies.

Grow Europe

Build on the success of our trusted partner approach and strong brand

We've distributed funds in Europe since 2002 and have a track record of building strong long-term client relationships. We currently operate through offices in 10 European countries outside the UK, and manage assets of £28.6 billion on behalf of our wholesale distribution partners. We anticipate that evolving distribution partner needs and the low level of cash returns will drive material growth opportunities in our key markets, but with increasing concentration among distributors and providers. That means we need to adapt our business to take advantage of new opportunities and build our scale and reach.

Our priorities

- **Restore our Retail Asset Management fund performance:** Following a period of net client outflows, focus on improvements in investment performance and the promotion of investment strategies that meet the needs of our distribution partners, including our sustainable investments.
- **Enhance investment solutions**: Improve the delivery of our proposition and broaden the range of solutions we offer to clients through greater collaboration across the business.
- **Bring smoothed solutions to European clients**: Launch and continue the roll out of smoothed solutions based on PruFund, to meet the needs of investors looking for volatility-managed investments.

Our progress in 2020

- In preparation for Brexit, we progressed plans to merge M&G International Investments into M&G Luxembourg SA. This will form a single entity able to operate as a management company for unitised funds, act as the distribution company for M&G Investments business in Europe and to be the regulated investment management company. We've also established our presence in Paris as a local investment office, ensuring that we can continue to manage segregated funds for European clients.
- We continued to build out our investment solutions proposition, responding to accelerating trends for deeper and broader partnerships with a smaller number of counterparties. Investment solutions net assets increased by over £1.3 billion in 2020, to £5.7 billion, with growth driven by our strong capabilities in fixed income, particularly European Credit, Global High Yield and Emerging Market Debt. In addition to opening significant new partnerships in Europe, the existing solutions book also proved resilient during the COVID-19 induced market downturn.
- During the year, we established memoranda of understanding with two key European banking groups to distribute a new lower-volatility multi-asset mutual fund solution, based on PruFund and managed by M&G Investments.

Given sustained low or negative European bank rates, this solution has been designed as a first step into investment for customers with a low appetite for risk. With around €9 trillion currently held in cash deposits in Europe (ex-UK), there is exciting potential for this solution.

Making a difference the M&G way

Tailor-made solutions to meet client needs

In 2020, our Investment Solutions business in Europe grew by 40% to £3.2 billion in AUMA.

The arrival of MiFID II has created a flourishing sub-advisory market in Europe which is changing the distribution landscape. We are working with partners including private banks and discretionary managers to create customised investment solutions to meet the volatility and risk appetite of their end customers.

Key performance indicators

European Retail Asset Management (excluding Institutional Asset management)

£28.6bn	£8.4bn
AUMA	**Net client outflow**
(2019: £33.8bn)	(2019: £2.4bn outflow)

Build International

Focused expansion in Asia, the Americas and Africa

Making a difference the M&G way

Expanding our Asian equities focus

The addition of the Asia equities team in late 2019 marked the first time in M&G investments 100-year history that investment capabilities, ranging from portfolio management to fundamental research to trade execution, were located outside of our global headquarters in London. Vikas Pershad, Portfolio Manager in our Singapore office said:

"The accretion of assets under management in Asia and the expansion of our team underscored the region's appeal as a key long-term growth driver. And we're just getting started."

Almost 20 years of organic development in asset management in Europe have given us proven experience in international growth. We aim to leverage this know-how to develop our businesses in Asia, Africa and the Americas. Over time, we expect these international markets to offer growth and diversification, leading to more resilient earnings and increasing global capability and coverage.

Our priorities

- **Develop Asia presence and capabilities**: Broaden our local distribution reach through new licences in target markets and by extending existing relationships with our global bank partners. In addition, we will look to enhance local investment capability by adding to our Asia-based investment management and asset sourcing teams.
- **Establish local operations in the Americas**: Promote local credit investment management, research and dealing capabilities from our newly-established Chicago office. At the same time, build local distribution to access US offshore and Latin America wealth markets, supporting and complementing our existing relationships with bank partners.
- Complete acquisition of a controlling interest in South Africa: The additional holding in PPMSA will bring control of a fifth investment management centre, alongside our existing capabilities in the UK, Europe, Asia and the US.

Our progress in 2020

- We've continued to broaden our distribution reach in Asia, successfully launching our first back-end load share classes on our SICAV fund range, for distribution in Taiwan.
- The Asia business has also made a strong contribution to the Institutional Asset Management strategy – the equity asset management team we acquired in 2019 continues to establish a track record, winning several new mandates, including management of £11 billion of life fund assets. During the year, we obtained Discretionary Investment Manager and Type 2 licences in Japan, which will allow M&G to offer additional mandate capabilities to Japanese investors as well as target large corporate and government pension funds.
- In the US, our new Chicago office became operational during 2020 and has significantly enhanced our global fixed income capability. We have also grown offshore distribution reach, securing new relationships with some of the largest independent broker dealers, and progressing the onboarding of US wirehouses.

Key performance indicators

Retail Asset Management in Asia, the Americas and Africa (excludes Institutional Asset management)

£7.7bn	£1.1bn
AUMA	**Net client outflow**
(2019: £9.2bn)	(2019: £nil net client flows)

Protect Heritage

Improving customer outcomes and increasing resilience

Our Heritage portfolio mainly comprises annuities and traditional with-profits policies. These propositions offer our customers, many of whom are in retirement, a source of dependable income and stable capital investment. Both the annuities and with-profits businesses are well capitalised, contributing highly stable earnings and capital generation, which provides a high degree of resilience to the company in times of stress.

Our priorities

- **Protect and increase resilience**: Migrate products onto modern and resilient IT architecture, increasing operational resilience, removing points of failure and improving disaster recovery.
- **Deliver improved customer service outcomes**: Target an improvement in customer satisfaction and customer effort scores, including the Net Promotor Score, through better service and response times, adopting digital processes and improving operational performance.

Our progress in 2020

- We have seen a small increase in the Net Promoter Score in respect of our Heritage business as we transitioned our customer service to new systems. However, the improvements were not as significant as we targeted for 2020. We are now focused on resolving customer service issues that emerged through the recent migration of policies to the new systems and other COVID-19 related disruption.
- We migrated a further 394,000 corporate and individual pensions to our new platform during 2020, adding to the 433,000 customers migrated from legacy platforms in previous years. We're now able to provide enhanced and more adaptable customer service, modernised customer benefit statements and greater transparency of all product features, costs and changes. Work is under way to migrate a further 1.05 million pension and bond customers in 2021.
- We've continued to make progress in adopting digital processes. Active users of MyPru have increased to over 350,000 customers from 205,000 at the end of 2019, and digital transactions now account for around 7% of monthly interactions. Web portal sessions were up 59% for MyPru/PruRetire and up 13% for PruAdviser in the second half of 2020 compared to the same period in 2019.
- We're also seeing improvements in how our customers interact with us – for example, through the introduction of digital document uploads and electronic new business applications that remove the need for a wet signature. Bereavements notified via our online tool increased to 25% in the fourth quarter, up from 4% in January, easing the burden on families and accelerating the process.

Key performance indicators

2.8/1,000	+8
Heritage Complaints Ratio (12-month rolling basis) (2019: 3.9/1,000)	**Heritage Net Promoter Score** (2019: +6)

Making a difference the M&G way

Supporting bereaved families

Given the age profile of our customer base we anticipated that the COVID-19 pandemic would lead to an increase in bereavements and took early steps to help families of customers who had lost a loved one. We introduced an interactive voice response (IVR) to direct third parties to our online notification tool – removing phone waiting times and ensuring the right information was provided to expedite the process. We also introduced a document upload facility, reducing the effort required to settle benefits.

Our KPMs

Performance highlights

The key performance measures outlined on this page identify the most relevant financial measures used to manage the Group's performance

Key

KPM	Key performance measure
APM	Alternative performance measure

Adjusted operating profit before tax

£788m

(2019: £1,149 million)

KPM APM

The purpose of adjusted operating profit before tax is to demonstrate the Group's longer-term performance to equity holders, as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax.

Our adjusted operating profit before tax of £788 million (2019: £1,149 million) was impacted by the first full year of listed infrastructure cost following the Demerger. Reductions in Retail Asset Management fee-based revenues were driven by industry-wide pressure on margins and weak investment performance resulting in net client outflows, whilst the strong performance of Institutional Asset Management resulted in net inflows.

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

Total capital generation

£995m

(2019: £1,509 million)

KPM

The level of surplus capital is an important financial consideration for us. Capital generation measures the change in surplus capital during the period, before dividends and capital movements, and we consider it to be integral to the running and monitoring of the business, our decisions on capital allocation and investment and ultimately our dividend policy.

Total capital generation was £995 million (2019: £1,509 million) reflecting an improved operating result but also the impact of negative market movements in the period, compared to the positive market effects experienced in 2019.

IFRS profit after tax

£1,142m

(2019: £1,065 million)

KPM

Profit after tax demonstrates to our shareholders the financial performance of the Group during the year on an IFRS basis.

IFRS profit after tax attributable to equity holders increased by 7% year on year. The fall in adjusted operating profit was offset by gains of £678 million arising from short-term fluctuations in investment returns. These gains were partially offset by £73 million restructuring costs.

Operating capital generation

£1,312m

(2019: £1,276 million)

KPM

Operating capital generation represents the longer-term components of the movements in the Group's surplus capital, as it is less affected by short-term market volatility and non-recurring items than total capital generation.

Operating capital generation was resilient during 2020, up 3% on 2019. In line with adjusted operating profit before tax, operating capital generation has been impacted by costs arising following the Demerger and reduction in Asset Management revenue. However, this was more than offset by an increased contribution from management actions taken to protect the balance sheet, amongst other offsetting movements.

Savings and Asset Management net client flows

£6.6bn outflow

(2019: £1.3 billion outflow)

KPM

Savings and Asset Management net client flows indicate how our Savings and Asset Management business grows and how successful it is at retaining and attracting new customer investments to its products and funds.

Net client flows in 2020 have been challenged by weak investment performance in the Retail Asset Management business. In contrast, our Institutional Asset Management business and our Retail Savings business both delivered net client inflows.

Shareholder Solvency II coverage ratio

182%

(2019: 176%)

KPM APM

The purpose of the shareholder view of the Solvency II coverage ratio is to provide what we believe is a more relevant reflection of the capital strength of the Group than the regulatory Solvency II coverage ratio.

The resilience of our capital position has been demonstrated over the period, with our shareholder Solvency II coverage ratio increasing by 6% to 182% at 31 December 2020, after paying dividends of £562 million.

Assets under management and administration

£367.2bn

(2019: £351.5 billion)

KPM

AUMA is a key indicator of the scale of the business and demonstrates our potential earnings from investment return and fee income.

AUMA increased £15.7 billion on 2019 driven by positive market movements of £13.4 billion and the addition of £15.5 billion in relation to the acquisition of Ascentric offset by net client outflows of £13.2 billion, particularly in the Retail Asset Management business.

Dividend per share

Ordinary 12.23p

(2019: 11.92p)

KPM

Dividend per share is the return of value to shareholders for each share held.

The Board has agreed to pay an ordinary dividend of 12.23p on 28 April 2021.

Demonstrating our financial resilience

I am proud that in our first full year as an independent company we have delivered a strong financial performance against the extremely challenging backdrop of the COVID-19 pandemic

Despite financial markets operating in extremely volatile and adverse conditions, our financial performance benefitted from our strong balance sheet and diversified earnings resulting from the combination of being an asset manager and an asset owner.

Adjusted operating profit before tax of £788 million (2019: £1,149 million) demonstrates our ability to deliver strong returns even in a challenging environment. Total AUMA increased to £367.2 billion (2019: £351.5 billion). The completion of the acquisition of Ascentric in the third quarter, positive market movements and strong net inflows in our Institutional Asset Management business, together outweighed the impact of net client outflows in our Retail Asset Management business. The net client inflows in our Institutional Asset Management business reflect consistently strong investment performance and the attractive range of innovative client solutions, while Retail Asset Management net client flows were impacted by market volatility and the recent underperformance of some of our larger funds.

We remain committed to achieving £145 million of annual run-rate shareholder cost savings by full year 2022 through our five-year investment in digital transformation. Recognising the headwinds we are experiencing in our Retail Asset Management business, we will continue to drive operational efficiencies to enable us to counter the margin pressure the industry is experiencing. As we do this, we'll carefully balance savings potential with investment requirements and cost to achieve.

Throughout the year, we also demonstrated our proactive approach to capital management, with total capital generation of £995 million (2019: £1,509 million) as we coupled the stable and recurring nature of our underlying capital generation from our operating segments with management actions to protect our balance sheet. This strong performance led to an increase in our shareholder Solvency II coverage ratio to 182% (2019: 176%), after paying dividends of £562 million in the period. Whilst the economic outlook remains uncertain, this result demonstrates our focus on proactively and efficiently managing our balance sheet, and our commitment to deliver our ambitious three-year cumulative total capital generation target of £2.2 billion to the end of 2022.

Parent Company liquidity remained at comfortable levels and has not been adversely affected by the global crisis, with cash and liquid assets of £1.0 billion at the end of 2020.

We paid dividends of £410 million on 29 May 2020, comprising an ordinary dividend of 11.92 pence per share and a special demerger dividend of 3.85 pence per share. In addition, we paid an interim ordinary dividend of £152 million equal to 6.00 pence per share, in line with our policy of paying one-third of the previous year total dividend, on 30 September 2020. A second interim dividend of £310 million equal to 12.23 pence per share will be paid on 28 April 2021.

The audit tender process was concluded in the last quarter and we announced our intention to appoint PwC as new external auditor effective for the period commencing 1 January 2022. This will allow them to review the prior year comparative data in advance of the first effective reporting period under IFRS 17 in 2023.

I am extremely pleased with what we have achieved so far as a new organisation and of the way we have risen to the challenges posed by the pandemic. This crisis might not yet be over but we are confident about the future as we continue to protect our people, serve our customers and clients, and deliver to our shareholders.

Clare Bousfield
Chief Financial Officer

"The financial resilience of our business was evident, with our shareholder Solvency II coverage ratio increasing to 182%."

Clare Bousfield
Chief Financial Officer

Overview

The increase in IFRS profit after tax was driven by positive movements in short-term fluctuations and investment return offsetting the reduction in adjusted operating profit before tax in the year

Adjusted operating profit before tax to IFRS profit after tax

The following table shows a reconciliation of adjusted operating profit before tax to IFRS profit after tax from continuing operations:

£m	For the year ended 31 December 2020	2019
Asset Management fee-based revenues	**988**	1,033
Other fee-based revenues	**232**	254
Total fee-based revenues	**1,220**	1,287
Annuity margin	**438**	458
With-profits shareholder transfer net of hedging gains/(losses)	**251**	242
Adjusted operating income	**1,909**	1,987
Asset Management operating expenses	**(672)**	(652)
Other operating expenses	**(348)**	(311)
Adjusted operating expenses	**(1,020)**	(963)
Other shareholder (loss)/profit	**(111)**	110
Share of profit from joint ventures and associates	**10**	15
Adjusted operating profit before tax	**788**	1,149
Short-term fluctuations in investment returns	**678**	298
Profit on disposal of business and corporate transactions	**—**	53
Restructuring and other costs[i]	**(73)**	(198)
IFRS profit attributable to non-controlling interests	**4**	3
IFRS profit before tax attributable to equity holders from continuing operations	**1,397**	1,305
Tax charge attributable to equity holders	**(255)**	(240)
IFRS profit after tax attributable to equity holders from continuing operations	**1,142**	1,065

i Restructuring costs excluded from adjusted operating profit before tax relate to merger and transformation costs of £73 million for the year ended 31 December 2020 (2019 : £62m). In 2019 restructuring costs also included rebranding and other change in control costs allocated to the shareholders. Additional restructuring costs are included in the analysis of administrative and other expenses in Note 6 to the consolidated financial statements.

Making a difference the M&G way

Operational Efficiency Drive

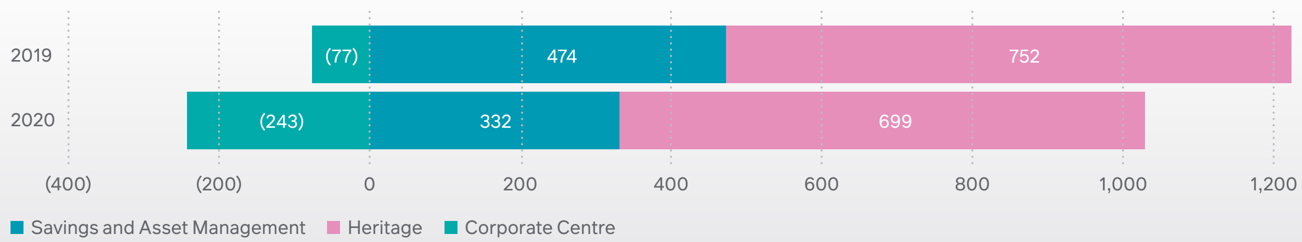
As part of our drive for improved operational efficiency, we have looked at ways to consolidate and modernise the technology we use to support customers. Having already migrated 433,000 customers from legacy platforms, in November 2020 we moved a further 394,000 corporate and individual pensions to our new platform of choice, BaNCS. This allows these customers easier access to our MyPru servicing platform, which now has 350,000 users. Work is currently underway to migrate a further 1.05 million pension and bond customers in October 2021. Migration away from legacy inherited platforms is helping us deliver greater servicing adaptability for our customers and anticipate and respond to future challenges.

The following table shows adjusted operating profit before tax split by segment and source of earnings:

£m	For the year ended 31 December 2020	2019
Asset Management	**316**	381
With-profits	**44**	55
Other	**(28)**	38
Savings and Asset Management	**332**	474
With-profits	**207**	187
Annuities	**438**	458
Other	**54**	107
Heritage	**699**	752
Corporate Centre	**(243)**	(77)
Adjusted operating profit before tax	**788**	1,149

Adjusted operating profit before tax sources of earnings

£m



Adjusted operating profit before tax was £788 million for the year ended 31 December 2020 (2019: £1,149 million). The results include the first full year of listed infrastructure costs, with £167 million of finance costs in relation to the subordinated debt, £101 million of head office costs and £15 million foreign exchange gain in respect of the US dollar subordinated debt. The 2019 result benefitted from changes made to the staff pension schemes of £64 million which were not repeated in 2020. The fall in fee-based revenue resulted from net client outflows in Retail Asset Management during 2020, particularly in the international wholesale channel, and industry-wide pressure on margins.

IFRS profit after tax

IFRS profit after tax attributable to equity holders from continuing operations increased to £1,142 million compared to £1,065 million for the year ended 31 December 2019. The fall in adjusted operating profit before tax was offset by the combined positive impact of a £380 million increase in short-term fluctuations in investment returns and a £125 million reduction in restructuring costs, less a £15 million increase in the equity holders tax charge. Short-term fluctuations primarily comprise gains on equity hedges of £235 million, a benefit of £118 million from interest rate swaps purchased to protect the Solvency II capital position and a £435 million increase from fair value movements on surplus annuity assets. These gains have been partially offset by the strengthening of the credit risk allowance for shareholder-backed annuities by £117 million, in anticipation of short-term deterioration in the number of company defaults and downgrades due to the current market conditions arising from the COVID-19 pandemic.

Equity holders' effective tax rate for the year ended 31 December 2020 was 18.3% compared to 18.4% for the year ended 31 December 2019. Excluding non-recurring items, the equity holders' effective tax rate was 18.8% (2019: 20.2%). The equity holders' effective tax rate of 18.3% was lower than the UK statutory rate of 19% (2019: 19%) primarily due to beneficial impacts arising from adjustments to prior periods tax charges and non-taxable income during the period, partially offset by the detrimental impact of non-deductible expenses. Our 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	For the year ended 31 December 2020	2019
Savings and Asset Management underlying capital generation	**417**	414
Heritage underlying capital generation	**446**	459
Corporate Centre underlying capital generation	**(286)**	(91)
Underlying capital generation	**577**	782
Other operating capital generation	**735**	494
Operating capital generation	**1,312**	1,276
Market movements	**(118)**	538
Restructuring and other	**(73)**	(133)
Tax	**(126)**	(172)
Total capital generation	**995**	1,509

Total capital generation was £995 million for the year ended 31 December 2020 (2019: £1,509 million), reflecting improved operating capital generation but also the impact of negative market movements in the period, compared to the positive market movements experienced in 2019.

We analyse operating capital generation by considering both the contribution from underlying capital generation, which includes the expected surplus capital from the life insurance business, as well as the adjusted operating profit before tax and associated capital movements from other business and also the capital generated from other operating items.

Underlying capital generation fell to £577 million (2019: £782 million), primarily due to the expected impact of the first full year of listed infrastructure costs in the Corporate Centre, with the underlying result from our operating segments remaining broadly stable. This reduction, however, was offset by a larger benefit from other operating items of £735 million (2019: £494 million), resulting in an increase in operating capital generation to £1,312 million (2019: £1,276 million).

Other operating capital generation was driven by a £408 million (2019: £157 million) benefit from management actions, along with £167 million (2019: £214 million) due to assumption changes, which includes £242 million arising from longevity assumption releases. The impact from model changes, experience variances and other items was £160 million (2019: £123 million) which includes an increased contribution from the Corporate Centre of £88 million (2019: £68 million reduction), partially offset by a reduced impact within Heritage. The change in Corporate Centre primarily reflects the impact of updates to the measurement approach of the Group's leases under Solvency II, while the 2019 result allowed for the establishment of operational risk capital for the new Head Office function.

The adverse economic conditions experienced during 2020 reduced total capital generation by £118 million, whereas the 2019 result benefitted from £538 million of positive market movements. The 2020 market movements are net of a positive impact of £346 million from equity and interest rate hedges, which protect the Group's capital position.

Capital position[i]

The Group's Solvency II surplus increased to £4.8 billion as at 31 December 2020 (2019: £4.5 billion), equivalent to a shareholder Solvency II coverage ratio of 182% (2019: 176%), driven by total capital generation of £995 million offset by reductions of £562 million for dividends paid to shareholders and £121 million from other capital movements.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 242%. While this is lower than the 267% as at 31 December 2019, it reflects the increased cost of options and guarantees and the distribution of £1.0 billion of excess surplus in the fund to our with-profits policyholders announced in February 2020.

The regulatory Solvency II coverage ratio of the Group as at 31 December 2020 was 144% (2019: 143%). This view of solvency combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund.

i The shareholder, With-Profits Fund, and regulatory views of the Solvency II position presented above assume transitional measures which have been recalculated using management's estimate of the impact of operating and market conditions as at the valuation date.

Financing and liquidity

The following table shows key financing and liquidity information:

£m	For the year ended 31 December 2020	2019
Parent Company cash and liquid assets	**1,040**	1,274
Nominal value of debt	**3,216**	3,227
Leverage ratio	**30%**	31%

The key metric we use to manage our debt is the leverage ratio, defined as the nominal value of debt as a percentage of the Group's shareholder Solvency II own funds. For further detail on Group's shareholder Solvency II own funds see Note 38.2.2. During 2020 our leverage ratio improved to 30% (2019: 31%).

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

	For the year ended 31 December	
£m	**2020**	2019
Opening cash and liquid assets at 1 January	**1,274**	18
Cash remittances from subsidiaries	**737**	477
Special dividends from subsidiaries	**—**	1,177
Substitution of subordinated liabilities	**—**	3,241
Corporate costs	**(45)**	(37)
Interest paid on core structural borrowings	**(189)**	(22)
Cash dividends paid to equity holders	**(562)**	(543)
Final dividend paid to equity holders prior to demerger	**—**	(2,968)
Acquisition of subsidiaries	**(86)**	(86)
Acquisition of own shares	**(105)**	—
Other shareholder income	**16**	17
Closing cash and liquid assets at end of period[i]	**1,040**	1,274

i Closing cash and liquid assets at 31 December 2020 included a £1,001 million (2019; £1,200 million) inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function.

Movements in cash and liquid assets held by the Parent Company for the year ended 31 December 2020 represent the remittances and payments that will arise in the normal course of business. In comparison, the year ended 31 December 2019 included significant cash flows related to the demerger. Total cash and liquid assets have remained stable with cash remittances of £737 million (2019: £477 million) received from our subsidiaries more than covering the cash dividend payments to equity holders of £562 million and interest paid on core structural borrowings of £189 million (2019: £22 million).

Active Capital Management and Operational Efficiency

Our seventh strategic pillar is Active Capital Management and Operational Efficiency.

Active Capital Management

The primary focus of our capital management is financial strength and financial stability. This is achieved through actively managing the Group's solvency position and the quality of the capital held. During the year we have demonstrated the benefits of our proactive approach to capital management since, despite the impact of COVID-19 on the financial markets, we delivered total capital generation of £995 million increasing our shareholder Solvency II coverage ratio to 182%.

Our total capital generation result includes a £408 million benefit from management actions, driven by a contribution of £272 million from asset trading and optimisation, as well as £50 million from extending our equity hedging programme.

We remain committed to achieving our ambitious three-year total cumulative capital generation target of £2.2 billion to the end of 2022.

Operational Efficiency

We remain focused on delivering operational efficiencies through our five-year investment in digital transformation despite disruptions caused by COVID-19. We remain on track to deliver £145 million annual run-rate shareholder cost savings by 2022.

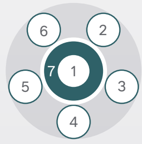
The pandemic has given us the opportunity to rethink the way we work, improving our efficiency and environmental footprint. We will continue to execute already identified initiatives whilst capturing these benefits on a permanent basis to deliver even greater cost savings. We will carefully balance investment requirements and cost to achieve, with savings potential.

Over the next two years our core objectives will be to implement the new target operating models developed for business and support functions, allowing us to tackle growth opportunities as efficiently and effectively as possible and complete simplification of the With-Profits Fund structure, pooling assets currently spread across 103 investment building blocks into 28, delivering operational simplicity and improved customer outcomes.

We have demonstrated our commitment to delivering operational efficiencies through the following actions:

- Proceeding at pace with the rationalisation programme of our IT estate, remaining on track to reduce the number of applications by c.50%.
- Continuing with the digitisation of the Heritage business migrating over 800,000 customers to the leading BaNCS platform and continuing to decommission expensive legacy policy administration systems.

Our strategic pillars

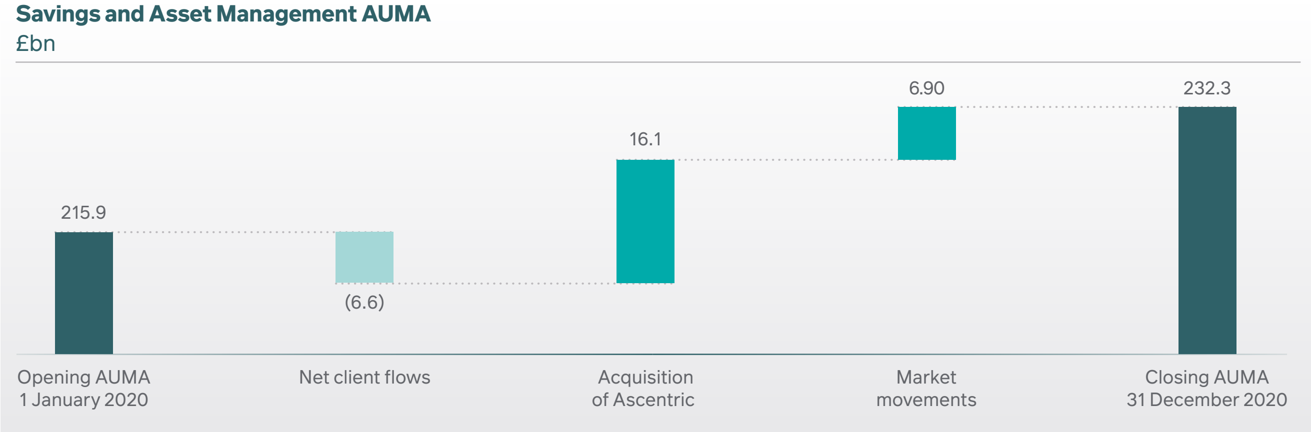


1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

Our Savings and Asset Management business

Savings and Asset Management financial performance was impacted by net client outflows in Retail Asset Management and industry-wide pressure on retail margins

Assets under management and administration and net client flows



£bn	Net client flows For the year ended 31 December 2020	2019	AUMA[i] As at 31 December 2020	2019
Retail Savings	**0.4**	6.2	**81.8**	63.5
of which: PruFund	**0.4**	6.4	**55.5**	53.8
Retail Asset Management	**(12.1)**	(7.4)	**64.2**	74.9
Institutional Asset Management	**5.1**	(0.1)	**85.5**	76.8
Other	**—**	—	**0.8**	0.7
Total Savings and Asset Management[i]	**(6.6)**	(1.3)	**232.3**	215.9

i Included in total AUMA of £232.3 billion (2019: £215.9 billion) is £6.5 billion (2019: £6.4 billion) assets under advice.

Our Institutional business performed well with net client inflows following continued strong investment performance and highlighting the appeal of our range of innovative investment solutions. Net client inflows of £5.1 billion partially offset the impact of the net outflows from our Retail Asset Management business with AUMA increasing to £232.3 billion at 31 December 2020.

Retail Savings AUMA increased 29% to £81.8 billion over the year to 31 December 2020, primarily as a result of the acquisition of Ascentric, which increased AUMA by £16.1 billion. Net client inflows of £0.4 billion experienced by Retail Savings were lower than 2019 with economic uncertainty and market volatility impacting investor sentiment across the retail savings market in 2020. In addition, COVID-19 restrictions severely limited the extent to which advisers were able to interact face to face with customers during the year leading to a significant reduction in new business sales.

PruFund AUMA increased 3% as a result of positive investment returns and net client inflows of £0.4 billion.

Retail Asset Management AUMA decreased 14% to £64.2 billion over the year with net client flows impacted by the volatile global markets and ongoing underperformance in some of our established funds, particularly in our international wholesale channel. Overall net client outflows increased to £12.1 billion (2019: £7.4 billion) and were particularly high in the first quarter of 2020 at £5.6 billion but levelled off as investor sentiment improved in the last quarter with the approval of COVID-19 vaccines. Performance improved markedly in the final quarter with 78% of wholesale assets above peer group medians in the three months to December 2020. We continue to reinvigorate our Retail Asset Management proposition to improve investment performance, offer greater value for money and evolve our fund range in order to diversify and increase client flows. In December, we launched three sustainable multi-asset fund ranges, cautious, balanced and growth, which aim to deliver total return within explicit volatility limits while also making a positive contribution to solving some of the world's major social and environmental challenges.

Our further investment in building investment capabilities in Asia over the past year enabled us to win several new mandates from our With-Profits Fund and to repatriate the management of those assets during the year. The most significant being a £9 billion mandate to manage Asian and Japanese equities, with a further £2 billion expected to transition by early 2021. Additionally, the M&G fixed income team was awarded a £12 billion US fixed income mandate from our With-Profits Fund in Q4, of which £11 billion has already transitioned with the remainder expected to complete in early 2021.

Institutional Asset Management AUMA increased 11% to £85.5 billion during the year, driven by strong net client inflows of £5.1 billion and is now the largest component of our Savings and Asset Management AUMA. Consistently strong investment performance has driven £3.3 billion of net client inflows into our public debt propositions. A further £0.7 billion of net client inflows was received into our infrastructure offering and £0.6 billion of net client inflows into our real estate propositions in 2020. We continued to broaden our investment capabilities offering bespoke investment solutions to our clients, which are less affected by market volatility and offer good margins. Leveraging our strong position in the UK, we aim to expand our business capabilities internationally.

Our expertise in private assets, which offers private fixed income, alternatives, real estate and infrastructure equity offerings, is a key component of our institutional investment capability and represents a resilient, high-margin source of revenues. It also underpins our ability to launch Catalyst, a team formed to manage a £5 billion mandate from our With-Profits Fund aimed at delivering positive societal impact through innovation as well as investing on behalf of the external institutional investors seeking private credit exposure. Our private assets under management increased 11% to £67.2 billion of AUMA as at 31 December 2020 (2019: £60.3 billion).

Adjusted operating profit before tax

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

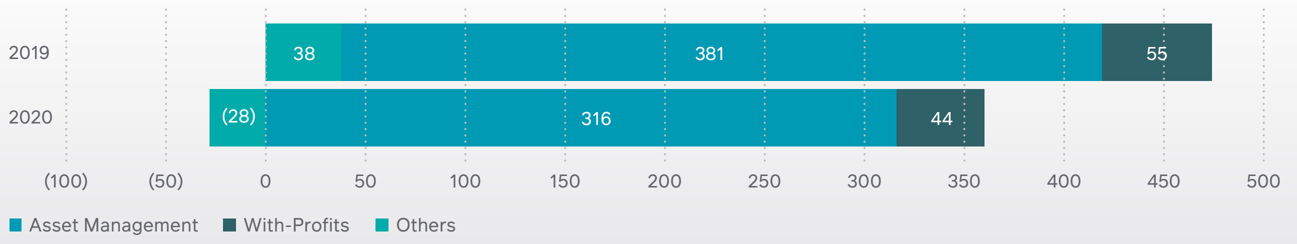
£m	For the year ended 31 December 2020	2019
Asset Management fee-based revenues	**988**	1,033
Other fee-based revenues	**158**	158
Total fee-based revenues	**1,146**	1,191
With-profits shareholder transfer net of hedging gains/(losses)	**44**	55
Adjusted operating income	**1,190**	1,246
Asset Management operating expenses	**(672)**	(652)
Other operating expenses	**(168)**	(165)
Adjusted operating expenses	**(840)**	(817)
Other shareholder (loss)/profit	**(28)**	30
Share of profit from joint ventures and associates	**10**	15
Adjusted operating profit before tax	**332**	474

Adjusted operating profit before tax sources of earnings

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

£m	For the year ended 31 December 2020	2019
Asset Management	**316**	381
With-profits	**44**	55
Other	**(28)**	38
Adjusted operating profit before tax	**332**	474

Savings and Asset Management by sources of earnings
£m



Adjusted operating profit before tax from our Asset Management activities decreased to £316 million in the year ended 31 December 2020 (2019: £381 million) driven by a 4% reduction in fee-based revenues to £988 million (2019: £1,033 million). The reduction in average AUMA in Retail Asset Management, combined with the downward pressure on retail margins, resulted in lower fee-based revenues of £466 million during the year (2019: £584 million). The lower pricing structure applied to our UK OEIC fund ranges in August 2019 contributed to a £19m reduction whilst the suspension of the M&G Property Portfolio Fund in December 2019 led to a further £13 million reduction in fee-based revenues in 2020. In contrast, revenue earned by Institutional Asset Management increased to £480 million (2019: £429 million) as a result of higher average AUMA and improved revenue margins. Asset Management adjusted operating expenses, excluding the £35 million one-off benefit resulting from changes to the Group's defined benefit pension schemes in 2019, reduced by £15 million over the year, driven by lower facilities costs and lower travel and entertainment costs.

The Asset Management average fee margin of 50 basis points (bps) was 7bps lower at 31 December 2020 compared to 31 December 2019 reflecting the continued industry-wide pressure on fees in Retail Asset Management. Average revenue margins in the Institutional Asset Management business were 2bps higher at 28bps, compared to 26bps at 31 December 2019, reflecting our focus on the provision of high-margin, innovative investment solutions for clients. This focus has resulted in favourable changes to our product mix, with net client flows out of our lower margin products and into these more specialised, higher margin solutions.

The cost/income ratio for the Asset Management business was 71% (2019: 64%), with the increase largely driven by the reduction in Retail Asset Management revenue and also the non-recurrence in 2020 of the £35 million past service credit.

The with-profits shareholder transfer, driven by PruFund, decreased to £54 million (2019: £73 million) as a result of the downward unit price adjustment for the fall in financial markets at the start of 2020, which was not fully mitigated by later upward price adjustments in the fourth quarter. In addition there were fair value losses of £10 million (2019: £18 million loss) on the derivative instruments used to mitigate the equity risk to shareholders.

The other shareholder loss in the year to 31 December 2020 is driven by items impacted by the market volatility in 2020, including a £16 million reduction in investment return on seed capital investments and a £5 million reduction in share of profit from associate. In addition, 2020 includes an expected £4m loss on the Ascentric business acquired in the year. We expect Ascentric to strengthen our investment proposition by increasing our tax wrapper offerings and distribution footprint in the platform market. As we integrate Ascentric, build scale, automate operations and improve efficiency we expect the short-term impact on Savings and Assets Management earnings to be limited.

Capital generation

The following table shows an analysis of operating capital generation:

	For the year ended 31 December	
£m	**2020**	2019
Asset Management underlying capital generation	**308**	379
With-profits underlying capital generation	**88**	—
of which: in-force	**100**	61
of which: new business	**(12)**	(61)
Other underlying	**21**	35
Underlying capital generation	**417**	414
Other operating capital generation	**83**	45
Operating capital generation	**500**	459

Underlying capital generation for the year ended 31 December 2020 was stable at £417 million (2019: £414 million). Whilst the contribution from our Asset Management business fell to £308 million (2019: £379 million) in line with the reduction in adjusted operating profit before tax, this was offset by higher underlying capital generated from with-profits in-force business and lower new business strain. The with-profits in-force business capital generation of £100 million (2019: £61 million) was driven by the expected growth in future shareholder transfers which was greater in 2020 on higher opening asset values, while new business strain fell to £12 million (2019: £61 million) mostly reflecting lower PruFund net client inflows, amongst other movements.

Other operating capital generation of £83 million (2019: £45 million) primarily reflected changes in the modelling and assumptions relating to underlying capital requirements in respect of PruFund business, and also a beneficial impact of £31 million from the extension of our equity hedging programme.

Our Heritage business

Underlying performance of our Heritage business remained strong, continuing to provide a stable and sizeable underpin to our earnings

Assets under management and administration and net client flows

The AUMA reduction of £0.3 billion to £133.7 billion at 31 December 2020 (2019: £134.0 billion) was driven by net client outflows, of £6.6 billion (2019: £7.6 billion net outflow), which were in line with expectations, offset by favourable market movements of £6.3 billion.

Adjusted operating profit before tax

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

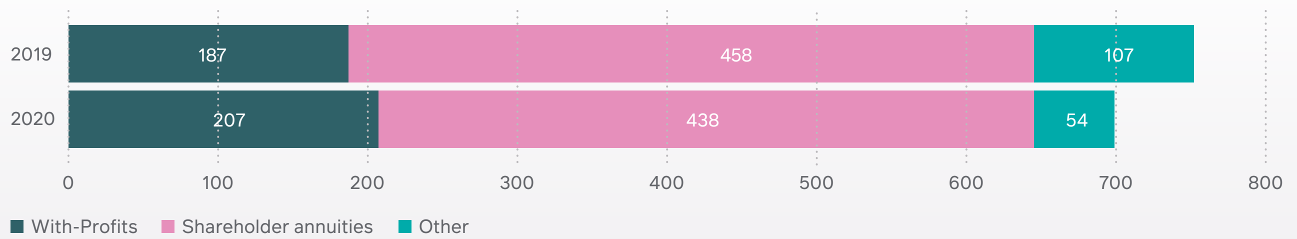
	For the year ended 31 December	
£m	**2020**	2019
Fee-based revenues	**74**	96
Annuity margin	**438**	458
With-profits shareholder transfer net of hedging gains/(losses)	**207**	187
Adjusted operating income	**719**	741
Adjusted operating expenses	**(79)**	(87)
Other shareholder profit	**59**	98
Adjusted operating profit before tax	**699**	752

Adjusted operating profit before tax sources of earnings

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

	For the year ended 31 December	
£m	**2020**	2019
With-profits	**207**	187
Shareholder annuities	**438**	458
Other	**54**	107
Adjusted operating profit before tax	**699**	752

Heritage by sources of earnings
£m



The shareholder transfer relating to traditional with-profits business increased to £254 million (2019: £251 million), offset by £47 million (2019: £64 million) of fair value losses on the derivative instruments used to mitigate equity risk to shareholders.

Adjusted operating expenses decreased by £8m during the year, in line with expectations as the Heritage business runs off. Other shareholder profit primarily relates to insurance reserve releases as we complete the review of a number of legacy remediation programmes.

The following table provides further analysis of the annuity margin:

£m	For the year ended 31 December 2020	2019
Return on excess assets and margin release	**188**	216
Asset trading and portfolio management actions	**59**	110
Longevity assumption changes	**217**	126
Other	**(26)**	6
Annuity margin	**438**	458

Longevity assumption changes resulted in a benefit of £217 million in the year ended 31 December 2020, primarily driven by updates to current mortality assumptions, along with a marginal impact from moving from the CMI 17 mortality improvements model to the CMI 18 model, adopted using the Group's own calibration. The 2019 result included a £126 million benefit in relation to changing from the CMI 16 to the CMI 17 model. We continue to monitor the impacts of COVID-19 on our longevity assumptions.

Recurring sources of earnings from the annuity book, primarily the return on assets held to back capital requirements and the release of the margins held in respect of credit risk, mortality and expenses, decreased by 13% to £188 million (2019: £216 million). This mainly reflects a lower level of excess assets on the annuity portfolio following the payment of dividends to the Parent Company and decreasing bond yields during the year.

During the year, we also earned £59 million from asset trading and portfolio management actions (2019: £110 million) which includes the loss arising on the sale of a property in 2020 due to the impact on the valuation of annuity liabilities.

The credit quality of fixed income assets in the annuity portfolio remain strong.

Over 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 15% are BBB. In addition 81% of the shareholder annuity portfolio is held in debt securities either categorised as risk-free or secured (including cash).

We experienced limited downgrades over the year with only c.4% of bonds in the shareholder annuity portfolio subject to a downgrade which changed the letter rating.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2020	2019
With-profits underlying capital generation	**105**	71
Shareholder annuity and other underlying capital generation	**341**	388
Underlying capital generation	**446**	459
Model improvements	**(19)**	142
Assumption changes	**185**	207
Management actions	**374**	167
Other including experience variances	**24**	1
Other operating capital generation	**564**	517
Operating capital generation	**1,010**	976

Traditional with-profits business generated underlying capital of £105 million during 2020 (2019: £71 million). Similar to Savings and Asset Management with-profits business, this was driven by the expected growth in future shareholder transfers which was greater in 2020 on higher opening asset values. There also continued to be significant underlying capital generation from the shareholder annuity and other business, contributing £341 million (2019: £388 million).

Other operating capital generation increased to £564 million (2019: £517 million). The 2020 result includes a significant benefit from a series of management actions taken to strengthen the balance sheet, which increased surplus by £374 million (2019: £167 million). This included a contribution of £272 million from asset trading and optimisation, as well as a £62 million capital release to reflect the reduced risk of legacy remediation programmes now coming to completion. However, the £142 million benefit from model improvements in 2019 was not repeated in the 2020 results.

The impact of assumption changes primarily relates to the positive impact of £242 million from the longevity assumption updates described in the adjusted operating profit before tax section, offset by a reduction from other assumptions of £57 million. The 2019 result included a benefit of £105 million from changes to longevity assumptions coupled with a positive impact from expense assumption changes of £88 million.

Viability statement

In accordance with Section 31 of the UK Corporate Governance Code, the Board has undertaken a comprehensive and robust assessment of the prospects and viability of the Group.

Process for assessing long-term prospects

The Group's long-term prospects are primarily assessed through the strategic and financial planning process. The main output of this process, on which this assessment is based, is the 'Business Plan' which covers the period to December 2024. The Business Plan was approved by the Board in December 2020, following a robust review and challenge process.

The Business Plan contains detailed financial forecasts, including the related risks and mitigating actions over the planning period. The forecasts have been prepared based on the business model that management is deploying to deliver our key strategic pillars, as explained on page 23 of this document. The Business Plan covers all the key measures that underpin our Financial Management Framework, which includes metrics on capital, liquidity, debt and earnings.

The Business Plan considers the implications of current and emerging risks and the resulting uncertainties that these present to the achievement of the Business Plan, including the principal risks and uncertainties to which the Group is exposed as discussed on pages 68-75 of this document. We assess these risks and uncertainties through stress and scenario testing as discussed later in this statement.

Progress against the Business Plan will be monitored regularly by the Board.

Period for assessing viability

The Board considers that the four-year period to December 2024 is an appropriate period for this viability assessment, being the period over which the Board will monitor the performance of the Group and the period covered by the Business Plan approved by the Board.

Assessment of viability

The Board assessed the financial and operational impact of the Group's principal risks on the ability to deliver the Business Plan. The Board reviews the principal risks to ensure that they reflect current market conditions and any changes to the Group risk profile.

As part of the strategic and financial planning process, we considered the impact of various severe, but plausible stresses and scenarios on the ability to deliver the Business Plan.

The individual stresses are developed by the Risk and Resilience team, with the Investment Office and Finance providing input into the development of the relevant scenarios. The process is overseen by the Group Risk Committee.

The following individual stresses were considered as part of the Business Plan:

- 20% fall in equity prices
- 20% fall in property prices
- (50bps) parallel shift in nominal yields
- 20% of the credit portfolio downgrading by one full letter
- +100bps spread widening (A-rated assets)

In addition, the Business Plan was subjected to a rigorous scenario testing process.

The impact of scenarios related to COVID-19 was an area of key focus for this year's strategic and financial planning process. COVID-19 has and will continue to have an impact on our customers, our people, the financial markets and the way we manage our business and execute our strategic plans. Accordingly, we developed and tested four COVID-19 scenarios for the purposes of the Business Plan:

- Optimistic – Activity normalisation begins in 2020, with a relatively rapid recovery toward prior economic trends
- Baseline – Economic recovery begins in Q1 2021, but is delayed due to continued disruptions, with no recovery of previous economic trends
- Pessimistic 1 – Disruptions persist and trend permanently reduced; real interest rate environment held low to assist recovery and support elevated fiscal deficits
- Pessimistic 2 – Disruptions persist and trend permanently reduced; fiscal deficits curtailed by rising sovereign risk premia and inflation expectations

We also considered various scenarios associated with potential outcomes from the ending of the Brexit transition period and the uncertainty around the nature of the trade deal which could have been achieved with the EU at the time. We stress tested our Business Plan against a 'severe Brexit scenario', which had assumed an exit with no trade deal compounded by subsequent pressure on UK assets due to capital flight. Under this scenario, short-term GDP growth was assumed to be 1.5-2% lower than pre-Brexit trend which would have resulted in a devaluation of sterling and an increase in interest rates as per our assumptions. The Directors continue to be satisfied that this remains a reasonable basis for their assessment.

Climate risk is an emerging area of focus for the Board and although not covered specifically in the Business Plan, it has been assessed as part of our Own Risk and Solvency Assessment (ORSA), which is an integral part of our risk management process and is reviewed by the Board. The ORSA assesses the current and forward-looking solvency position of the Group by analysing the instantaneous balance sheet impact of applying various internally generated and regulatory stresses.

Climate-related stress testing is relatively new and further work is required to develop and refine the climate change scenario testing approach and to assess appropriate management actions that could mitigate the impacts of climate-related risks.

However, for the purpose of the ORSA, three of the Intergovernmental Panel on Climate Change (IPCC) scenarios were assessed:

- Sustainability Short-Term – Taking the green road with low challenges to mitigation and adaptation (≤ 1.5°C increase in global temperatures)
- Middle of the Road Short-Term – Medium challenges to mitigation and adaptation (2.0°C)
- Regional Rivalry Long-Term – a rocky road with high challenges to mitigation and adaptation (warming ≥ 4.0°C)

In assessing viability, the Board also considered the availability of the £1.5bn syndicated revolving credit facility which matures in 2024. As at 31 December 2020, the facility remained undrawn. In addition, the Group can access an active £10bn Medium Term Note (MTN) programme to meet any immediate liquidity requirements.

The results of the stress and scenario testing demonstrated that due to the robust risk management process in place and the broad range of mitigating actions available, such as access to immediate liquidity funding and the ability to reduce dividends, the Group is able to withstand the impact in each case with regards to meeting all mandatory liabilities as they fall due.

Statement of viability

Based on the results of the procedures outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the four-year period ending 31 December 2024.

Shaping a sustainable future

Our ambition for long-term business resilience and a better world to live in

Why does sustainability matter to us?

We believe that well-governed businesses, run in a sustainable way, will deliver better overall outcomes for customers and clients, stronger and more resilient returns for shareholders, and long-term benefits for society. That's why we think carefully about the environmental, social and governance (ESG) risks and opportunities associated with the businesses, buildings and infrastructure which we invest in and manage.

However, we consider the key to our long-term sustainability is not just about making a difference with what we do – it's also how we do it. This means being mindful of the way we run our own business, the impact we have on the planet and our communities, and the opportunity we have to influence others through leading by example.

How we approach sustainability as investors

As investors and stewards of our customers' money, our customers are at the heart of our thinking about sustainability.

Our corporate commitments to sustainability

When it comes to sustainability, it's not enough to have good intentions. To ensure we deliver on our purpose to make the world a little better, in March 2020 we made some specific company-wide commitments in two areas we see as sustainability priorities: climate change, and diversity and inclusion. Most of these commitments are ambitious long-term targets which we will continue to work towards this year, and in coming years, and we will be regularly reporting our progress to our shareholders and other stakeholders.

Commitments on climate change:

- Carbon net zero as a corporate entity by 2030.
- Carbon net zero investment portfolios by 2050, across our total assets under management, to align with the Paris Agreement on climate change.

Commitments on diversity and inclusion:

- Year on year improvement in the representation of gender and ethnicity/nationality in our senior leadership (Executive Committee and their direct reports) every year, with the goals of achieving 40% female representation and 20% representation from BAME backgrounds 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.
- Achieving external benchmarks from the National Equality Index and Stonewall's Top 100 Employers in 2020; and progressing to become a Department of Work and Pensions Level 3: Disability Confident Leader (achieved on time during 2020).

You can read more on how we are meeting our diversity and inclusion targets
Pages 60-63

Asset owner and asset manager: different responsibilities, same commitment

We invest on behalf of our customers in two separate capacities, with distinct roles and responsibilities.

On behalf of the With-Profits Fund and our pension savings and annuity books, we serve as an asset owner. Our responsibility as an asset owner is to create the best customer outcome in terms of general well-being in line with our fiduciary duty, taking into consideration financial security. To do this, we make decisions about how to allocate assets, what should be the financial and sustainability investment requirements for our mandates, and which asset manager should manage them.

We also invest as an asset manager, where we act on behalf of individual savers and institutional clients, working to meet their required investment objectives. As asset manager, we must follow the mandates set out in fund objectives or agreed with institutional clients. Sometimes, these mandates will have sustainability policies which differ from those we apply as asset owner.

As at 31 December 2020, we manage £233.4 billion as at year end for external clients and £133.8 billion on behalf of our internal client.

While M&G's values of care and integrity inform all our sustainability work, the policies of asset manager and asset owner may diverge on occasion.

Both asset owner and asset manager share our group commitment to achieving net zero carbon emissions across our entire investment portfolio by 2050, and a set of common ambitions and ESG principles to help us achieve it.

Sustainable ambitions across our business

Customer led

We aim to: be relevant, innovative and accessible, meet customer and client demand for sustainability and impact solutions; communicate clearly about our products, policies, processes and potential outcomes.

Capability enabled

We will use: world-class people, research and proprietary tools and data to understand ESG risks and identify opportunities across all asset classes; our influence as a leading active investor to engage and advocate for sustainable performance; our financial strength to make investments which create positive change.

Sustainably delivered

We will do this with: an inclusive, accountable culture focused on our purpose and our values of care and integrity; sustainability embedded in all we do, from customer service to risk management.

Sustainability governance

We have a clear governance framework which we use to deliver our responsibilities to our stakeholders, including identifying and managing risks, and managing conflicts between stakeholder groups.

In 2020, the M&G plc Board refreshed its terms of reference to formalise its responsibility for setting sustainability strategy, principles and values. This was to reiterate the importance of sustainability governance and oversight taking place at the highest level and having a regular place on the Board's agenda.

We recognise that climate change has the potential to impact our business materially. Our Chief Financial Officer (CFO) and our Chief Investment Officer (CIO) are responsible for identifying and managing the financial risks associated with climate change. The CFO is also the appointed Board member responsible for climate-related matters.

Embedding sustainability considerations in our business

Environmental, social and governance risks and opportunities are evolving fast, and are often complex and interconnected. Managing these effectively in a sustainable business model requires a principles-based approach, consistent with our purpose and our core values of care and integrity.

Our sustainability principles:

- We will consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.
- We will embed sustainability considerations throughout our business.
- We consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach.
- We will manage our businesses to the same principles of acting responsibly that we hold our investee companies to account on.
- We identify and incorporate ESG risk factors into our general risk management process.
- We review our sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues.
- We aim to use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management which encourages companies to transition towards a sustainable future.

Making a difference with responsible investment

We take our responsibilities as long-term stewards of our customers' and clients money seriously and believe that long-term investment returns are underpinned by good governance and sustainable business models.

ESG risks and opportunities have the potential to impact a company's financial performance, so we systematically include consideration of these into our investment analysis and decision-making in all asset classes on an iterative basis. This enables every fund manager to develop a rounded view of a company or asset, and empowers them to make better informed investment decisions.

In 2020, UN PRI (Principles for Responsible Investment) rated M&G Investments as either **A+** or **A** for the quality of its responsible investment activity in all eight of our asset classes assessed, placing us above average compared to our peers in all categories. A summary of the report, which covers listed equity, infrastructure, property and fixed income, and our submission can be found on our website www.mandgplc.com in the Responsible Investing at M&G Investments section.

Making a difference the M&G way

Our voting on executive pay during COVID-19

During the COVID-19 pandemic, some UK companies claimed furlough payments from the Government, or cut or cancelled dividends to shareholders, without adjusting senior executive pay. Rather than take a 'one size fits all' approach to voting on remuneration, in the run-up to the AGM season we looked for evidence that companies were not disproportionately placing the burden of the economic impact of the pandemic on certain sets of stakeholders. We asked companies how executive pay would be altered where staff had been furloughed, or where dividends had been lowered or suspended. In some cases, companies took our feedback on board and made changes, and in others they did not – resulting in our voting against the remuneration report or abstaining. As a result, M&G used our vote to oppose more than 30% of remuneration reports at annual meetings for FTSE 350 companies in the first half of 2020, compared with 6% in 2019.

The three pillars of our investment process

ESG issues are integrated into all three pillars of our investment process: Investment Research; Portfolio Management; and Engagement and Stewardship.

ESG research

Our large and highly rated team of analysts and researchers produce thematic and sectoral analysis of present and future ESG risks and opportunities, as well as using proprietary tools and a wide variety of data to assess individual asset exposure to ESG issues. These generate actionable investment insights and suggestions for fund managers, which feed into their investment decision-making and portfolio construction process.

Portfolio management and ESG

All our wholesale equity and public fixed income strategies are now subject to quarterly ESG Portfolio Reviews. Stewardship and sustainability specialists meet with each portfolio manager to scrutinise and explore the impact of ESG themes and risks on the fund, and assess how ESG considerations are being factored into investment decision-making. For our range of funds with specific impact or sustainability objectives or criteria, such as the M&G Positive Impact Fund, we will also review how well we are fulfilling these objectives.

Engagement and stewardship

M&G Investments is a tier one signatory of the UK Stewardship Code, the benchmark in the UK for institutional investors to meet ownership responsibilities in respect of their holdings. We were 'early reporters' to the Financial Reporting Council for the new 2020 Code, and expect to be in the first tranche of 2020 Code signatories.

As active stewards of our customers' and clients assets, we engage constructively with investee company management on the responsible allocation of capital and relevant ESG issues. We approach engagement with a clear objective and require action to be taken in order within a defined time period. Active and informed voting is an integral part of our responsibility; in using our votes, we seek both to add value and protect the interests of our clients as shareholders. Climate change is now a dominant theme within our engagements, but during 2020 we have also questioned companies on a wide range of other topics including diversity, board composition, modern slavery, biodiversity, cladding, plastics and responses to the COVID-19 pandemic.

Where the nature of a business or its activities or behaviours breach our core values, and we believe engagement is either inappropriate or will be ineffective in influencing positive change, we will consider exclusion of an investment.

Responsible investing in real estate

Our approach to responsible investment within our real estate portfolio is to create and manage exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment. We focus on: environmental excellence; health, well-being and occupier experience; and contributing to communities and society.

M&G is driving environmental improvements within our assets to increase operational efficiency and to reduce both carbon emissions and the use of natural resources. This will enable us to meet our net zero targets and deliver future-proof assets that attract and retain occupiers. In 2020, we increased the number of our real estate assets covered by green building certification from 31% of our AUMA in 2019 to 34% of our AUMA (by value). In 2021, we plan to extend this certification to existing buildings and enhance our requirements for certification on development and refurbishment projects.

We also aim to design and manage places that serve peoples' needs, are safe and accessible and encourage positive health and well-being. We have reached over 1.1 million people with our health, well-being and inclusivity programmes since 2018.

For each of our funds we set objectives to deliver positive environmental and social value opportunities across our portfolio, and gather metrics to evidence improvements and outcomes. We perform strongly in the Global Real Estate Sustainability Benchmark (GRESB) survey, which assesses the sustainability performance of real estate portfolios and assets in public, private and direct sectors worldwide. In 2020, our ten participating funds all achieved a Green Star rating with an average score of 4 Green Stars.

Helping customers invest for a sustainable future

As more people become aware of the need to act on the climate emergency to ensure a positive future for themselves and their families, consumer preferences and needs are changing. Older people need to make their savings last for longer and may be concerned about the impact of climate-related uncertainty and change on their investments, and on the planet future generations will inherit. Younger people in particular are now taking a greater interest in where their money is invested.

We are working to help people who want sustainable long-term financial returns, and those who also want to use their money to make a positive difference to the environment and society.

We do this in many different ways. Through M&G Wealth, we can help people decide on their personal financial and sustainability objectives, understand the options and choose the right products for them.

We are also growing our range of ESG, sustainable and impact funds and strategies so that all our clients and customers have more choices, reflecting their own evolving priorities and the fast-evolving investment opportunities in these areas.

2020 saw the launch of our newest equity impact fund: the M&G Climate Solutions Fund; and a new range of risk-managed sustainable multi-asset funds. The coming year will see further new propositions, including a sustainability focused version of our PruFund Planet range.

As we grow our range of sustainability and impact funds, we are also helping our customers, clients and advisers to understand the potential financial impact and outcomes they can expect. We are also working on reducing the carbon footprint of the service we provide to customers, reducing paperwork and bringing in more options to interact with us by video or digitally.

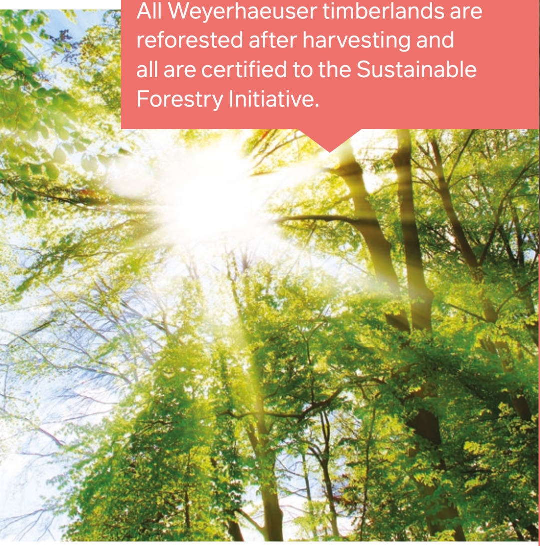
Making a difference the M&G way

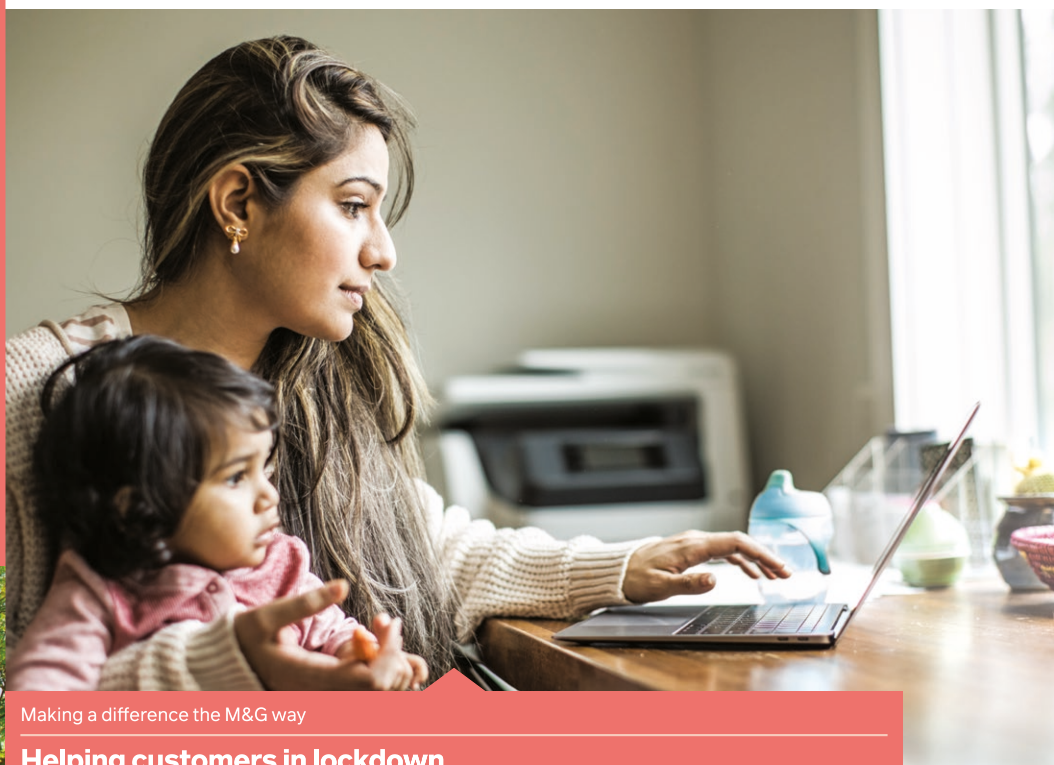
Capturing carbon through sustainable forestry

Trees play a crucial role in mitigating climate change by capturing and sequestering carbon. The recently launched M&G Climate Solutions Fund invests in Weyerhaeuser, an American company that owns or controls more than 25 million acres of timberlands.

These forests capture carbon that would otherwise be released into the atmosphere, with Weyerhaeuser's wood products storing the equivalent of 9 million metric tons of CO_2 annually. That's equal to removing more than 2 million cars off the road every year.

The company harvests only 2% of its forests each year, most of which is sold to the housebuilding sector, as building a house out of wood is much less carbon intensive than building one from steel, bricks and cement. All Weyerhaeuser timberlands are reforested after harvesting and all are certified to the Sustainable Forestry Initiative.





Making a difference the M&G way

Helping customers in lockdown

When the COVID-19 pandemic meant customers couldn't meet their Prudential Financial Planning advisers in person, we had solutions to help them. Our new video service – originally developed to help minimise our environmental impact – allowed new and existing customers to talk to their financial advisers from the safety of their own homes. The tool also allows advisers to share documents electronically and capture signatures, so customers needn't worry about sending and receiving post. Since launch, the service has saved well in excess of 60,000 miles in travel, and more importantly, has given customers valuable peace of mind. "In these uncertain and unprecedented times, technology is helping us to keep a human connection with our customers," says Mark Torrado, a Partner at Prudential Financial Planning.

Action on climate change

Supporting the low carbon transition and helping build climate resilience

The world is heading for a global temperature rise of 3.2°C by the end of the century[i] which if unchecked would melt the polar ice sheets, cause sea levels to rise by more than 2 metres[ii] and increase the zone of desertification. This would render large areas of land uninhabitable resulting in mass migration and catastrophic environmental, social and economic impact.

Worryingly, the reduction in greenhouse gas (GHG) emissions seen in 2020 as a consequence of the COVID-19 pandemic is expected to have little long-term impact on climate change, as atmospheric GHG concentrations continue to rise. While 197 countries have committed to restricting their carbon emissions to limit global warming by 2100 to 1.5°C under the 2015 Paris Climate Agreement, the Nationally Determined Contributions (NDC) to GHG reductions are insufficient to meet the target.

The world is already experiencing the consequences of global warming. Weather patterns are changing, with more frequent and intense weather events. 2020 has seen Australian bushfires, UK floods, European windstorms, cyclone Amphan across the Indian sub-continent, flooding in China, India and Japan, locust swarms across East Africa, US West Coast forest fires and a severe Atlantic hurricane season.

3,126

Direct Carbon Emissions: Scope 1 and 2 (tCO_2e)

CDP

DISCLOSURE INSIGHT ACTION

In 2020, M&G was awarded a score of **A-** by CDP, a global environmental disclosure body, a significant improvement from B, our maiden rating in 2019. Our CDP score is an indicator of how we measure, disclose and manage our carbon emissions footprint, and achieving this leadership level rating shows our commitment to address climate change across our business. Reporting on our progress towards net zero emissions will be vital in the coming years.

The economic loss of extreme weather events in 2020 has been estimated at more than $268 billion[iii], with millions of people losing livelihoods, shelter and food security, or even their lives. Some of the actions driving climate change, such as deforestation and intensive farming, which generate up to a quarter of greenhouse gas emissions, are also causing severe, potentially irreversible damage to biodiversity and eco-systems.

Our commitment

The risks from climate change are far reaching in scale and scope, and cannot be diversified. Action is required now to limit the level of global temperature rise, mitigate its impacts, and adapt to life on a hotter planet. To play our part to help deliver the goals of the Paris Agreement, we have made our commitments to reduce carbon emissions to net zero across our investment portfolios by 2050, and to achieve net zero carbon emissions in our own business by 2030.

In December 2020, we became one of the founding members of the Net Zero Asset Manager Initiative. As part of this, we have committed to work with our asset owner clients on decarbonisation goals, consistent with the ambition to reach net zero emissions across all assets under management by 2050 or sooner.

Making a difference to climate change

Behavioural change is essential in addressing climate change:

- At government level – setting the stretching but necessary GHG reduction targets, and implementing the policy changes to make them happen;
- At business level – decarbonising operational processes, and increasing energy and resource efficiency; and
- At individual level – buying, consuming and travelling more sustainably

M&G is well placed to support this behavioural change. As both an asset owner and asset manager, we are a long-term investor of capital, with investment capability across asset classes, sectors and geographies.

We are able to finance the businesses and projects innovating to enable behavioural change, whether through green energy technology, smarter energy efficient buildings, or services in the circular economy.

As a business, we can also inspire our stakeholders to play their part: helping our more than 5 million customers to make informed choices about how they invest their savings, and encouraging our colleagues to adapt to new ways of working with lower environmental impact.

i UN Environment Programme Emissions Gap Report 2020.

ii European Environment Agency – Indicator Assessment: Global and European sea level rise.

iii AQN Benfield Weather, climate and catastrophe insight 2020 annual report 20210125-if-annual-cat-report.pdf (aon.com).

Our accountability and disclosures

Our central principle is to manage our own businesses to the same high standards of responsible action that we expect from our investee companies.

As investors ourselves, we know that shareholders need decision-useful data on climate exposure to understand climate-related opportunities and risks. We support the recommendations of the Financial Stability Board's TCFD to improve transparency, and are committed to implementing them in full. The climate-related disclosures made below, and in more detail in our first Sustainability Report we will publish as an independent company, document our progress implementing the recommendations.

Governance

Climate change has the potential to materially impact our business so we have allocated responsibility for identifying and managing the financial risks to two first-line Senior Management Functions: the Chief Financial Officer (CFO), and the Chief Investment Officer (CIO). The CFO is also the appointed Board member responsible for climate-related matters. We have put in place a company-wide ESG Programme of work to build our capability and integrate consideration of ESG risks and opportunities across our business, functions and processes. Implementation is overseen by the ESG Steering Committee comprising senior leaders from across the group. The M&G plc Board are responsible for oversight of the Group's ESG strategy.

Strategy – towards net zero 2050

Having announced our new 2050 carbon emissions target for our investment portfolio in March 2020, we're in the early stages of building our roadmap to achieving this ambitious, but essential goal. This is a complex task – due to the evolving science, rapidly moving international political and regulatory landscapes, and fast-changing customer needs and expectations.

Our roadmap will therefore be an iterative process. As an asset owner we will tilt our strategic asset allocation and underlying mandates to be lower carbon; and as an asset manager we will prioritise identifying and investing in climate solutions; engaging with investee companies to encourage the necessary emissions reductions; and reducing contentious high carbon exposures. Over time, the proportion of our portfolios which are non-aligned will decline to zero.

Actions as an asset owner

As an asset owner we have committed to making our portfolios carbon neutral by 2050. We integrate ESG considerations – including climate – into the way we allocate between asset classes and geographic regions, through sensitivity analysis assessing portfolio exposures to climate-related physical, transition and litigation risks, country risk categorisation and benchmark construction. We will be setting fund strategies, designing mandates and selecting the managers to run them with our 2050 commitment in mind.

2050

We have committed to making our investment portfolios carbon neutral by 2050

Actions as a real estate owner and manager

With the built environment contributing approximately 40% of global carbon emissions, we must achieve decarbonisation of this environment if we are to limit the worst effects of climate change. As one of the founding signatories of Better Buildings Partnership (BBP) Climate Change Commitment, M&G Real Estate made a commitment in 2019 to achieve net zero carbon emissions by 2050 across its global real estate portfolio.

M&G Real Estate's Net Zero Pathway details the progress we have made to date and our plans to ensure we achieve our net zero target. We believe that by proactively integrating net zero thinking into our investment processes, we can smooth the transition to low carbon investing and optimise value for investors. This has been a strong focus within our global real estate portfolio, where we have driven a 27% reduction in energy intensity compared to 2012/13 – five years ahead of our 2025 target. Over that time, we have seen a 33% reduction in absolute carbon emissions.

Across our global portfolio, the amount of green energy procured by our funds could power 41,000 homes annually, while on-site photovoltaic solar panels generated over 6 gigawatts of energy.

Actions as an asset manager

As an active asset manager, we are well placed to help influence the need for climate change, because we have the options of disinvestment or exclusion from our funds where we believe engagement is either inappropriate or will be ineffective in achieving positive change.

In 2020, we have been further stepping up consideration of climate change in every stage of our investment process – research, portfolio management and engagement – and will continue to deepen our capability and coverage in the coming year.

Also in 2020, we developed new proprietary tools to help investment professionals identify the prevalence of climate and related ESG issues within companies and across their portfolios, and to enable us to evidence to third parties the integration of climate and ESG within the investment process.

In early 2021, we will be testing an innovative "whole systems" approach to climate change scenario analysis, in collaboration with the asset owner and colleagues across finance, risk, IT operations and sustainability, which has the potential to further improve our thinking on investment strategy.

One of our priorities in the near term is to expand the availability of carbon emissions data of investments beyond listed equities, public fixed income and real estate to cover all asset classes.

We will do this through engagement, encouraging our investee companies to provide full transparent decision-useful climate-related data through Taskforce on Climate-related Financial Disclosures (TCFD) aligned reporting, setting science-based targets and participating in initiatives such as CDP; by enhancing our modelling capability to estimate emissions across those elements of the investment universe not covered; and by evaluating other available tools and projects.

Making a difference the M&G way

Building for the future while preserving heritage

Our Fürst & Friedrich office scheme in Düsseldorf has achieved high environmental accolades through Leadership in Energy and Environmental Design (LEED) Gold certification. The development has upgraded the surrounding area, whilst preserving part of the city's heritage and enabling the local community to benefit from the building's electric car charging points.

It reflects the type of investment we believe will stand the test of time – strong property fundamentals matched by innovative design. This office makes a meaningful contribution to the city and characterises our approach to responsible investing.

With the COP26 due to take place in Glasgow in November, working to accelerate the pace of global emissions reductions is a focus for us this year, whether through our own engagement programme or as part of collective actions.

In 2020, we created a climate engagement "Hot List", which has focused our engagement on climate change to companies to which we have the highest carbon exposure. We expect companies on the list to commit to the Paris Agreement with net zero carbon emissions by 2050, and deliver significant falling emissions in the very near future.

Meaningful engagement with our investee companies on climate change is part of what makes active investment so powerful, whether on our own or working collectively as part of the Institutional Investors Group on Climate Change or Climate Action 100+.

Making a difference the M&G way

Engaging with investee companies on emissions targets

In 2020, we met with an Australian petroleum company and asked it to set a net zero 'scope 3' emissions target for 2050, while setting clear expectations for the company to raise its 2030 'scope 1' and 'scope 2' reduction targets and set a flaring target for gas.

We requested that the business clearly disclose the split of its emissions between different processes, how it would hit an initial 30% reduction target and how carbon offsets figured in its strategy. We also asked the company how it would build its emissions reduction plan into executive pay.

We are monitoring the company's public disclosures this year to see how they will respond to our feedback and suggested targets before determining our next steps.

Risk management

The Taskforce on Climate Related Financial Disclosures (TCFD) requires that businesses disclose clear, comparable and consistent information about the risks and opportunities presented by climate change. It recognises the severity of climate risk and challenges misconceptions about the nature and timeframe of the impact of climate change. We take a holistic view of climate change risk across transition, physical and liability risks and across a range of timeframes (Short-Term (ST): <3 years; Medium Term (MT): 3-10 years; Long-Term (LT): 10+ years). The main categories of these risks are illustrated in the following tables, and are applicable across our different legal entities and business areas.

Key Transition Risks Identified

Risk Driver	Impact Identified	Horizon
Policy and Regulation	Sectors with high carbon emitters leading to increased costs in terms of: – regulatory changes – decarbonisation/new products – data collection and disclosure – potential legal fines	ST/MT
Technology	– Associated financial impacts from investing in innovative solutions that reduce, minimise or mitigate the impact of climate change – Time and resource involved in decommissioning legacy systems	ST/MT
Strategic	Changes to tax revenues, health and social care funding, or policy incentives to save	MT/LT
Market	Change/fluctuations due to: – demand for products/services as clients and stakeholders demand more and become more climate aware, or from knock-on impacts from changes to taxes, health and social care funding or policy incentives to save – revenue mix and sources resulting in decreased revenues: (e.g. shift in revenue from oil supply to gas supply for customers in the Oil and Gas sector) – fire sales or liquidity issues in carbon intensive assets – the price for energy as the move to greener resources is made – lending limitations and failed repayments	ST/MT
Reputation	Failure to meet targets and commitments made to stakeholders within the required timeframes	ST/MT

Key Physical Risks Identified

Risk Driver	Impact Identified	Horizon
Acute	The occurrence of extreme weather events resulting in: – issues with supply chain management resulting in lower revenues – physical damage and changes to property values – impact on our actuarial liabilities from changes to mortality	MT/LT
Chronic	Climate changes such as global warming and changed weather patterns (including extreme weather conditions such as heat or cold waves and droughts) will impact human health (for example impacting mortality rates, and increasing spread of vector borne diseases). This would impact upon economic growth, monetary policy and lifestyle choices potentially affecting the value of financial assets, expense inflation, lapse behaviours and lifestyle choices with consequences for the propensity to save	MT/LT

Key Liability Risks Identified

Risk Driver	Impact Identified	Horizon
Liability/ Litigation	– Failure to identify investors exposure to loans or funding that results in loss due to climate-based events or otherwise failing to disclose or manage climate risks leading to litigation of the firm and/or directors – Failure to comply with climate regulations could lead to fines or other regulatory sanctions	ST/MT/LT

Climate change risk management

Climate change risk is integrated into the M&G plc Risk Management Framework, with risk oversight and assurance delivered in accordance with the Three Lines of Defence model and oversight by the Executive and Group Risk Committees.

Within M&G plc, climate change is considered as a strategic thematic priority within ESG Risk with oversight from second line of defence Operational Risk and Resilience, in addition to being integrated into the existing risk specialist areas. Consideration of ESG Risk is built into the decision-making and governance processes and a requirement of key strategic board risk assessment papers. Climate change risk is also being integrated into our scenario analysis process with both top down and bottom up consideration over a range of time considerations.

An M&G plc ESG Risk Management Framework is being launched in 2021, with the aim of providing additional focus on the risk management activities required for ESG and climate change initiatives, including specific details on the requirements to effectively identify, monitor, manage and report on ESG and climate change risks against the proposed ESG Risk Appetite Statement(s). The framework will provide risk oversight and assurance of key areas including ESG Culture and outline how ESG is integrated into our existing Reputational Risk Framework to focus on the needs and expectations of our stakeholders.

We are also building our risk management controls to cater for the diverse needs of a range of stakeholders, geographical territories and compliance requirements to identify the most effective data, policy, process and reporting approach for the future. These risks will be assessed from an Operational, Financial, Investment, Transformation, Technological, People and Reputational perspective.

Climate change risk identification

We combine a range of approaches to help us to identify, understand and articulate climate risk, including academic research, industry-shared learning, scanning tools and relevant data sources, and best practice guides.

We consider climate change risk from three perspectives:

1. The impact that our strategy, objectives and operation of the business, our people and our investments have on climate change **(Inside out)**;
2. How climate change will impact on our business both in respect to threat and the opportunity created **(Outside in)**; and
3. The expectations of our stakeholders in respect to how we manage climate change risk both from an inside out and outside in perspective **(Reputationally)**.

Scenario analysis is an important tool in assessing the impacts of these risks over a range of time horizons and potential climate pathways.

In 2020 M&G undertook initial climate change scenario analysis, with a number of climate change scenarios defined by the Intergovernmental Panel on Climate Change (IPCC) modelled over a short (3-5 years) and longer-term (20 year) time horizon. This analysis was used to assess the climate-related financial risks arising from both transition risk and physical risk on our Solvency II balance sheet across our shareholder and policyholder business.

We also continue to actively participate in various external forums, including the Bank of England's Climate Financial Risk Forum (CFRF) and CRO Forums, which provide a useful platform to identify key ESG and climate change risks.

Integrating climate change risk management

We are integrating climate change risk into a range of activities across the third line of defence in all areas of M&G plc and legal entities. At a corporate level this has included putting climate change at the heart of the risk assessments of our business strategy to help guide major decisions, investment and resource across the business.
Our ESG risk management framework, in addition to identifying new areas of risk management activity linked to climate change will also require existing risk specialist areas to fully integrate ESG considerations into their processes by the close of 2021.

Throughout the past year, our technology teams have developed new capabilities in climate analytics, including initiating market engagement for the development of technical climate and scenario modelling tools, and engaging in proofs of concept involving technology teams, investment professionals and second line of defence functions. The identified solutions will deliver fully integrated capabilities for use within first line of defence decision-making and risk management oversight.

ESG considerations have been built into our Supplier Assessments, and our Inherent Supplier Risk Assessment process now requires an ESG evaluation of potential suppliers to be undertaken using rating measures to determine the climate impact of a proposed partner.

Considerations of ESG and climate change risk have also been built into our ORSA (own risk and solvency assessment) with detail on climate change scenario analysis undertaken to date.

We are now in the process of embedding consideration of climate change into People and Behavioural Risk assessment and annual deep-dive process, with a specific focus on the 'the future of work' in respect to our employees to create working practices that support a low carbon footprint post lockdown.

Making a difference the M&G way

Delivering a cleaner, healthier future for us all

In 2019 we joined RE100, a global corporate initiative aiming to accelerate a global shift to clean energy. For our 2019 reporting year, 99.7% of our global energy use was compliant with RE100 standards, which means powered by renewable energy purchased directly, or through energy attribute certificates (EACs). The remaining 0.3% is the energy used in our offices in Japan and South Korea where we were unable to source renewable energy locally. For 2020, we anticipate directly purchased renewable electricity and EACs for all of our locations, with the exception of South Korea.

Metrics and targets

As a member of the Net Zero Asset Manager (NZAM) initiative we have committed not only to our 2050 net zero carbon emissions target across our total AUMA , but also to setting interim targets for 2030, consistent with a fair share of the 50% global reduction in CO_2 identified as a requirement in the IPCC special report on global warming of 1.5°C. We will take account of portfolio Scope 1 and 2 emissions and, to the extent possible, material portfolio Scope 3 emissions and we will prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.

As an asset owner we are embarking on the process to sign up to the UN Principles for Responsible Investment (PRI) and to achieve full membership of the Net Zero Asset Owner Initiative by the end of 2021.

In line with delivery of our net zero corporate and investment targets and our NZAM commitment, we are reviewing the pilot version of the Financial Sector Science-based Targets Guidance recently published in October 2020, with a view to setting science-based targets within the near future.

Our accountability and disclosures

Our central principle is to manage our own businesses to the same high standards of responsible action that we expect from our investee companies. We already review our investee companies' TCFD reporting, and one of the tools we will use to carry out our stewardship responsibilities is to work with other shareholders to file resolutions that encourage better climate-related disclosures.

To this end, we have committed to file a 'Say on Climate' resolution at M&G plc's 2022 AGM to enable our shareholders to vote on our Paris Alignment Strategy for climate.

Additionally the performance measures for the 2021 Long-Term Incentive Plan (LTIP) include a measure aligned to our commitment to reduce our own carbon emissions to net zero by 2030. The Remuneration Committee felt it was important to include this to ensure personal accountability for the commitment and to demonstrate that sustainability is embedded in everything we do. Further details of the Sustainability LTIP metric can be found in the Annual Report on Remuneration which begins on page 118.

Towards net zero 2030 as a business

Since making our commitment in March 2020 to reach net zero carbon emissions in our own business by 2030, we have made excellent progress, both in developing our long-term roadmap to achieve this goal, and continuing our already advanced work on reducing our carbon footprint. Our corporate sustainability strategy has three pillars: Places, Partnerships and People.

Places

Our Places pillar focuses on reducing carbon emissions associated with our global operational activities, supporting our 2030 Corporate Net Zero target. This includes reducing our absolute energy consumption and identifying efficiency opportunities, whilst sourcing renewable electricity across our estate. We are signatories of RE100 and are committed to maintaining our certification, we also offset all business travel and estimated commuting consumption in 2020.

We have also recognised the impact of home working on our emissions, and have begun to offset our estimated home-working energy use. We also continue to address use of other resources across our business. Our focus remains to improve our operational environmental performance, such as waste and recycling practices, and eliminating single use plastics.

Partnerships

As a large and complex business, our environmental footprint is greater than just the buildings we occupy. Our partnership pillar aims to embed sustainability into our wider operation including our key strategic partnerships and supply chain. We are working to embed ESG into our supply chain relationships and procurement process. While digital technology has been essential in allowing us to continue to serve our customers with minimal disruption during the COVID-19 pandemic, we are also considering the environmental impact of our digital footprint, including data centres and digital assets.

People

Our people pillar is about creating a culture of sustainability across our business. The launch of our Sustainability Hub has allowed us to support colleagues' learning on core sustainability issues, as well as provide resources on our strategies and disclosures. We also continue to support local communities through school learning programmes that focus on sustainability, and remote environmental volunteering opportunities.

Enforcement actions

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

Greenhouse gas emissions statement

We have compiled our Global Greenhouse Gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

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 business travel booked through our central travel management company, car travel in colleague-owned cars, global water consumption (where data is available) 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 on our website www.mandgplc.com for further detail on our methodology.

In the period covered by the report M&G plc has maintained certification to RE100 and has purchased either green energy or energy attribute certificates for its electricity use globally. We have also purchased off-sets for a proportion of our 2020 home-working energy use, as well as all business travel and estimated commuting for period October 2019 to December 2020. In the period covered by the report, M&G plc has not completed any energy efficiency projects due to restrictions imposed by COVID-19 across our estate and reduced occupancy of buildings. During 2020 we have a 16% reduction in carbon emissions (market based) from building use.

		2020			2019		
		UK	**Global (excluding UK)**	**Total**	UK	Global (excluding UK)	Total
Scope 1 (tCO_2e)	Natural gas, oil (generators), vehicle fleet, refrigerants	**1,487**	**122**	**1,609**	1,936	191	2,127
Scope 2 (tCO_2e) Location based	Electricity, purchased heat and steam	**2,268**	**1,244**	**3,512**	4,213	1,636	5,849
Scope 2 (tCO_2e) Market based (supplier and residual mix)	Electricity, purchased heat and steam	**188**	**1,329**	**1,517**	105	1,775	1,880
Scope 1 and 2 (tCO_2e)[i]	When reporting totals market-based emission are used	**1,675**	**1,451**	**3,126**	2,041	1,966	4,007
	Energy use (MWh)	**16,191**	**2,527**	**18,718**	22,941	3,264	26,205
	tCO_2e per FTE (Scope 1 and 2)			**0.56**			0.74

		2020	2019
Scope 3 (tCO_2e)	Air travel (booked through central travel booker)	**1,281**	8,946
	Land travel	**50**	127
	Water (global where available data)	**4**	11
	Waste (UK only)	**163**	365
	Total	**1,498**	9,449
	Global Scope 1, 2 and 3 (tCO_2e)[i]	**4,624**	13,456

Data Notes:

Reporting Period:	1 January 2020 to 31 December 2020
Baseline year:	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:	M&G plc owns and manages assets which are held on its balance sheet in the financial statements over which it does not have operational control due to fund governance structures. These are excluded from the scope of reporting under the operational control approach.
Emission factor:	Scope 1 and 3 reporting uses the UK Defra 2020 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2020 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% of total emissions
Data Restatements:	2019 data has been re-stated to calendar year. Previously disclosed October 2018 to September 2019.

i When reporting totals market-based emissions are used.

Social impact

Living up to our values and purpose

Helping make the world a little better is part of our purpose. We invest time, expertise and funding into long-term programmes to help build more resilient and sustainable communities

Making a lasting difference

M&G has a proud heritage of making a difference and creating positive long-lasting impacts. We believe that it's important to be active and engaged to make our business and society stronger and more resilient. We want our investment to have a sustainable benefit for our communities, our customers and our business. So we work with charities and NGOs on local, national and international programmes that bring colleagues together and make a lasting difference to our communities.

Helping our communities during COVID-19 pandemic

We work in partnership with charities that provide frontline services to our communities around the world and were glad to be able to play a small part when our communities needed help this year.

In 2020, we donated over £1.3 million to ensure our existing charity partners and local organisations close to our offices could continue to deliver their critical services and support to people in need.

M&G is a founding partner of the National Emergencies Trust and supported its appeal with corporate donations as well as match funding colleagues' contributions.

The Trust was set up to ensure that vital funding reached the most vulnerable as quickly as possible, prioritising those whose mental health and well-being has been impacted and helping those facing financial hardship. The funds have also provided support for long-term resilience against the effects of COVID-19.

Royal Voluntary Service (RVS) is one of our long-standing charity partners in the UK. This year they organised and delivered the NHS Volunteer Responders programme in England to protect those most at risk. From April 2020, volunteers delivered over 1.2 million tasks. This was the first time an app was used to match volunteers with patients at this scale.

£3.7m

Total community investment in 2020

Making a difference the M&G way

Volunteer support where it's needed

Brian Bailey is 75 and has no close family. Throughout the COVID-19 pandemic, he has relied on Royal Voluntary Service volunteers to take him to and from the Royal Leicester Infirmary, where he has undergone 37 treatments for prostate cancer.

"The treatment didn't faze me. The only thing I was worried about was how I'd get there 37 times and not catch COVID from taking four buses."

Without the support from volunteer drivers, Brian adds, "I would have refused the treatment…I wasn't prepared to do that journey. What the RVS volunteers have done for me is wonderful – it took all that pressure off me. Thank you so much from the bottom of my heart."

Jenny, one of the volunteers who has helped Brian, says:

"Volunteering for Royal Voluntary Service was a small step, but it led to rewards greater than I ever imagined. Some of my clients have had an impact on me which I will remember forever."

> "When I'm driving people like Brian, I forget my own problems and focus on others, which lifts my spirits and makes me less self-centred and more fulfilled and confident."
>
> **Jenny**
> RVS volunteer driver

Making a difference the M&G way

A home of your own

Around 10,000 16 to 18 year-olds leave foster or residential care in England every year. Having been shuttled from one home to another during their childhood, they've never enjoyed the sense of security that comes with a home. At this early age, the prospect of finding employment, paying rent and other bills, and maintaining a healthy lifestyle without the support network and safety net of a family can be a daunting prospect.

Our partnership with Habitat for Humanity delivers supported affordable accommodation for young care leavers, one of the groups identified as particularly vulnerable to experiencing homelessness. Josh, who found himself alone and sleeping rough at 22 is an example of just how easily any of us can fall on hard times as the result of misfortune. "Just one night sleeping outside is scary," says Josh. "But I have my own space now and it's helping me gain the confidence to stand on my own two feet."

"When I was chosen to live in one of the Habitat for Humanity flats, I couldn't wait to move in. Life is starting to get better now."

Josh

Our financial aid allowed RVS to extend its services to provide welfare checks and emotional support to the most vulnerable. This included: welfare and companionship telephone calls; essential grocery and prescription drops; distribution of free food packs to vulnerable people at home and to NHS teams; and essential medical transport journeys.

In support of our international communities we provided funding to the International Federation of Red Cross and Red Crescent Societies to support organisations working on the frontline.

This included working with hospitals to ensure they were fully equipped to respond to increased demand, addressing food and economic security, and providing protection to people living in inadequate housing with no access to public health systems.

Providing a robust response to the global COVID-19 pandemic emergency was essential, but the second phase of recovery and rebuilding communities in the aftermath is also critical. We recognise that the crisis will have longer-term implications for the most vulnerable in society.

We're working with our charity partners so that we can continue to deliver our social programme – which focuses on supporting some of the most vulnerable and disadvantaged in society – and will have a long-term benefit over a number of years. We match fund all colleagues' charitable donations and also encourage colleagues to volunteer their services to support local communities.

Breaking Barriers, Building Futures

We believe we have a valuable part to play in making society more inclusive and resilient, and helping social mobility, so more people can live the lives they want. Breaking Barriers, Building Futures is our flagship programme that uses community investment and volunteering to help achieve this purpose.

Our goal is to help empower a million people to build better futures for themselves, their families and their communities by the end of 2023.

To achieve this, we are focusing our community investment in three areas: urban regeneration, economic empowerment and skills and education. Each is supported by flagship international charity partnerships to help us deliver our goal: channeling investment and providing volunteering opportunities to engage M&G employees around the world.

We develop long-term programmes with our charity partners which involve support through funding, and also the experience and expertise of our own people. We ensure that the projects we support are sustainable, and we work closely with our partners to ensure that our programmes continuously improve and adapt to urgent and emerging needs, such as the impact of COVID-19.

Making a difference the M&G way

Giving young people skills for life

The 2019-20 academic year saw the significant expansion of the Skills for Life programme from one location in London, to M&G offices in Edinburgh, Stirling and Reading, and the addition of a new session on money covering topics such as National Insurance, income tax, budgeting, minimum wage and costs associated with university.

"Skills for Life took the pupils out of their shells and showed them what is possible by applying skills in a range of situations. The pupils were all treated as young adults and expectations were equally high for all of them," commented teacher Garry MacDonald of Bo'ness Academy.

Student feedback surveys have been equally positive, showing that confidence in core abilities and transferable employability skills, including presenting and public speaking, increased by 44%, networking by 34%, and interview skills by 48%. Confidence around money management rose by 26% and around banking and financial terminology by 51%.

Furthermore, over 70% had a clearer idea of what they wanted to do after school or college, and 100% of teachers agreed that their students started to think more confidently about their future after completing the Skills for Life programme.

> "Skills for Life took the pupils out of their shells and showed them what is possible."
>
> **Garry MacDonald**
> Teacher Bo'ness Academy

Urban regeneration

We want to help to create new opportunities for people of all ages and at all stages, working towards a future where our communities are more resilient and inclusive. We're investing in urban regeneration projects which help communities to thrive:

Habitat for Humanity – Stopping Homelessness in its Tracks

This programme is working to build a coalition of the public, voluntary and private sectors to release and repurpose vacant and empty spaces to reduce homelessness across Europe.

The partnership has launched pilot programmes in London, Edinburgh and Warsaw, with existing buildings used to create future homes for vulnerable groups.

The Tree Council – Young Tree Champions

We're working with The Tree Council to respond to the climate and ecological crisis through a new 'Young Tree Champions' programme. The programme aims to inspire teachers and young people across the UK to be a 'Force for Nature' and connect, learn and share the power of trees to help create a healthier future for people and planet.

Through the launch of an engaging new Young Tree Champions website, more than 300 schools have signed up to access an exclusive interactive Club Space which hosts a suite of bespoke teacher training opportunities and curriculum linked resources to help inspire them to learn outdoors and tackle the crisis. The schools most in need will have the opportunity to participate in public speaking workshops giving them the skills and confidence to speak up for trees and nature. They will also have the opportunity to apply for free trees to plant in their grounds and a 'tech kit' to help bring them to life, with technology.

Economic empowerment

We know that many social and structural factors can make it very difficult to save and plan for the future. Through our investment in economic empowerment, we aim to help equip people with the tools they need to be financially secure.

Junior Achievement Europe – 10X Challenge

10X is a financial and enterprise education challenge designed to reach students across Europe. It will include a digital platform developed to equip secondary school students with enterprise and financial capability skills. It will also provide teachers with the resources they need to teach enterprise education and financial capability, particularly around the topic of longer-term saving and investment.

SOS Children's Villages – Empowering Families

We have partnered with SOS Children's Villages to deliver a three-year international programme to help prevent family breakdown. This will ensure that children grow up in a stable family and become resilient adults through holistic support including food security, shelter, education, skills, and emotional well-being.

We're also supporting young adults into education and employment through school attendance, adult learning, employment training and access to vocational and entrepreneurship support.

The programme is designed to be sustainable and long-term, ensuring that its impact on individuals and families continues after they've become self-reliant.

Skills and education

Our community investment activity aims to break down barriers and create a world where everyone has the skills they need to maximise their full potential. Through the skills and education pillar of our programme, we're helping communities prepare for the future.

Age UK – Building Resilience

The Building Resilience programme provides an in-depth information and advice service delivered at a local level, as well as support, advice and referrals to life-changing services through Age UK's national Advice Line.

Older people are facing more complex issues than ever before and the programme aims to equip them with the tools, skills and opportunities they need to build resilience and overcome the most challenging times.

The Talent Foundry – Skills for Life

A bespoke mentoring employability programme for sixth form students from some of the most disadvantaged schools in the UK, Skills for Life helps develop valuable new employment skills in preparation for the next steps, whether work or further education. Designed by The Talent Foundry 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 provide students with real-life examples. The programme helps students to develop employability skills such as communication, networking and interview preparation, as well as managing budgets and finance. For the last five years, colleagues across the UK have been supporting the programme in a range of different ways, including CV reviews and mock interviews.

As Skills for Life enters its sixth year, we've developed and launched a series of virtual workshops as well as a new digital platform that hosts a wealth of resources aimed at improving the employability of disadvantaged young people – giving them unique insight into the world of work and equipping them with the skills they need to succeed.

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. A specialist CR team manages activities across the business: devising community investment initiatives, measuring impact and spend, tracking performance against annual competitor benchmarking, as well as exploring issues of key social importance to the business and determining where we can make the greatest social impact.

Charitable donations

We calculate our community investment spend using the internationally recognised London Benchmarking Group (LBG) standard. This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions. Please see assurance statement provided by Deloitte on our website at www.mandgplc.com.

Our total community investment spend in 2020 was £3.7m, of which £3.2m was cash. The balance included in-kind donations prepared in accordance with London Benchmarking Group guidelines. This included 450 colleagues who dedicated 4,696 hours of volunteer service in their communities. Furthermore, £175,000 was donated across the business by our employees through our payroll giving scheme.

Supporting our people in a fast-changing world

As we adapt to meet new challenges in a fast-moving world, we're continuing to improve the way we support our workforce: focusing on keeping people safe while enabling them to do their best work

5,961
Employees[i]

11,192
Days of training[ii]

30%
Female representation on the Executive Committee and their direct reports

One team, One M&G

Our values form the basis of our culture and ways of working.

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.

Rising to the challenge of COVID-19 pandemic

In 2019, one of our priorities for the coming year was to embed new ways of working. Nobody predicted the extent of how radically our ways of working would change in 2020, due to the impact of the global COVID-19 pandemic. But our people have risen admirably to the challenge of continuing to serve our clients and customers throughout, demonstrating that our culture and values are well established and have a real impact on how we work and behave.

When the pandemic began, the safety of M&G colleagues was paramount in our decision-making. We were one of the first organisations to close our offices and in many of our markets, including the UK, we did so ahead of any lockdown being imposed by government.

Requiring some 6,000 people to work from home has naturally brought challenges. In April we surveyed colleagues to identify how they were coping with lockdown and what support they needed. The response was overwhelmingly positive, with 85% saying they trusted our leaders to respond effectively to business challenges presented by the virus, and the same percentage feeling well-connected to colleagues while working from home.

However, many of our people did tell us that they needed IT and office equipment to help them work more effectively at home. We worked with our IT suppliers to meet this need, reimbursing all employees up to £240 each to cover IT equipment, and up to £400 for home office furniture.

> "M&G supports me in being open and visible. It's an endorsement of our culture that I know I can reach out for support when it's needed."
>
> **Jade Stuart**
> Telephone Account Manager

We also delivered webinars to help colleagues get the best out of our technology platform when working from home.

After nine months away from the office during 2020, the pandemic is likely to have brought about lasting change in working practices. Our people have told us that in future they would like to spend two to three days a week in the office, with the remainder working from home. When the time comes to reopen our offices, we will engage with individuals to identify what works best for them. We'll be flexible and try to accommodate their circumstances, whether they'd prefer to work from home full time or come into the office every day.

i Including all employees – permanent, part time and those on fixed-term contracts.

ii 2.1 days per employee or 11,191.7 days of training across the headcount of 5,362 permanent employees at the end of 2020.

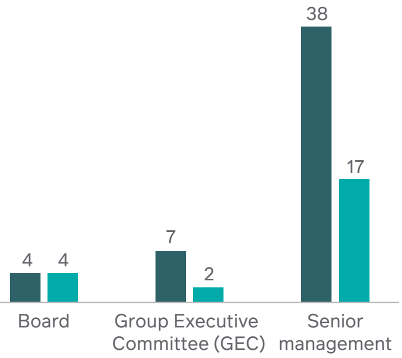
Employee gender
%

Men	55%
Women	45%

Group Executive Committee and their direct reports gender
%

Men	70%
Women	30%

Employee profile gender diversity
Number of people



One M&G, one culture

In our view, the long-term performance of a business and the quality of its culture are inextricably connected. Our business relies on sustaining strong relationships with our customers, clients, shareholders and other stakeholders which are built on trust. So we've created a One M&G culture based on two values: care and integrity.

This culture of care and integrity is central to everything we do. It defines how we behave towards each other, how we interact with our stakeholders, and above all, how we will deliver on our purpose: to grow and manage people's savings so that they can live the life they want, while making the world a little better along the way.

"M&G plc focused on people first during the COVID-19 pandemic. From emphasising mental health and well-being, to financial support, to creating a comfortable work environment."

Ovo Gharoro
Head of Investment Data Solutions

A place where everybody feels safe, valued and included

Our Global Diversity and Inclusion Strategy lays out our priorities and goals, with individual strands around gender, LGBT+, disability, ethnicity/nationality and life stages.

During the year we announced our commitment for 40% of senior leaders to be women and 20% to be from a Black, Asian or minority ethnic background by 2025, in the process becoming the first savings and investment company to announce an ethnicity target. From April 2021, we've committed to publishing a combined gender and ethnicity pay gap report which will guide us in future years as we strive to reduce our gap across the organisation.

We made pleasing progress on many aspects of diversity and inclusion over the last 12 months, including:

- reaching 50% female Board representation – well ahead of the Hampton Alexander target of 33%;
- reaching 30% of our senior leaders being women;
- achieving the National Equality Standard;
- becoming the first savings and investment company to be recognised as Disability Confident Level 3 leaders by the Department of Work and Pensions; and
- extending our commitment to support black inclusion in several different ways, including introducing the #IAm campaign in support of the Black Lives Matter movement and participating in the #100blackinterns programme.

"I love helping people to embrace new ways of working by supporting them to get the most out of the technology and tools we have available at M&G."

Dominic Emery
Employee Adoption Specialist

Our Inclusion Index showed an 11% improvement over the previous year. However, the most accurate measure of progress on inclusion lies in the things that our people themselves actually think and say – and here we're pleased to report that the employee survey discussed below found that 85% of respondents said they can be themselves without worrying about being accepted (up 6% on 2019).

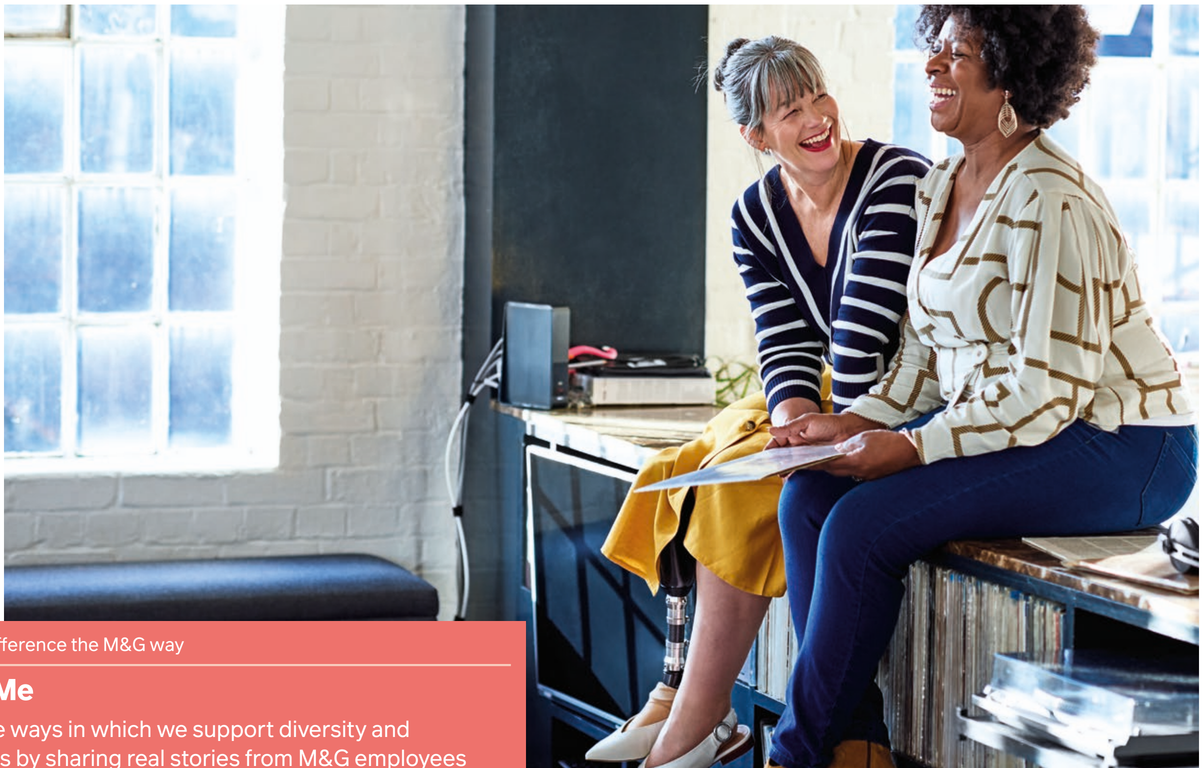
Our well-established affinity networks have continued to support diversity and foster a sense of togetherness throughout the year. Groups including cultural diversity, LGBT+, disability, mental health and more, represent the broad diversity of people who work at M&G and provide platforms for discussion, insight and support.

Setting out our expectations, embedding our culture

Our culture programme is sponsored by our Chief Executive and includes workstreams headed by senior leaders to provide direction.

During 2020, we launched a new Code of Conduct, based on our values of care and integrity, setting out the high standards of behaviour that we expect from all employees – from apprentices to the Boardroom. All our people attended workshops on our purpose, values and behaviours during the year.

Our leaders are key to creating a unified and appropriate culture, with the right mindsets in place. In 2020, over 1,000 people managers, including all senior leaders and members of the Group Executive Committee (GEC), took part in virtual training on how to lead with respect, care and integrity. In addition, our 100 most senior leaders participated in a 360-degree exercise, which provided them with valuable feedback from a wide range of stakeholders.



Making a difference the M&G way

This Is Me

One of the ways in which we support diversity and inclusion is by sharing real stories from M&G employees who have experienced mental health or other issues.

Our This Is Me… project brings difficult matters into the open and makes a positive difference to how colleagues think and behave.

M&G IT specialist Ian Brakspear says, “When I joined M&G plc as an apprentice back in 2015, I was sceptical about revealing that I am autistic. But, after a chat with the Apprenticeship team, I decided that it was the right decision.

“I’d spent my entire life trying to hide who I am and finally, enough was enough. It was time to stop hiding and start being me.

“Throughout my time at M&G, whenever I have told people, I’ve been overwhelmed by the support and response that I received.

“We often hear talk that M&G plc is a diverse and inclusive work environment, and I can testify to that. All too often those with neurodiversity are forgotten, but I am living proof that M&G is a leader in this field.”

“When I joined M&G as an apprentice in 2015, I was sceptical about revealing that I am autistic, but I’ve been overwhelmed by the support that I received.”

Ian Brakspear
M&G IT specialist

Continuing to promote health and well-being

Our online Well-being Hub has been the first port of call for anyone looking for extra support while adjusting to remote working during the COVID-19 pandemic. Virtual cognitive behaviour therapy, pilates and fitness sessions have been complemented by online GP services and an employee assistance helpline.

In April, we refocused our performance management conversations to concentrate on well-being, and as the year progressed, we introduced a range of virtual workshops to address specific issues raised by the pandemic – such as resilience, nutrition and mental health during the Christmas holiday season. Our Alone not Lonely and Managing your Mindset programmes helped people cope with extended periods of remote working and isolation.

The pandemic has also been challenging to many parents working at home. Through M&G's corporate membership of CityParents, a network offering expert help and support to working parents, during 2020 our people have attended 122 webinar events on topics such as supporting children with remote learning, child mental health, and balancing family and work needs.

A Disability Confident Leader

At M&G we know that an inclusive environment makes us more accessible and ensures we attract, engage, promote and retain exceptional people. We welcome applications from all individuals regardless of age, gender, gender identity, sexual orientation, ethnicity, nationally, disability or military service and welcome those who have taken career breaks. We will consider flexible working arrangements for any of our roles.

We will make any reasonable adjustments to our recruitment process, to enable all candidates to be able to shine and be their best selves during the process.

In 2020, we partnered with Leonard Cheshire on their Change 100 Programme, to help students and graduates with long-term health conditions or disability gain work placements. The programme started in the Summer of 2020 where we placed two interns from the programme on an eight-week internship programme.

Our Technology For All campaign highlights the accessibility features of Microsoft 365 to all colleagues and our Workplace Adjustments guide helps colleagues and managers to access any adjustments required to enable them to continue to achieve their career and personal goals.

Developing our teams

Our success depends on our people, and we work hard to make sure we give them the skills to support our business objectives and enable them to enjoy fulfilling and rewarding careers. Our online learning platform is home to over 22,000 programmes that are available to all employees, regardless of age, gender, location or seniority. People can sign up to any or all three development streams – leaders, people managers and colleagues – to receive a selection of curated online learning resources every few weeks. As our people progress at M&G, their learning becomes more tailored to their responsibilities and likely career path.

Despite the pandemic, in 2020 we continued to base our performance management approach on regular conversations rather than a single once-a-year session. Every person is given a performance rating at the end of the year reflecting their achievements and behaviours, and is provided with training before their main conversation with their manager. For the coming year, all our people will have a sustainability objective as part of their annual objectives, which will be taken into account in their performance management.

"

My favourite thing about working at M&G plc is the opportunity to discover, develop and deploy capabilities in me that I didn't even know I had; all within a safe and supportive environment."

Precious Appiah
Technical Adoption Apprentice

Confirming our progress

Every year, the One Voice colleague survey provides us with a rich source of data about what it's really like to work for M&G. This year's survey, which achieved a 71% response rate, showed that all key metrics were up on the previous year, by between 3 and 24 percentage points. In our view, this demonstrates excellent progress as we move steadily towards being One M&G.

Standout results included:

- Sustainable engagement – 80%
- Inclusion index – 85%
- 79% of employees feel M&G plc has a supportive culture
- 79% believe M&G plc acts responsibly

As we move into 2021, we'll continue to listen, improve and drive positive change.

Playing our part as a responsible business

Since demerging in October 2019 and listing as an independent company, we've developed new policies and enhanced existing ones to reflect our commitment to sustainability, our people, social matters, human rights, and anti-corruption and anti-bribery

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ESG policies and activities (We will publish a separate ESG report in 2020)	42-55

Anti-corruption and anti-bribery

We're committed to the highest levels of integrity and business conduct and have a zero tolerance approach to bribery and corruption. We require all employees to adhere to the M&G plc Anti-bribery and Corruption Policy and to carry out their duties with openness and transparency.

Periodic training and reporting requirements ensure that employees are aware of their obligations under the M&G plc Anti-bribery and Corruption Policy as well as its supporting standards. Non-compliance could lead to criminal prosecution, fines or reprimands and/or cause significant damage to M&G plc's reputation.

Principal risk

As a financial services company, M&G is faced with potential risk of financial crime. The consequences for M&G should they fail to appropriately manage financial crime risk can lead to its systems, products and/or services being used to facilitate criminal conduct, leading to regulatory censure, imposition of operational restrictions, loss of licence and material reputational damage.

Management and mitigation

A dedicated Group Financial Crime Compliance (GFCC) function leads the implementation of a framework across the Group, including policies, standards, training, guidance and oversight. This framework recognises the obligation of the regulated subsidiaries to meet their distinct FCC requirements as prescribed under local law. GFCC, in partnership with the dedicated Compliance Monitoring team within the Regulatory Compliance function, performs routine monitoring and deep-dive activities across the Group, and also undertakes regular enterprise-wide financial crime risk assessments which cover all of our global activities.

M&G plc has begun a programme of work to verify that the controls that operate across the Group are sufficiently comprehensive and resilient to mitigate the risk of the facilitation of financial crime in line with all relevant legal and regulatory requirements. This work would anticipate taking any necessary remediation on existing business where appropriate in addition to ensuring that the existing controls operate on an on-going basis in line with internal and external requirements.

Outlook

During the COVID-19 pandemic, the financial services sector has seen a marked increase in attempted financial crime. We continue to work closely with industry bodies and law enforcement agencies to increase protection for both customers and consumers, both in the UK and overseas.

We are committed to playing our part in creating a safe and secure global financial system and detecting and reporting criminal conduct to law enforcement agencies wherever we operate.

Human rights

Our business is built on our core values of care and integrity:

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

Integrity – we empower our people at M&G to do the right thing, honouring our commitments to others and acting with conviction.

Care and integrity extend beyond our company into the communities and societies within which we operate. A significant consideration to how we do business and make the world a little better along the way is a commitment to support and respect human rights. Human rights concerns all of us and is core to our business interests and we believe in supporting human rights by acting responsibly and with integrity in everything we do.

As a global company, we operate within many countries and communities. We aim to comply with local laws and regulations in every jurisdiction where we operate and strive to uphold the principles and expectations outlined in our Statement of Human Rights.

We are committed to working with all our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

Our Procurement teams across our UK businesses have further embedded a coordinated response to the requirements of the Modern Slavery Act 2015, with a focus on our external supply chain, as follows:

- Procurement highlights within all tender activity 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).
- Procurement and Supplier Risk Management determine the nature of services provided by suppliers and identify associated risks, including any potential risk exposure to modern slavery. Our Procurement team have applied an additional sustainable procurement questionnaire into our existing RFP process, generating increased insight into potential supplier policies and practices in relation to modern slavery. Where suppliers are seen not to have appropriate standards in place, we will work in close collaboration to improve standards.
- Similarly, our Workplace Solutions (previously Corporate Property) team has developed and implemented a supplier segmentation tool to help identify, manage and mitigate risks, including modern slavery. This is applied across the lifecycle of the deal at pre-contract, contracting, deployment and ongoing service monitoring.
- Whistleblowing mandatory training for all M&G plc employees across our organisation was rolled out in June 2020. This training detailed what, when and how to raise a concern with human rights violations (modern slavery) included. No whistleblowing cases that had been raised in the last reporting period remained open at the end of this reporting period.
- Our Workplace Solutions team have carried out refresher training on Ethical Procurement (including modern slavery) and briefed the entire Workplace Solutions Team on the risks and how to identify modern slavery. M&G plc contracts remain refreshed and updated for modern slavery provisions.

We recognise our responsibility to comply with all relevant legislation included within the Modern Slavery Act 2015. Our Modern Slavery Transparency Statement (to be published in May 2021), confirms how we comply with all relevant legislation and the steps we've taken to assess and mitigate against the risk of modern slavery and human rights violations within our business and supply chains, as well as how we've managed and will continue to proactively monitor those risks.

Adherence to policies

Narrative within our Non-Financial Reporting Statement covers the following policies and developments across 2020:

- Bribery, Corruption and Tax Evasion Risk Policy
- Statement of Human Rights
- Whistleblowing Policy
- Supplier Code of Conduct
- M&G plc Code of Conduct

Some of these policies have only recently been implemented and will be reviewed during 2021, others are more embedded into our business.

Looking to 2021, we are soon to publish our supporting Anti-Bribery, Corruption and Tax Evasion Standards. Alongside this we are due to undertake an initial mapping exercise and proposal document for our business to adopt a modern slavery policy which defines our Group Governance Framework position using UK legislation (Modern Slavery Act 2015) as our minimum standard. We will be able to report further on implementation of these policies and frameworks in the 2022 Annual Report.

"Care and integrity extend beyond our company into the communities and societies around us."

Lee Bullen
Commercial Officer

Our framework

Our risk management is supported by an embedded risk culture and strong risk governance

As part of our business operations, we take on risks on behalf of our shareholders, customers and clients. 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 and clients, comply with regulations and protect our reputation. The Board has ultimate responsibility for these risks across 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.

Our Risk Management Framework is designed to manage risk within agreed appetite levels which are aligned to delivering our strategy for customers, clients and shareholders.

Risk culture and governance

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

To help embed our risk 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 Risk and Audit Committees is based on the principles of 'Three Lines of Defence': 1) risk identification and management, 2) risk oversight, advice and challenge and 3) independent assurance (see Figure 1).

First line business areas identify and manage risks and are overseen by the second line Risk and Resilience and Compliance functions. The second line Risk and Compliance functions are structurally independent of the first line, providing risk oversight, advice and challenge, as well as compliance monitoring and assurance. Third line Internal Audit is empowered by the Audit Committee to audit the design and effectiveness of internal controls, including the risk management system.

Risk appetite and limits

We specify our risk appetite and tolerance to take on risk 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.

COVID-19 pandemic

The risk and control environment was heavily impacted by the COVID-19 pandemic, which resulted in significant market volatility and operational challenges.
We responded quickly at the start of the pandemic to mobilise resources and stand up business continuity protocols. We also established an Executive Solvency Monitoring Group to provide additional oversight of financial risks.

While the pandemic has not resulted in new principal risks being identified, it has impacted the Group across our risk profile as detailed in the principal risks on the following pages. A rapid scaling up in remote working capacity and capability has heightened operational risk in the following key areas:
IT connectivity; data security and privacy; cyber crime; fraud; and processing failure due to changes to controls. We continue to progress our programme of work to enhance operational resilience and to maintain, test and upgrade our IT environment and controls. In addition, the pandemic has heightened people risks in areas including staff morale and wellbeing and we have therefore put the safety and wellbeing of our staff at the forefront of our response to the pandemic.

Credit risk remains a key area of focus as the impacts of restrictions and lockdowns filter through economies. Through our annuity portfolios in particular, we are exposed to excess downgrades and defaults, and to credit spread widening. However, trading over the last decade has led to a significant increase in the proportion of secured assets and a defensive and diversified credit portfolio.

The uncertainty of the impact that the pandemic will have on our future business and operating environment requires us to continually monitor and assess the risks related to our change activity. We remain committed to our extensive transformation programme and in response to the pandemic, we have reviewed and, where appropriate, reprioritised our change activity.

Figure 1

Board of Directors

Risk Committee

Three lines of defence

First line

Risk identification 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

Oversight, advice and challenge

- Owner of Risk and Compliance Framework
- Stress/scenario setting and oversight
- Regulatory liaison
- Proactive and reactive advice and guidance
- Risk and compliance monitoring and assurance activities
- Risk and compliance reporting

Third line

Assurance

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

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.

We also have risk appetite statements and accompanying financial limits 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.

We use prescribed indicators to inform whether a risk may move out of appetite and, together with limit utilisation, this is a core element of risk reporting to Board and Executive Risk Committees with appropriate management actions.

Climate risks

Climate change risk is currently managed through the M&G plc Risk Management Framework, with risk oversight and assurance delivered in accordance with the three lines of defence model. In addition an M&G plc ESG Risk Management Framework is being established to provide additional focus on the risk management activities required for ESG and climate change initiatives, including specific details on the requirements to effectively identify, monitor, manage and report on ESG and climate change risks. The management and monitoring of ESG risk, including climate change risk, will also align to our ESG risk appetite statement(s), which are currently under development, to support our ESG-related commitments and targets, with the aspiration of meeting stakeholder expectations. We are also building our risk management controls to cater for the diverse needs of a range of stakeholders groups, geographical territories and compliance requirements to identify the most effective data, policy, process and reporting approach for the future.

Sustainability risks, along with other risk types, are identified, assessed and managed under the M&G plc Risk Management Framework and specific emphasis on the management of this risk will be outlined within the M&G plc ESG Risk Management Framework, which is currently under development. Consideration of ESG Risk is built into the decision-making processes and a requirement of key strategic board risk assessment papers. Climate change risk is being integrated into our scenario analysis process with both top down and bottom up consideration over a range of time horizons.

Climate change is significant to our corporate operations and the large portfolios of assets we manage on our own balance sheet and for clients, making ESG risks critical to our business model and priorities.

We combine a range of approaches to help us to identify, understand and articulate climate risks, including academic research, industry-shared learning, scanning tools and relevant data sources, and best practice guides.

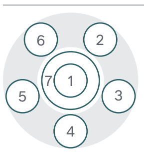
Scenario analysis is an important tool in assessing the impacts of these risks over a range of time horizons and potential climate pathways. M&G has undertaken climate scenario analysis with further work underway to develop and enhance our approach to provide additional insights into the climate risk faced by the business both now and in the future.

Principal risks and uncertainties

1 Business environment and market forces

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
Changing customer preferences and economic and political 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. Economic factors, including those resulting from Brexit and the COVID-19 pandemic, may impact the demand for our products and our ability to generate an appropriate return. In addition, increased geopolitical risks and policy uncertainty may impact our products, investments and operating model.** **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 sales of savings solutions. This heightens our exposure to changing economic conditions and customer preferences.** **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. We are also implementing a significant digital transformation programme to deliver a more diversified distribution strategy. We have expanded our operations in Europe to ensure that we can continue to grow and service our European customer base following the UK's departure from the European Union.	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 and the acquisition of Ascentric broadens our coverage of the Independent Financial Advisor market and accelerates our move into high value wealth management. Work is ongoing to develop new propositions and expand our institutional and international businesses. We continue to focus on minimising the impact of COVID-19 pandemic on the service we provide to our customers. We had prepared for a "no-deal" Brexit to manage the risk that the process and outcomes compromised our business model and strategy. In the run-up to, and immediately after 31 December 2020, potential impacts were monitored with no material issues identified. Monitoring will continue in 2021 noting that there are residual risks in respect of temporary equivalence arrangements and that discussions continue between the UK and EU with regards to financial services.	2 3 4 5 6	

Our strategic pillars



1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

2 Sustainability

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
Our stakeholders increasingly expect that we meet the needs of the present without compromising the ability of future generations to meet their own needs. In addition we recognise that sustainability, including issues concerning the climate, diversity and inclusion, corporate governance and biodiversity, is crucial to our success and that of the companies in which we invest. **A failure to address and embed sustainability within our products, business and operating model could adversely impact our profitability, reputation and plans for growth.**	Sustainability risks, along with other risk types, are identified, assessed and managed under the M&G plc Risk Management Framework and specific emphasis on the management of this risk will be outlined within the M&G plc ESG Risk Management Framework, which is currently under development. Consideration of ESG Risk is built into the decision-making processes and a requirement of key strategic board risk assessment papers. Climate change risk is being integrated into our scenario analysis process with both top down and bottom up consideration over a range of time horizons.	We have made specific firm-wide public commitments in respect of Sustainability issues and we continue to address and embed sustainability within our products, business and operating model. As 2020 demonstrated, responding effectively to climate-related incidents such as flooding, world health issues such as the COVID-19 pandemic and the increase in public activism and demonstrations on issues such as equality, requires that we meet the expectations of a wide range of stakeholder groups.	1 2 3 4 5 6	New Risk

3 Investment performance and risk

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
The investment objectives and risk profiles of our funds and segregated mandates are agreed with our customers and clients. A failure to deliver against these objectives (including sustained underperformance of funds), to maintain risk profiles that are consistent with our customers and clients expectations, or to 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 remain a key theme as regulatory and market developments impact funds' investments in unquoted and hard-to-trade assets. The impact of the COVID-19 pandemic may continue to cause sharp movements in market values, interest rates, dividend levels, rental income and defaults, all of which could adversely impact investment performance and fund flows. While market volatility persists and customer confidence remains low, there is a risk of further deterioration of fund flows. Ensuring that our customers understand the risks to which they are exposed, including liquidity risk, and delivering strong fund performance will be key to our success.	2 3 4 5 6 7	

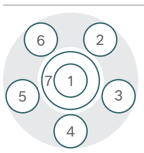
4 Credit

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
We are 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, while 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. We have collateral arrangements 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. In the near term, there is a risk of a material deterioration in credit conditions as a result of the market effects of the COVID-19 pandemic. Through our annuity portfolios in particular, we are exposed to excess downgrades and defaults, and to credit spread widening. However, trading over the last decade has led to a significant increase in the proportion of secured assets and a defensive and diversified credit portfolio.	2, 4, 6, 7	↑

5 Market

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
Our 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, while 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. Our established approach to managing market risk was successfully utilised and adapted to monitor and respond to the impact of the COVID-19 pandemic on markets, funds and operations. 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 growth of the PruFund business outweighs the reduction in market risk that occurs from the run-off of the Heritage book. Additionally, there is the potential for further market volatility as the COVID-19 pandemic continues to impact markets. However, the risks are actively 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.	2, 4, 5, 6, 7	↑

Our strategic pillars



1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

6 Corporate liquidity

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
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 severe but plausible scenarios.	Risk appetite is set such that we maintain adequate liquid resources and our liquidity position is regularly monitored and stressed. We have detailed liquidity contingency funding plans 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.	2 4 5 6	

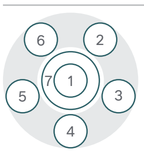
7 Longevity

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
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. We perform regular stress and scenario testing 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. An increase in mortality rates may be expected to some extent over the short-term due to the COVID-19 pandemic, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, the longer-term implications for mortality rates amongst the annuitant population are not yet clear, increasing uncertainty in relation to our assumptions.	6 7	

8 Operational

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
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 under performance of third-party supplier arrangements could impact the delivery of services to our customers.	Our Operational Risk Framework defines our approach to the identification, assessment, management and reporting of operational risks and associated controls across the business including IT, data and outsourcing arrangements. The benefits of our investment in operational resilience were demonstrated by our ability to maintain effective business operations during the disruption caused by the COVID-19 pandemic. We continue to progress our programme of work to enhance the firm's resilience to material operational incidents or business disruption. We 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 are continuing our programme of work to 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.	A rapid scaling up in remote working capacity and capability has placed significantly greater reliance on virtual environments and introduced changes in working practices. This has heightened operational risk in the following key areas: IT connectivity; data security and privacy; cyber crime; fraud; and processing failure due to changes to controls. 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.	1 2 3 4 5 6 7	↑

Our strategic pillars



1. One M&G
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6. Protect Heritage
7. Active Capital Management and Operational Efficiency

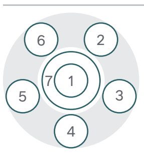
9 Change

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
We have a number of significant change and transformation programmes underway to deliver our strategy for growth, key financial and non-financial benefits (including cost savings, improved customer experiences, greater resilience and strengthening our control environment) and regulatory change. Failure to deliver these programmes within timelines, scope and cost may impact our business model and ability to deliver against our business plan and strategy.	Project governance is in place (including oversight) with reporting and escalation of risks to management and the Board. Our Strategic Investment Board is responsible for prioritisation decisions, ensuring that the activities that maximise our ability to achieve the business plan, key regulatory items and growth activity are delivered and funded appropriately. 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.	In response to the COVID-19 pandemic, we have reviewed and, where appropriate, reprioritised our change activity. We remain committed to our extensive change programme which underpins our strategy for growth, meet appropriate cost base targets, deliver a number of key non-financial benefits (including improved customer experiences and outcomes and strengthened resilience), and meet regulatory requirements. Our exposure to change risk will therefore remain material. The uncertainty of the impact that the COVID-19 pandemic will have on our future business and operating environment requires us to continually monitor and assess the risks related to our change activity.	1 2 3 4 5 6 7	

10 People

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
The success of our operations is highly dependent on our 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 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 as 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. The COVID-19 pandemic led to a rapid scaling up in remote working capacity and capability which has placed significantly greater reliance on virtual environments and introduced changes in working practices. This has heightened risks in areas including staff morale and well-being. These, and other risks, are being monitored and managed through our bespoke incident management procedures and we have put the safety and well-being of our staff at the forefront of our response to the pandemic.	1 2 3 4 5 6 7	↑

Our strategic pillars



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11 Regulatory compliance

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
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, financial crime, 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.	Accountability for compliance with regulatory and legal requirements sits with our senior management. Our dedicated Compliance function supports our businesses by coordinating 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, financial crime 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.	While we have made significant progress in addressing historical regulatory issues, the legacy book will remain an area of considerable management and regulatory focus. As we continue to expand our international presence, our engagement and compliance with regulatory regimes beyond the UK will become more material. For example our expansion in the US means that the US sanctions regime is becoming more significant for us. Monitoring of the impact of Brexit will continue in 2021, noting that there are residual risks in respect of temporary equivalence arrangements and that discussions continue between the UK and EU with regards to financial services.	1 2 3 4 5 6	

12 Reputational

Principal risk	Management and mitigation	Outlook	Strategic pillars	Change from last year
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, our ability to attract and retain the best staff and could also result in regulatory intervention or action.	Our Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks utilising a suite of metrics to monitor stakeholder groups. We have embedded reputational risk champions within our business and they perform an active role in identifying and monitoring key reputational risks and drivers. Champions also support our businesses in creating processes that include full consideration of reputational risks in key decisions.	The COVID-19 pandemic and the ongoing socio-political climate, together with an increase in activities being undertaken by the business means that we could face an increasing range and severity of reputational events. A number of factors mean that such pressures will increase, including the greater focus of customers, regulators and investors on ESG issues and the fact that social media provides the means for opinions to be stated and shared instantaneously.	1 2 3 4 5 6	

Emerging risks

Emerging risks are newly developing or evolving risks which are potentially significant but are generally characterised by a high degree of uncertainty and are therefore difficult to quantify. We undertake an annual assessment to identify the Group's emerging risks and assess which will be subject to management and monitoring. The assessment brings together input from subject matter experts across the first and second lines of defence and incorporates a range of inputs including internal risk and control self-assessments and external perspectives.

We carry out a light touch review of the development of emerging risks during the year to update the assessment of emerging risks, key indicators and the progress of actions, incorporating any material developments since the annual assessment.

Risk	Description
Social cohesion	The widening gulf between empowered and disenfranchised groups in society, growing cultural divisions and wealth inequality may lead to a lack of societal cohesion and increased activism.
Monetary and trade policies	Increasing trade tensions and conflicts between the world's major trading blocs could lead to increased trade barriers, regulatory fragmentation and the reversal of globalisation. The low interest rate environment that has prevailed in many advanced economies since the financial crisis also poses a variety of risks.
Longer-term impact of the COVID-19 pandemic	The longer-term economic, political and social implications of the current COVID-19 pandemic are highly uncertain. Additionally, the impact on productivity, innovation and health and safety due to new ways of working is uncertain.
Artificial intelligence and digital disruption	The progress in artificial intelligence and cognitive computing may result in unforeseen risks or unpredictable outcomes. Keeping pace and managing obsolescence in the face of rapid change creates strategic, financial and operational risks for firms.

Basis of preparation

The Strategic Report presented in our Annual Report and Accounts for the year ended 31 December 2020 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 pages 68-75.

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 Group's consolidated financial statements.

John Foley
Chief Executive Officer
8 March 2021

Governance

Interim Chair's introduction to governance

Governance to support our business

2020 was the year of the unexpected and the unprecedented. I'm pleased that over this period the Board and our governance structures have supported the resilient performance of our business

As the Interim Chair I have presented a summary of the most important areas of this Governance Report. I hope the Report brings to life the way in which Mike as Chair and the Board as a whole operated day-to-day in 2020.

Culture

With limited time on any Board agenda, part of the Chair's role is to prioritise. We decided to put culture at the top of our agenda in 2020, as our first full year as a listed company. We wanted to set out, right from the start, the kind of business we want to be and how we want our colleagues to treat each other and our customers and clients. The Board has overseen all aspects of culture development: approving the firm's first Code of Conduct; developing a culture dashboard to measure and assess our behaviours; embedding culture in our incentive design; and setting a Board culture that can be replicated proudly across the business. As it turned out, 2020 was a year in which we relied more than ever on our culture of care and integrity, given the challenging working environment caused by COVID-19. Our shared behaviours and values have kept us working well together.

Enhancing our strength as a Board

In April 2020, we were delighted to welcome Massimo Tosato to our Board. We considered the skills that we needed to add to our collective expertise and agreed that Massimo was an excellent fit to provide international asset management experience. Massimo has also taken on the Chair of M&G Group Limited, one of our major subsidiaries, and this has forged a valuable governance link between parent and subsidiary.

In October 2020, I joined the Board in the role of Senior Independent Director (SID), which provides both support for the Chair and a communication channel for shareholders as needed. The Board was looking for knowledge of financial services and listed company experience for this role.

Mike also oversaw development of the skills of our Non-Executives. I thank Clare Thompson for acting as SID between May and October and taking on the duties again in 2021 to support me as Interim Chair. I also thank Robin Lawther for adding her experience to the Audit Committee from May 2020 and to Clive Adamson and Clare who joined the Nomination Committee at this time.

Looking forward

One of the most important things we can do as a Board is reflect on our performance and always be thinking about how we can improve and enhance what we do to be truly effective and entrepreneurial. Our evaluation process at the end of 2020 was rigorous and we have given you a real flavour in this report of the points it raised. It is one of my tasks as Interim Chair to make sure we act on the results of the evaluation and make the most of what it can teach us.

AGM

On the Board's behalf, I'd like to thank all our shareholders who voted via proxy and who put forward questions to our first AGM in 2020. We were pleased to have your voting support in such high levels and to hear your views, although it was disappointing not to hold the meeting face-to-face. We look forward to being able to engage more fully in the future.

Finally, I'd like to thank Robin Lawther for her service at M&G plc, as she steps down from the Board on 15 March 2021. Robin has been instrumental in building strong incentive designs with a focus on regulatory requirements, ensuring alignment between risk and remuneration and delivering our first Directors' Remuneration Policy with very strong shareholder support in May 2020. I wish Robin all the best for the future and we look forward to welcoming Clare Chapman to the Board very shortly as our new Remuneration Committee Chair.

Fiona Clutterbuck
Interim Chair

"2020 was a year in which we relied more than ever on our culture of care and integrity, given the challenging working environment caused by COVID-19. Our shared behaviours and values have kept us working well together."

Fiona Clutterbuck
Interim Chair

During 2020, the Board has complied with the 2018 UK Corporate Governance Code and applied its Principles and Provisions

The table below sets out examples of how the Board has done this for each Principle, enabling our shareholders to evaluate our Code compliance for themselves.

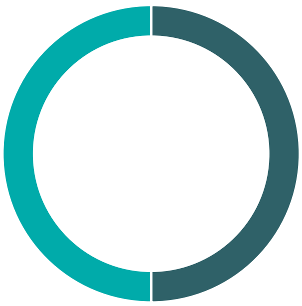
We have not attempted to include all details in this table, but focused on the key actions that demonstrate our adherence to the Code and we've signposted different parts of the Governance Report where you can find more information.

Code Principle		Read More
Board Leadership and Company Purpose		
A	The Board has been found to have operated effectively over 2020. Focus on the long-term success of the company has been a theme of decision-making around a number of key decisions, including the Group's Business Plan, our culture journey and the acquisition of Ascentric.	**Board effectiveness** Page 96
B	The Company purpose and values have been strongly reinforced in 2020 by the Board's approval of our Code of Conduct and its oversight of the Group's culture journey. The Board has monitored strategy to ensure alignment with its culture.	**Decision-making** Page 84
C	The Board has measured performance carefully through dedicated presentations from all key parts of the business and regular management information. Through the Audit Committee, the Board has tested and challenged the Group's controls and is satisfied with their robustness.	**Control environment** Page 100-106
D	This year, stakeholder engagement has covered a range of topics, with focus on customers and clients as the Group has strived to help people look after their money through the pandemic and on employees, given the home-working challenges presented by COVID-19 and the Board's focus on the Group's culture.	**Stakeholder engagement** Page 84-89
E	The processes for approving our Code of Conduct and the annual review of policies gave the Board the opportunity to ensure that these were consistent with the Group's values. We were pleased that our Employee Opinion Survey in 2020 showed that our workforce feels comfortable in speaking out and we have embedded this important principle within our Code of Conduct.	
Division of Responsibilities		
F	Mike Evans, as Chair throughout 2020, has led the Board effectively and the Board has focused on developing its working practices, the relationships between Non-Executive and Executive Directors and how the Board tests and appraises its own performance on an ongoing basis.	**Chair and Board effectiveness** Page 96
G	The Board has maintained the required composition throughout the year and when vacancies arose, Non-Executives were flexible in their roles. In 2020 Clare Thompson took on the SID role on an interim basis and Robin Lawther joined the Audit Committee. In early 2021, Fiona Clutterbuck took on the role of Interim Chair and Clare Thompson has again taken on SID duties.	
H	All Non-Executive Directors have committed appropriate time to their roles and made themselves available for additional meetings required due to COVID-19 impacts.	
I	The Company Secretary has been effective throughout the year and has enhanced Board paper preparation and reporting processes.	
Composition, Succession and Evaluation		
J	The appointments of Massimo Tosato and Fiona Clutterbuck appropriately addressed gaps in the Board's skills map and composition, and were transparent selections, with weight given to gender, ethnicity and diversity of thought, as well as skills and experience.	**Board appointment process** Page 98
K	The Nomination Committee considered and refreshed Committee membership in May 2020 and at the point when new Directors Massimo Tosato and Fiona Clutterbuck joined the Board. The Board members have all served for three years or less.	**Committee membership and Board skills** Page 82-83
L	The evaluation of the Board was externally facilitated this year by Lintstock and the Board was found to be operating effectively.	**Board effectiveness** Page 96
Audit, risk and internal control		
M	The Audit Committee has led on assessing auditor independence and effectiveness and has reviewed all material narrative and financial statements, including full year, half year and Q1 Trading Updates in 2020. The Committee has also overseen the audit tender process.	**Audit Committee and Risk Committee roles and reports** Page 100-108
N	The Board is satisfied that a fair, balanced and understandable assessment of the firm's financial position is presented.	
O	The Risk Committee has assessed Principal Risks, including COVID-19 specific ones throughout 2020, and set and monitored risk appetite. The Audit Committee has overseen the Integrated Control Framework, which was newly introduced in 2020.	
Remuneration		
P	Remuneration design evolved during 2020 to take into account the culture that the Group wants to promote and the risk limits to which colleagues must adhere. Executive remuneration is linked to the successful delivery of the Group's strategy.	**Remuneration Committee role and report** Page 109-117
Q	The Remuneration Committee has led a formal and independent process to measure and challenge executive remuneration. None of the Executive or Non-Executive Directors have taken any role in setting their own remuneration.	
R	Remuneration outcomes for Executive Directors are ultimately determined by the Remuneration Committee, applying independent judgement and ensuring the wider context of business success, culture and risk appetite are taken into account alongside any applicable regulations.	

A balanced Board, a balanced agenda

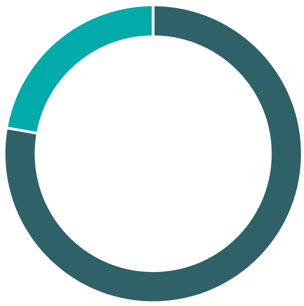
These pages tell you more about the composition of the Board and its members, the meetings we have held over 2020 and how we have spent our time

Board diversity



Male: 4	50%
Female: 4	50%

Group Executive Committee (GEC) diversity



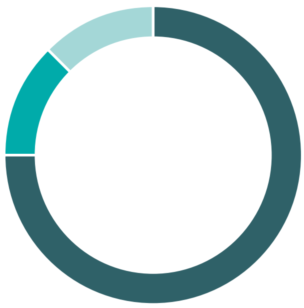
Male: 7[i]	78%
Female: 2	22%

i Male (8) : Female (2) as of 4 January 2021 following the appointment of Peter Grewal as M&G plc's Chief Risk and Resilience Officer.

Senior managers: direct reports of GEC diversity

Male: 38	69%
Female: 17	31%

Board nationality and ethnicity



British: 6	75%
British/American: 1	12.5%
Italian: 1	12.5%

For more information on the Group's Diversity policy and goals
Page 61

How the Board spent its time

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 shows how the agenda is weighted between regular items and specific focus areas for the Board in 2020.

The typical Board agenda allows time for:

- General matters – minutes, matters arising and reports from the Chairs of each committee on its activities;
- Business updates – regular performance and financial reporting. The Chief Executive and Chief Financial Officer will both typically report in this section, with a rolling programme of reporting from the Chief Investment Officer, Chief Customer and Distribution Officer and Chief Operating Officer;
- Strategy – which covers projects and transactions, as well as approvals which the Board is requested to give under the Group's delegated authority framework, such as the Business plan and dividend, and updates on Strategy progress; and
- Risk, regulatory and governance – regular reporting from the Risk, Regulatory Affairs, Compliance, Legal and Company Secretariat functions.

In addition to the regular reporting above, the key focus areas for the Board in 2020 are set out in the table on
page 96.

Board and Committee attendance

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Total meetings	18	16	10	6	2
Clive Adamson	18/18	16/16	10/10	–	1/1
Fiona Clutterbuck	2/2	2/2	2/2	2/2	1/1
Mike Evans	17/18	–	–	–	2/2
Robin Lawther	17/18	7/7	10/10	6/6	2/2
John Foley	18/18	–	–	–	–
Clare Bousfield	18/18	–	–	–	–
Clare Thompson	17/18	16/16	10/10	6/6	1/1
Massimo Tosato	15/15	–	–	3/3	
Caroline Silver	6/8	4/7	3/4	2/3	0/1

The Board held a number of ad hoc meetings during 2020 given the COVID-19 crisis. As a result, some meetings were called with less notice than would be usual meaning attendance for Directors was more challenging.

All absences from Board or Committee meetings were a result of serious or unforeseen circumstances outside the Director's control. In all cases, Directors unable to attend reviewed documentation and provided comments as appropriate to the meeting Chair.

Board:
Of the 18 Board meetings held, four were joint with Audit and one was joint with the PAC Board. The Board also held five ad hoc Committee meetings throughout the year. Massimo Tosato joined the Board and the Remuneration Committee on 1 April 2020. Caroline Silver stepped down from the Board and all Committees on 27 May 2020. Fiona Clutterbuck joined the Board and all Committees on 9 October 2020.

Audit Committee:
Of the 16 meetings held by the Audit Committee, four were joint with the Board and three were joint with the Risk Committee. Robin Lawther became a member of the Audit Committee with effect from 27 May 2020.

Risk Committee:
Of the 10 meetings held by the Risk Committee, three were joint with Audit.

Nomination Committee:
Two meetings were held. Clive Adamson and Clare Thompson became members of the Nomination Committee with effect from 27 May 2020.

Experienced leadership

This section shows the skills and experience of each Director and the specific strengths they contribute to the Company's long-term sustainable success

Mike Evans
Chair of the Board

N

Appointment: 1 October 2018

Age: 59

Relevant skills and experience

Mike Evans is a qualified actuary with over 37 years' experience in savings and investments, including 11 years on the Board of Hargreaves Lansdown plc, eight of which were 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 in his early career, rising to become Chief Operating Officer.

Other appointments

- None

Strengths

- Chair experience.
- Executive background as actuary, COO and General Manager.
- Life insurance, general insurance and wealth/asset management experience.
- Platform-led technology businesses.

John Foley
Chief Executive

Appointment: 2 July 2018

Age: 64

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 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. John spent three years as General Manager, global capital markets at National Australia Bank.

Other appointments

- None

Strengths

- Management and leadership.
- Deep historical experience of the Group.

Clare Bousfield
Chief Financial Officer

Appointment: 23 January 2019

Age: 52

Relevant skills and experience

Clare Bousfield joined Prudential UK and Europe in November 2016 as Chief Executive Officer of PAC, a material subsidiary of M&G plc.

Clare was appointed Chief Financial Officer of M&G plc in August 2018 and joined the Board in January 2019.

Clare brings significant financial and accounting experience to the Board from a range of roles across the insurance and financial services industries spanning more than 25 years.

She was previously Chief Financial Officer at Aegon UK. Clare also worked as CFO in various businesses within Swiss Re.

Clare was a Non-Executive Director and Chair of the Audit Committee at Pacific Life Re from 2018-2020.

Other appointments

- Non-Executive Director and Audit Committee Chair at RSA Insurance Group plc
- Royal & Sun Alliance Insurance plc

Strengths

- Significant finance background.
- Non-Executive perspective and experience.

Fiona Clutterbuck
Interim Chair; permanent Senior Independent Director

R A R N

Appointment: 9 October 2020

Age: 62

Relevant skills and experience

Fiona Clutterbuck was appointed as the Senior Independent Director and is currently Interim Chair.

Fiona is chair of Paragon Banking Group PLC and a Non-Executive Director at Sampo plc, the Nordic financial services group. She was previously a Non-Executive Director of Hargreaves Lansdown plc, until 8 October 2020. Her most recent executive role was Head of Strategy, Corporate Development and Communications at Pearl/Phoenix Group (2008-2018), and she was previously Head of Financial Institutions Advisory at ABN AMRO Investment Bank and Global Co-Head of the Financial Institutions Group at HSBC Investment Bank.

Other appointments

- Paragon Bank plc
- Paragon Banking Group plc
- Sampo plc

Strengths

- Background as barrister, banker and Managing Director.
- Significant banking and wealth/asset management experience.
- Professional services and technology-led innovation.

Key

Committee Chairs	Committee Members
R Risk Committee	R Risk Committee
A Audit Committee	A Audit Committee
R Remuneration Committee	R Remuneration Committee
N Nomination Committee	N Nomination Committee

Clive Adamson
Independent
Non-Executive Director

R A N

Appointment: 22 March 2019

Age: 64

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 is a Non-Executive Director on the PAC Board and 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
- J.P. Morgan Europe Limited
- Ashmore Group plc
- McKinsey & Company (Senior Advisor)

Strengths

- Executive background as banker and regulator.
- Deep life and with-profits experience.
- Emerging markets investment experience.
- Professional services.

Clare Thompson
Independent
Non-Executive Director
and Interim SID

A R R N

Appointment: 7 May 2019

Age: 66

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

Strengths

- Executive background as accountant and audit partner.
- Significant advisory / professional services work, specifically for life insurance and investment clients.
- Healthcare.

Massimo Tosato
Independent
Non-Executive Director

R

Appointment: 1 April 2020

Age: 66

Relevant skills and experience

Massimo Tosato joined M&G plc as an Independent Non-Executive Director and is also Chairman of M&G Group Limited. Massimo has more than 30 years' experience as an investment banking and asset management entrepreneur and senior manager.

Massimo's career has included 21 years at Schroders, where he served most recently as Chief Executive of Schroder Investment Management Limited and Executive Vice Chairman of Schroders plc. He has also held Board positions at Nutmeg, an online discretionary investment management start-up, Banca Nazionale del Lavoro, and served as Vice President of the European Fund and Asset Management Association (EFAMA).

Massimo is currently Non-Executive Director of Banca Intermobiliare and serves on the Board of Overseers of Columbia Business School in New York and, until 31 March 2020, he was also Non-Executive Director of Pictet Asset Management in Geneva.

Other appointments

- Trilantic Europe
- Columbia Business School of Columbia University
- Banca Intermobiliare di Investimenti e Gestione Spa
- Montpelier Investimenti srl

Strengths

- Deep asset management experience in executive career.
- CEO experience.
- Regulatory experience.
- International perspective.

Alan Porter
General Counsel and
Company Secretary

Appointment: 22 July 2019

Age: 57

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.

Robin Lawther CBE

Robin Lawther served as Remuneration Committee Chair through 2020. On 19 June 2020, the Company announced Ms Lawther's intention to step down from the Board on 15 March 2021. Ms Lawther will not therefore stand for re-election at the Company's forthcoming AGM.

How we engage with our stakeholders

Section 172 Statement

At M&G plc, the Board seeks to consider the interests of all our stakeholders when reaching decisions

This will involve a detailed assessment of the effect of a decision on 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. This section gives you more detail on how we have engaged with and taken account of our stakeholders' interests over the year.

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; and
- 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 also 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 what stakeholder implications were considered when key decisions have been taken by the Board.

Acquisition of Ascentric

In September 2020, M&G acquired the Ascentric platform from Royal London.

In making a decision on the acquisition, the Board considered, among other things, its long-term ambitions for growth and how the acquisition would support that ambition. It also thought about how our customer and advisor experience could be improved. The Board was mindful of the regulatory requirements involved in acquiring the business and spent time considering its governance and its fit within the Group.

Finally, the Board considered people and the realities of assimilating a new business into the Group. It was felt that Ascentric had a similar culture to the firm, grounded in meeting advisor and client needs, and would be the right fit.

Dividend Payments in 2020

In May and September 2020 the Board made dividend payments to shareholders in line with its Dividend Policy.

The Board held a number of ad hoc meetings in April and again in July to test at the time of both payments, that the firm's solvency and financial position remained robust.

While this is standard practice when determining a dividend payment, extra attention and consideration needed to be given due to the uncertainty and volatility in markets caused by the COVID-19 pandemic during 2020.

The Board considers all its stakeholders when determining the appropriateness of paying a dividend, with wide considerations across social and economic impacts of COVID-19. In particular, the Board balanced immediate expectations around the Dividend Policy and returns to investors with ensuring the longer-term needs of the business were supported.

Code of Conduct

In September 2020, the Board approved the Group's Code of Conduct. This was the output of a number of dedicated sessions on culture and people.

The Board considered how the interests of colleagues would be met through the Code and how it could deliver clear messaging around values and purpose.

The Board also ensured that the Code contained information to support:

- expected behaviours around treating clients fairly;
- business integrity and behaviours we expect for our community and industry; and
- maintaining a reputation for high standard of business conduct.

Colleagues

Our colleagues are the most valuable asset we have and are critical to our success as a business. We have an established approach to the way we engage with colleagues at all levels, from the Board to the Executive Directors and senior leaders, which includes both formal and informal meetings.

We have embraced the use of technology to deliver messages and this was particularly effective during the early days of the pandemic when our Chief Executive delivered a weekly vlog to all colleagues in order to provide updates on the impact on the business.

The Chair and members of the Group Executive Committee also took part in video messages and interviews. These were delivered to colleagues via a dedicated communication channel, providing them with insight as to how the business is developing as a listed company as well as practical updates on remote working practices.

Colleague welfare, as well as customer focus, has been at the centre of everything we have tried to do during the COVID-19 pandemic particularly as work patterns flexed and changed. The Board understood and recognised the need to constantly adapt and modify available resources to help colleagues access remote wellbeing support, advice and resources.

Culture programme

One of our key priorities during the year was to develop a great culture for M&G plc. The Board received regular updates on culture activities, in addition to its quarterly review of people data, and recognised its crucial role in providing oversight and ensuring stewardship of the firm's culture. The Board was kept up to date on various culture workstreams and a dashboard has been specifically created to measure and track culture actions through 2021. The Board also engaged with its material subsidiaries (PAC and MGG) on culture-related issues that affect their businesses before approving the new M&G plc Code of Conduct. Please see page 84 for further details.

Annual engagement survey

Listening to colleague feedback is important to us and our annual One Voice survey captures feedback and tracks engagement across the Group. The One Voice survey is supplemented by a series of "pulse" engagement surveys which this year included a special COVID-19 pandemic survey to understand how the pandemic was impacting colleagues and how the business could help more. We carried out an additional pulse survey later in the year to gauge colleagues' reactions to improvements we had made to our working practices.

Survey results were discussed at Board and Group Executive Committee level in Q3 2020 to identify areas for improvement which were then communicated back to the business. The continued impact of organisational and transformational change on the workforce was a key factor in 2020, as was the business's approach to both the COVID-19 pandemic and future ways of working.

Each function has its own action plan for 2021, the progress of which is tracked and discussed quarterly at the Group Executive Committee meetings.

Virtual Town Hall events

Directors have adapted to the challenges that the COVID-19 pandemic has presented to traditional ways of working by presenting interactive updates across business functions and locations. These included the "In conversation with" series in which the Chief Executive and other key members of senior management presented items such as the half year results and the 2020 agenda for global distribution, providing the opportunity for colleagues to raise questions. Virtual presentations by senior management included a focus on what M&G plc's culture, and specifically its purpose, values and behaviours, mean to them. All directors and colleagues have also attended mandatory training workshops conducted by external consultants to explore the role we all play in building an environment that champions and reinforces the right culture.

Site visits

Travel restrictions caused by the COVID-19 pandemic have unfortunately meant the Board was unable to make any site visits in 2020. The Board held two virtual stakeholder management sessions with colleagues in H2 2020: the first with the UK Colleague Forum Chair in August and a second with colleagues across our European offices. Both sessions were well received by Board members and colleagues. The goal of these site visits was to give the Board a better understanding of the employee voice including how the pandemic was impacting the working environment, the obstacles colleagues were facing and how this could be improved. They also allowed the Board to understand how colleagues were coping from a well-being perspective. Similar sessions will be run in early 2021 across our Asia offices and for graduates and apprentices.

Colleagues as shareholders

The Board approved a further offer of the UK Sharesave and International Sharesave plans to all eligible employees in July 2020 which was launched in September. This builds on the Group's ambitions to align employee interests with our business strategy.

Customers and clients

We consider the needs of our customer in everything we do. One of the key ways that the Board monitors our customers and what we are offering them is the regular reporting from the Chief Customer and Distribution Officer (CCDO) to its scheduled meetings. As well as qualitative reporting from the CCDO, the Board also receives data on customer satisfaction, complaints and outcomes.

Through 2020, the Board has focused specific attention on the following, when we consider the needs of our customers:

- the COVID-19 pandemic and our response;
- customer vulnerability in different sections of our business;
- ESG and Sustainability and how our products can both meet our own business principles and give customers what they want; and
- Value Assessment, to ensure we continue to treat our customers fairly.

Our infrastructure was able to support remote working well in all global locations and we communicated with clients to make sure that we were able to leverage our adoption of digital working.

The Board considered the needs of our clients and customers when reviewing its global growth strategies particularly around new products and solutions for clients including the four new Mega propositions: Active+, Smooth+, Planet+ and Custom+ which aim to introduce a new generation of products and solutions for our clients. The Board also ensures that our customer offering aligns with our overall strategy.

The acquisition and integration of Ascentric enabled us to strengthen our position in the UK savings and investment market. It complemented our existing offering to advisers and customers with a well-established wealth management platform allowing us to provide a wider range of investment solutions to more customers.

The Board also considered brand during 2020 and considered how changes to our external presentation would help customers. This include tying together our M&G plc "family of brands", while still ensuring consistency and clarity for our customers on our Investments and Real Estate capabilities.

Read more
Pages 4-5

"I'm over the moon. I already trusted Prudential and PruFund, but finding my PruFund investment had grown over the last 12 months despite the pandemic blew me away. I'm so pleased I've always stuck with Prudential and I wouldn't go elsewhere."

Alan
PruFund customer

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 Board meetings by the Director of Investor Relations and feedback from the Chair on governance meetings with major investors. The Chair of the Remuneration Committee also reports to the Board on discussions with shareholders. The Investor Relations Report covers share price performance, investor meetings, and analyst reports, views and forecasts.

Investor engagement

2020 was a year in which continual engagement was even more crucial as investors tried to navigate the economic and financial market fallout of the COVID-19 pandemic.

In the early part of 2020, we conducted a number of meetings with the Chair, and the Chair of the Remuneration Committee to discuss with investors broad issues of governance, and to hear their views on our Remuneration Policy, which was subsequently approved at our 2020 AGM.

We announced our 2019 full year results on 10 March, just prior to lockdown, which meant that all planned roadshow activity following the announcement was immediately moved onto a virtual basis and held via conference calls and video meetings.

Given the financial market turmoil that ensued as the pandemic grew, we opted to publish an ad-hoc Q1 business update on 27 May, the date of our first AGM. This allowed us to provide an update to the market on business trends, balance sheet position, actions taken to mitigate the effects of the crisis, and to confirm payment of the dividend that we had announced with our full year results. Our half year results were announced on 12 August. Around both announcements and throughout the rest of the year, we have engaged with investors through a variety of means including virtual roadshows, attendance at virtual investor conferences, and by analyst-sponsored group investor meetings. This helps the Board to understand what investor concerns are.

In aggregate we have had 359 touchpoints with investors across 186 investment institutions representing 55.72% of our shareholder register.

Retail shareholders

Retail shareholders have dedicated services in place via the Group Secretariat team and the Company's registrar, Equiniti.

Key information is also available on the Company's website including the 'Shareholder Information' page which contains information on corporate governance, dividends, the AGM and share dealing, as well as answers to some of the most frequently asked questions. These sections continue to be developed and updated to ensure content is clear, concise and easily accessible.

The Board recognises the AGM as an important formal interaction with predominantly retail shareholders and was disappointed not to be able to hold its first AGM in person. However, ensuring the safety of shareholders and staff, as well as compliance with government guidelines during unprecedented circumstances was paramount.

The Board instead offered shareholders an enhanced Q&A opportunity in advance of the meeting with answers posted on the Company's website. Reliance was also placed on the robust and well-known proxy voting service which ensured all shareholders had the opportunity to vote in advance of the meeting.

The AGM represents an excellent opportunity for the Board to meet the Company's retail shareholders, so we intend to give appropriate opportunity for shareholder engagement around the 2021 AGM, albeit physical meetings will need to be restricted in accordance with the prevailing government guidelines on COVID-19.

Communities and charities

We have a clearly defined overarching social purpose. Flagship programmes (urban regeneration; economic empowerment; and skills and education) support each pillar of the Group's strategy.

The community investment strategy and how it is being delivered, has been reviewed by the Corporate Responsibility Governance Committee and discussed at Executive Committee and Board level.

Over 2020, the Board considered M&G plc's social purpose, the flagship programmes within social purpose; how colleagues have been engaged in community and charity work and how we compare to other listed companies.

We establish long-term relationships with our charity partners to improve lives, build communities and provide support, not only through funding, but also with the experience and expertise of our colleagues.

The projects we support are sustainable and we work closely with our partners to ensure that our programmes continuously improve, for example, we found opportunity in 2020 to become a founding partner of the National Emergencies Trust and to support their appeal during the pandemic. Please see page 56 for further details.

Read more
Page 56-59

Regulators

It's vitally important that we continue to maintain strong regulatory relationships – communicating openly, working collaboratively and providing the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and all our other global regulators with timely notification of issues.

We aim to approach our relationship with our regulators, as stakeholders, in an open and constructive manner at all times.

During the year, we worked hard to ensure we met both our regulatory obligations as a global independent business and the objectives of our policyholders, while at the same time continuing to support the real economy, particularly during the disruption from the COVID-19 pandemic.

This approach included significant engagement from the Board and members of the Senior Executive team with our regulators on a range of key risks. The Chair and other Board members met separately with the supervisory teams at the PRA and FCA to discuss key areas of focus.

The Board receives a report on regulatory matters from the Director of Public Policy and Regulation at every Board meeting and all relevant regulatory correspondence is made available to the Board in a timely manner via a dedicated Reading Room. The Board has held additional meetings over 2020 to discuss responses to specific regulator requests and recommendations.

Business partners

M&G continues to rely on third-party suppliers and outsourcers and the Board recognises the huge importance that they have in our operating model.

The Board is involved in key decisions relating to material outsourcer arrangements.

The Board also approves M&G plc's Modern Slavery Statement which, given the nature of our business and our use of third parties, is focused on our efforts to detect and prevent modern slavery in our supply chain. This provides the Board with oversight of the controls in place to manage an important risk in our supply chain.

Twice a year the Chief Operating Officer provides a full report to the Board on all functional matters as well as ad hoc reports on projects as necessary. The COO leads the change and transformation work for the Group and the Board has maintained careful oversight of this, both in terms of cost and suppliers.

The Risk and Audit Committees regularly examine issues related to suppliers and partners, a particular example being the Audit Committee's consideration of the audit tender, which culminated in the decision in 2020 to appoint PwC as the Company's external auditor for the year commencing 1 January 2022. Please see page 106 for further details.

"We are delighted to be partnering with M&G on the Empowering Families programme, supporting young people and their families to access quality education and better jobs to build successful futures for themselves."

Alison Wallace
CEO of SOS Children's Villages

Board activities

The Board's Year

The timeline below sets out key decisions and actions during 2020 and how stakeholders were involved or their interests taken account of

2020

Strategy, governance, risk and opportunity management

January

- Launch of M&G plc's vision for its culture.
- Board approval of M&G plc's Global Diversity and Inclusion Strategy putting in place a strategic framework, success measures and goals through to 2025.

Read more Page 62

February

- Report from the Chief Operating Officer on customer service, investment operations, technology and commercial issues.

March

- Approval of dividend.
- Announcement of 2019 results.

April

- Appointment of Massimo Tosato as Non-Executive Director.

- Regular investment performance review.
- Customer and Distribution Update.

May

- M&G plc's first AGM held on 27 May 2020.
- Ascentric deal signed.
- Mid-year One Voice Pulse survey.

June

- First Board Strategy Offsite meeting as M&G plc held virtually.

Understanding the views of stakeholders, the interests of colleagues and the fostering of business relationships

January

- Recognising the importance to employees of a great environment to work in, supported by well understood culture.
- Ensuring that all colleagues are supported by the firm's approach to D&I and that our business partners and regulators, with whom we interact every day, recognise us as an inclusive firm.

February

- Reviewing operations involves looking at how our technology serves clients and colleagues; how third-party relationships are being managed and whether our customers and clients are satisfied with how we interact with them.

March

- Considering the views of the regulator, given the critical parts that solvency and risk appetite play in dividend.
- Thinking about the business longer-term.

April

- Ensuring all our stakeholder needs are met by bringing the right skills on to the Board.
- Overseeing the products we provide to our customers and monitoring the performance of investments made for our asset management clients.

May

- Engaging with our retail shareholders using online voting and Q&A due to COVID-19 restrictions.

June

- Discussion of strategic priorities and key growth initiatives – thinking about our business longer-term.

July

- Regular investment performance review.

- Monitoring performance for our clients – the frequency of which was increased given the turbulent markets.

August

- Half year results announced.

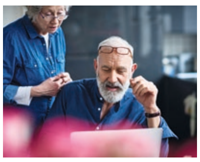
September

- Ascentric formally becomes a part of M&G plc.

Read more
Page 7

- Operations Update.

- Ascentric ensures our advisors and customers have a well-established digital wealth management platform, allowing us to provide a wider range of investment solutions to more customers.



October

- Appointment of Fiona Clutterbuck as Senior Independent Director.

- Approval of PwC as new auditor for the period commencing 1 January 2022.
- One Voice survey results reveal increased employee engagement and improved scores on all ten survey category themes.
- Launch of Culture Change Programme.
- Introduction of the M&G plc Code of Conduct.
- Customer and Distribution Update.

- The Audit Tender process involved interaction with prospective business partners to assess suitability and audit quality.
- The Executive team listened to feedback from the One Voice survey results, including the desire to build on and strengthen a sense of belonging before identifying areas of action to lay the foundations of inclusion, respect and shared purpose.

November

- Reviewing policies across the Group, including the Risk Management Framework and supporting the firm's move from the Sarbanes-Oxley reporting model, inherited from our former parent company, to our Integrated Control Framework.

- Considering how risk and controls protect our customers and clients and support our regulatory requirements.

December

- Approved 2021-2024 Business Plan.
- Reviewed Corporate Responsibility programme.
- Review of Fund pricing.
- Regular investment performance review.

- Reviewing the priorities and needs of our communities and charity partners had a particular focus in 2020 given the COVID-19 pandemic.

- Thinking about long-term consequences of the Business Plan and how the different aspects of it would impact varying stakeholders including investors and colleagues.
- Ensuring keen pricing for clients is monitored.

Governance structure

This part of the report sets out the Board's corporate governance structures

Roles and responsibilities of the Board

The Group's governance is designed to support a clear understanding and delivery of its strategy. 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:

- approving the Group's business strategy proposed by management, as well as setting 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 listed structure; and
- oversight of the Group's ESG strategy.

In discharging its responsibilities the Board is supported by 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 its Committees and, in compliance with the Code, 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 most recently updated and approved on 2 December 2020 and are available to view on the Company's website: www.mandgplc.com/investors/shareholder-information/corporate-governance. The Committee Chairs are responsible for reporting to the Board on the Committees' activities.

In addition, all Non-Executive Directors are invited to attend all Committee meetings, and papers of those meetings are made available to them.

Board composition

The Board is comprised of eight Directors: a Non-Executive Chair, two Executive Directors, a Senior Independent Director and four Non-Executive Directors, three of whom take on a Committee Chair role. Currently, Fiona Clutterbuck is Interim Chair as Mike Evans is on a leave of absence and Clare Thompson is Interim Senior Independent Director as well as Audit Committee Chair. 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-Executive Directors on the Board, and the composition of the Company's 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 to the Board (last reviewed and updated on 2 December 2020). This includes 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 decision by 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 Company.

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

All new Board members are provided with a structured induction programme on appointment which includes an overview of all business areas within the Group as well as key functions.

Regular updates are given at each Board meeting on market and industry activities and legal and regulatory changes relevant to the business.

The Board holds an annual Strategy Offsite, next scheduled for June 2021.

In 2020, dedicated Directors' training sessions included sessions on:

- Information technology systems, frameworks and transformation
- Internal controls processes and systems
- The Group's Internal Model (Solvency II Internal Model)
- Tax history of the Group
- Cyber security and crime
- ESG overview, with a focus on climate change

For each year, the Board plans training on a forward-looking basis, collecting feedback from Non-Executive Directors on topics of interest.

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 Group Executive Committee to discuss specific issues.

The Company Secretary acts as an advisor to the Board on matters concerning governance and ensures compliance with Board procedures. All Directors had access to the Company Secretary's advice during 2020. 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

Directors are typically appointed by the Board and then put forward for election by shareholders at the subsequent AGM.

All Non-Executive Directors are appointed for initial terms of three years 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 125 of this document in the Directors' Remuneration Report. More information about the appointment process for Directors can be found on page 98 of this document in the Nomination Committee Report.

Group Governance Framework

Forums and Documents

The Group has established a Group Governance Framework (GGF) which comprises three parts: (i) the forums we use to govern; (ii) how we make decisions and (iii) how we conduct ourselves. The forums and documents comprising the GGF are set out below:

GGF	Forum / Item	Key Documents
The forums we use to govern	– The M&G plc Board and Committees	– Listing Rules – UK Corporate Governance Code – Matters Reserved and Terms of Reference – Division of Responsibilities
	– Our Material Subsidiaries (PAC and MGG) and their Committees – see further in paragraph below	– Supervisory Statement 5/16 – Material Subsidiary Corporate Governance Manual – Terms of Reference and (for PAC) Management Responsibility Map (MRM)
	– Our other regulated and non-regulated subsidiaries	– Aligned Subsidiary processes delivered by Group Secretariat – Terms of Reference and (for regulated entities) MRMs
	– Our Executive Committee and the management committee structure	– Executive Governance Manual – Terms of Reference
How we make decisions	– Our approvals and decision-making framework	– Delegated Authorities (setting out M&G plc's thresholds at which approvals can be given by management or require Board input)
How we conduct ourselves	– Our Code of Conduct, employee policies and ways of working	– M&G plc Code of Conduct – M&G plc's internal policies – Group Risk Framework

At the end of 2020, and following a full year operating as an independent Company, the Board determined that it would be appropriate to examine the broader governance arrangements of the Group and its Material Subsidiaries and a review was commenced in late 2020.

Subsidiaries

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, comprised entirely of independent Non-Executive Directors. 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-Executive Directors. Dialogue between the Board, Audit and Risk Committee 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 the highest standards of governance and follow the Group's internal Policies, set out in a dedicated manual – the Material Subsidiary Corporate Governance Manual, which covers appointment of Directors, annual evaluation, and standards and delivery of board materials. The governance arrangements for the Material Subsidiaries are overseen by the Nomination Committee.

Executive Governance

The Group has established an Executive Governance framework comprising management committees aligned under the members of the Group Executive Committee. The Executive Governance framework supports the Executive Committee members and, as required, subsidiary boards within the Group, with specialist review and advice. The Executive Committee oversees the Executive Governance framework and its processes are set out in a dedicated manual – the Executive Governance Manual.

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 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
- with the Non-Executive Directors, reviews the Chair's performance and carries 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

The Board makes the Non-Executive Directors collectively responsible for engagement with the workforce. The Board specifically tested this through its Board evaluation and determined that, given the pandemic environment in 2020, engagement with the workforce should remain a priority for 2021. See page 96 for more details.

Chief Executive

- leads the business, implements strategy and chairs the Executive Committee
- responsible for 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 administrative and governance support to the Board and its Committees
- is a member of the Group Executive Committee

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 the independent oversight element of the Group Governance Framework 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 98 to 111 in the Committee Reports. The Executive Committee is established by the Chief Executive and reports to him.

Nomination Committee

- overseeing the composition of the Board and its Committees
- assisted by Group 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

Audit Committee

- reviewing the effectiveness of the Group's system of internal financial controls and internal control systems and whistleblowing procedures
- reviewing the Group's financial statements, related announcements and other financial information provided to shareholders and other stakeholders
- 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 Company's external auditors and making recommendations to the Board in respect of their remuneration, appointment and dismissal

Risk Committee

- advising the Board on the Company'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 Company's procedures for detecting fraud, preventing bribery and non-compliance
- reviewing the Company's risk assessment processes and capability to identify and manage new risks

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, and certain other individuals identified by relevant regulations

Executive Committee

- The members of the 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, General Counsel and Company Secretary, Chief International Officer, Chief Human Resources Officer, and Director of 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 evaluation

2020 Review

At the end of 2020, the Board undertook a formal and rigorous evaluation of its performance, including that of its Committees, the Chair and individual Directors. The review was externally facilitated by Lintstock Limited, a firm which has no other connections with the Company or with any Director. The external nature of the review met the provision of the UK Corporate Governance Code which requires external evaluation on no less than three-yearly intervals.

The evaluation was carried out through a tailored survey followed by an individual interview for all Board members and the General Counsel and Company Secretary. Lintstock also carried out background meetings with other senior executives in the Group, advisors and subsidiary Board members and reviewed supporting materials such as Board papers, agendas and minutes.

The findings were presented to the Board in December 2020 and a collective Board discussion to exchange ideas and agree priorities arising from the report took place.

The report identified a number of strengths of the Board which included:

- Strong expertise across a range of disciplines with healthy gender balance;
- Clear understanding of regulators' views;
- Good management of meetings;
- Commendable standards of Board support;
- A strong conflicts framework, very diligently handled;
- Good reporting from Committees to the Board;
- Strong oversight of risk; and
- Support from a highly focused Executive Committee.

2021 Actions

Through the evaluation and subsequent discussion at the Board meetings in December 2020 and February 2021, the Board identified areas of focus and related actions to enhance its performance. See table below.

Themes	Overview of Actions
1. Collaborative Engagement Developing Board and senior management relationships further, recognising the newness of the Company and Board members. Developing the engagement between our Board and the workforce and listening to their feedback to better understand the business.	This will be led by the Chair and Chief Executive and has already commenced with a Board Away Day in late 2020. Next steps are: – for senior management to attend Board dinners or other informal events and the development of mentoring by Non-Executives Directors. – further opportunities to be found for employee engagement for Non-Executive Directors.
2. Strong Regulatory Relationships Continuing to focus on strong, transparent regulatory relationships.	This will be led by the Director of Public Policy and Regulation, including considering the frequency of regulatory engagement and how informal and formal Board updates can support this.
3. Aligned Governance for Parent and Subsidiary Ensuring sequencing of PAC and MGG Board decision-making with Group is optimal, that reporting on key issues from subsidiaries is addressed appropriately at Group and that clear delineation as to remit exists in terms of reference. Continue establishing clear governance paths for decision-making. Ensure composition of boards remain appropriate for the business and board roles and responsibilities are clearly defined.	This will be owned by the General Counsel and Company Secretary and led through (i) regular meetings with the Group, PAC and MGG Chairs to align decision-making and reporting, (ii) review of terms of reference and delegated authorities.
4. Board Papers Focusing on quality summaries; timeliness of papers and reducing duplication between Boards and Committees.	This will be owned by the General Counsel and Company Secretary and will involve a programme for all individuals preparing papers for Boards and Committees and focus on agenda setting with Committee Chairs.
5. Strategy Dialogues Evolving the two-way dialogues between Non-Executive Directors and senior management on strategic topics.	This will be led by the Chair and Chief Executive and addressed as part of preparation, planning and execution of the Company's Board Strategy Offsite.
6. Constructive Meetings Ensuring meetings are efficient, constructive and challenging.	This will be led by the Chair and include continuing the practice of pre-meetings for Non-Executive Directors reviewing the most effective practices around presenters and attendees at Board meetings and ensuring the timing for debate and discussion is correctly addressed in agendas.

2019 Closures

In our last Annual Report, we set out the feedback from our first evaluation at the end of 2019 and the actions we planned to take over 2020 to enhance performance.

A summary of the 2020 action points and progress updates is set out in the table below.

Theme and Actions	Progress in 2020
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.	– Guidance to paper preparers was updated through the year. – Planning between Group Secretariat and the Risk and Finance functions on processing, involving multiple entities taking decisions, has been refined and improved. – An Executive Governance Manual which includes the executive committee framework has been created. – An information flow process showing reporting from subsidiary Audit and Risk Committee Chairs to Group Audit and Risk Committee Chairs has been created and embedded. – We continue to focus on overall Board information enhancement as a continuing cycle.
Strategy: using Non-Executive Director skills and expertise – Building agenda with the right emphasis for Board strategy offsite. – Making the most of Non-Executive Directors as sounding boards and sources of guidance surrounding strategy planning.	– Non-Executive Director feedback was collated for the 2020 Board Strategy Offsite and for the agenda generally. – We continue our objective to use the Non-Executive Directors as sounding boards/guidance, through the plan for more mentoring actions by Non-Executive Directors.
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.	– The Board received culture updates throughout the year and held an off-cycle working session with a culture expert in the HR team. – A quarterly culture dashboard has been developed and is provided to the Board as part of the quarterly people data pack. – The Board schedule for 2020 included discussions on employee opinion feedback, Talent and D&I.
Relationships with our regulators Continuing to focus on strong, transparent relationships with our regulators.	– An updated programme of review points, including with the Chair and Chief Executive, has been scheduled with both the FCA and PRA. – The Director of Public Policy and Regulation continues to hold regular update meetings with both the FCA and PRA. – Copies of material regulatory correspondence and updates on Non-Executive Director regulatory meetings continue to be provided to the Board in a timely manner.
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.	– Meetings for the Board took place including with lead representatives of the UK Colleague Forum and a cross-section of colleagues from Asia and Europe. – The COVID-19 pandemic and government advice to work from home if possible meant there was no opportunity for travel to offices outside London for face-to-face meetings. We plan to address this if restrictions allow in 2021.

Nomination Committee Report

Fiona Clutterbuck
Acting as Interim Committee Chair

Role and responsibilities of the Nomination Committee

The Committee is responsible for the composition of the Board and its Committees and succession planning. This ensures that the right skills are in place to support the Group's strategic priorities and the long-term success and future viability of the Company and the wider Group. The Committee is responsible for elements of Diversity and Inclusion (D&I) leadership.

The Nomination Committee's terms of reference
www.mandgplc.com

Membership and meeting attendance
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Dear Shareholder

As Interim Committee Chair, I am writing on behalf of Mike Evans, to report on the formal meetings of the Committee in 2020, and the ad hoc decisions throughout the year around Non-Executive appointments.

In line with the Board's focus on culture this year, when considering the selection of Board members, the Nomination Committee has explored how to set the right tone from the top and how our Director population can both represent and support our firm culture.

This report provides an overview of its activities in 2020, as well as some of the items covered in early 2021 in preparation for Director election and re-election at our 2021 AGM.

Areas of focus in 2020

- Non-Executive recruitment and succession planning
- Executive Director succession
- Executive talent and succession
- Diversity and Inclusion
- Subsidiary governance

Appointment process

The appointment of a new Director begins with the identification of a vacancy or skills gap. The Committee assesses any skills required, arising either through vacancy or the evolving needs of the Board. The Committee then works with HR to produce a clear role specification to focus recruitment activities.

Using the role specification, HR arrange an external search for Non-Executive roles and internal and external searches for Executive roles. The next stage is interviews, at which Committee members (among others) test the candidates' skills, including fit with culture.

If interviews are successful the Committee will make a recommendation to the Board covering skills, experience, time commitment and availability, diversity (ethnicity, gender and thought) and, in the case of Non-Executives, independence. The Board will make an initial consideration of the candidate and approve the appointment in principle, subject to regulatory approval. The final approval will be given by the Board following the regulatory approval, at which point appointment becomes effective.

Board composition and succession planning

The Committee's primary role is to ensure that Board composition remains appropriate and to keep succession planning of both Executive and Non-Executive roles under ongoing review.

The Committee will also use learnings from the Board Evaluation process described on page 96.

Non-Executive Directors

The Board engaged external consultants Sapphire Partners, MWM Consulting and Nurole to assist in Non-Executive searches over the course of 2020. None of these firms have any connections with the Company or with individual Directors.

The Committee addressed two vacancies during 2020.

Caroline Silver stepped down from her role as Senior Independent Director (SID) on 27 May 2020, with this being announced to the market on 19 February 2020. The Committee considered it key to ensure an interim was in role, given the importance of the SID, and recommended Clare Thompson, who acted as SID from 27 May to 9 October 2020. The Committee also considered the experience necessary for the new SID, focusing on general, wide-ranging Non-Executive background and financial services. The Committee instructed Group HR to carry out a search, which led to my appointment. The Committee considered my skills and experience, independence, availability and other commitments prior to recommendation and I was appointed with effect from 9 October 2020.

On 19 June 2020 it was announced that Robin Lawther would step down from her role as Non-Executive Director and Remuneration Committee Chair. In building a job specification, the committee focused on the specific skills necessary for a Remuneration Committee Chair, and was also mindful of the Code requirement that before appointment as Chair, an appointee should have served on a remuneration committee for at least 12 months.

The search identified Clare Chapman as the preferred candidate and the Committee considered her skills and experience, independence, availability and other commitments. The Committee focused on Ms Chapman's remuneration skills both as an Executive and Non-Executive as well as her role within a public body. Ms Chapman's appointment to the Board will take effect from 15 March 2021 and Ms Lawther will step down on the same date.

In making the above appointments, the Committee refreshed its Skills Map twice over 2020, and in October, commenced a broader Non-Executive search, with a focus on diversity. The Skills Map allows the Committee to objectively identify and track the skills required by the Board and plan for both emergency and longer-term succession.

We reviewed the Committees' membership in May 2020 and recommended the appointment of Robin Lawther to the Audit Committee, the appointment of Clive Adamson and Clare Thompson to the Nomination Committee and my appointment to all Board Committees.

Executive Directors – Skills Mapping and Succession

We engaged external consultants Egon Zehnder to help provide market-mapping exercises for the Chief Executive and CFO roles and for all the roles on the Executive Committee. Neither the Company nor any individual Director has any connections with Egon Zehnder.

During both our March and October meetings, the Committee spent time reviewing the outputs of these exercises and considering development plans, gaps to be addressed and strength of management succession. Executive succession planning has been carried out collaboratively between Non-Executives and senior team members.

The Committee is committed to developing talent internally as well as ensuring the market is well understood for all key roles.

Diversity and inclusion and gender balance

The Committee received an update on the progress made during 2020 on the firm's Diversity and Inclusion (D&I) Strategy. Members particularly took time to challenge whether D&I targets were appropriate and to discuss with the Chief Executive how diverse candidates already in role could be developed, as well as seeking ready-now diverse candidates. The Committee considered whether the D&I Strategy was sufficiently linked to the firm's objectives and was satisfied that this was indeed the case – most particularly in that it supported the firm's culture well, and that the sponsorship of different elements of D&I by each Executive Committee member was helpful.

Further details on the firm's approach to D&I and progress against targets can be found in the ESG section of the Strategic Report on pages 42 to 63.

The Group's D&I Policy can also be found on the Company's website at www.mandgplc.com.

Details of the gender balance of the Board and senior management can be found on page 80 of the Governance Report.

Subsidiary governance

The Committee is responsible for the governance arrangements of its material subsidiaries: PAC and MGG. During the year, the Committee reviewed the composition of the Material Subsidiary Boards and changes to them, ensuring that these continued to comply with regulatory requirements. The Committee kept the Skills Maps and succession plans for the Material Subsidiary Boards under review. The Committee is also responsible for overseeing the General Counsel and Company Secretary's work to maintain a governance manual which supports the procedures around the PAC and MGG Boards.

ESG

The Committee took informal responsibility for independent oversight of the firm's ESG strategy during 2019. In 2020, this responsibility moved to the Board, and the Board's Matters Reserved have been amended to formalise this. The Committee will no longer include ESG oversight as part of its formal duties.

AGM

In early 2021, the Committee prepared for the AGM which will be held in May. The Committee considered the Directors putting themselves forward for election, and satisfied themselves that all aspects of performance, time commitment, skills and experience were appropriate to the Board's needs. We also considered the continuing independence of Non-Executive Directors. This work supported the recommendation that the Committee made to the Board that each currently serving Director (other than Robin Lawther) be put forward for election or re-election at the 2021 AGM.

Committee evaluation

The Committee's evaluation took place as part of the main Board evaluation and the Committee was found to be operating effectively.

Fiona Clutterbuck
Acting as Interim Committee Chair for Mike Evans

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 consolidated financial statements, related announcements and other financial information provided to shareholders and other stakeholders.
- 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.

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

The Audit Committee's terms of reference
www.mandgplc.com

Membership and meeting attendance
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Areas of focus in 2020

The Audit Committee held 16 meetings in 2020: eight regular scheduled meetings; four meetings held jointly with the Board to recommend approval of the full year and half year results and the AGM Trading Update; three meetings held jointly with the Risk Committee and an additional meeting to conclude the audit tender recommendation. The Committee also met separately for a training session on IFRS 17 and for a briefing session on the Integrated Control Framework.

"Embedding the processes and controls to ensure a high quality of financial reporting has been our priority in our first full year as a listed company."

Clare Thompson
Committee Chair

Areas of focus included:

Business as usual activity:

- Review and recommendation to the Board of the full year and half year 2020 results
- Review of proforma full year 2020 consolidated financial statements
- Review and recommendation to the Board of Solvency II Pillar III reporting
- Approval of key actuarial assumptions and methodology to be used in the half year and full year financial reporting
- Review of Solvency II valuation methods and assumptions
- Approval of Internal Audit Charter
- Approval of Internal Audit Plan, including revised 2020 plan
- Control environment actions
- Review of External Audit Strategy and Plan
- Consideration of audit findings reported on by the external auditor

Special business:

- Leading the audit tender process and proposing the new external auditor to the Board
- Establishing our Integrated Control Framework and transition from previous control environments
- Monitoring of progress on enhancing technology and IT controls
- Reviewing enhancements to controls over financial crime
- Consolidating and harmonising of assurance reporting
- Reviewing implications of the COVID-19 pandemic on the control environment
- Reviewing and approving the Tax Strategy
- Ascentric acquisition accounting and disclosures

The Committee also receives the following regular reports:

- Audit Committee reports from The Prudential Assurance Company Limited (PAC), M&G Group Limited (MGG), and Prudential International Assurance plc (PIA)
- Financial reporting including regulatory developments and approval of audit and non-audit work
- Compliance updates
- Internal audit update
- Ad hoc whistleblowing issues

Dear Shareholder

During our first full year as a listed company, our Committee has focused first and foremost on robust and effective financial reporting. We have taken the opportunity to build on the foundations established in 2019, to improve our internal processes and to ensure a high quality of financial reporting at half year 2020 and full year 2020. The Committee has also focused on the underlying work associated with our financial results, including spending significant time on methodology, assumptions and judgements. As part of this process, we considered how PAC and MGG approached assumptions and judgements in their separate financial statements when forming their views.

The Committee also continued to ensure through its second line assurance responsibilities that the Group's internal controls are robust and effective and that internal audit is providing third line assurance. The Group planned its transition from its pre-demerger control environment to one that is effective under its own Integrated Control Framework (ICF) over the course of 2020, and this was overseen by the Committee. This change will be embedded and further rolled out during the first half of 2021. In addition, we continued to enhance our internal reporting network, introducing written reports from the PAC, MGG and PIA Audit Committees to support the Committee's oversight and continuing work on communication and collaboration between myself and the Audit Committee chairs of PAC, MGG and PIA. The annual plan for the four Audit Committees is approached as a joint exercise to ensure items that require approval at more than one Board or Committee are properly sequenced.

The most significant item outside our usual cycle was the tender process, selection and appointment of PwC as our external auditor for the period commencing 1 January 2022. The process commenced in the early part of 2020 in order to ensure that sufficient time could be spent on the decision – and I am pleased to have concluded a transparent and comprehensive tender. We look forward to a productive relationship with PwC.

COVID-19 affected our ways of working. The Committee's focus was on the impact that the COVID-19 working environment would have on our controls and on assurance work. We were particularly careful to oversee robust financial reporting processes that could continue while colleagues were working from home.

Finally, my thanks go to Caroline Silver who stepped down from the Committee on 27 May 2020. We welcomed Fiona Clutterbuck to the Committee on 9 October 2020.

Clare Thompson
Committee Chair

Composition

The Board considers all members of the Committee to be independent and Clare Thompson to have recent and relevant experience of working with financial reporting and accounting matters. Details of the Committee membership including members' relevant skills and experience can be found on pages 82 and 83.

Private sessions

Arrangements are in place for each of Internal Audit, Risk and Resilience, Compliance and KPMG individually to meet with the Committee without the presence of management. These private sessions are on a rolling programme, with the internal and external auditors each holding at least two of these private sessions a year. It is important to the Committee that these teams have the opportunity to speak freely and candidly with the Committee, reinforcing the Committee's independence and playing an important role in the development of a trusting and respectful relationship between them and the Committee.

Financial Reporting 2020

The Audit Committee reviewed the full year 2020 consolidated and Company financial statements.

The review included:

Fair, balanced and understandable

In assessing whether the 2020 Annual Report and Accounts are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, the Audit Committee gave 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 before tax was in line with the defined methodology, and was appropriately disclosed;
- The identified key performance measures 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 going concern assessment undertaken by management for the purposes of the consolidated financial statements. This included: an assessment of the Group's solvency, including its sensitivity to various economic stresses and its projections in a reasonable worst case scenario which included the impacts of Brexit and the COVID-19 pandemic; liquidity projections, including the impact of applying specific liquidity stresses; and ability to access funding sources.

Based on the review, the Committee concluded that the going concern assumption remains appropriate.

In addition, the Committee considered the associated assessment of longer-term viability to support the Viability Statement. The Committee considered the strategic and financial planning process to support the Viability Statement in conjunction with an assessment of the Group's key strategic pillars, business model and forecasting undertaken as part of the Business Plan. The Committee challenged the assumptions underpinning the assessments, including the impact of various severe, but plausible stresses and scenarios on the ability to deliver the Business Plan, particularly in light of COVID-19, and concluded that the positions were both reasonable and supportable. In making this determination the Committee concluded that four years was the most appropriate period for longer-term viability in line with the Group's Business Plan.

Critical estimates and areas of judgement and how they were addressed

The Committee has assessed whether suitable accounting policies have been adopted in the preparation of the consolidated financial statements. We have also considered all critical estimates and key judgements that are material to the preparation of the consolidated financial statements. In this regard, the Committee receives regular updates from management and reviews and challenges estimations and judgements accordingly. This section outlines the critical estimates and key judgements that have been applied in the preparation of the consolidated financial statements and how each of them have been considered and addressed by the Committee.

Critical estimate/Key judgement	How the Committee addressed the issue
Valuation of insurance contract and defined benefit pension liabilities	We reviewed the key assumptions and judgements presented by management in the estimation and valuation of the Group's insurance contract and defined benefit pension liabilities. The key assumptions reviewed were: – Policyholder mortality, maintenance expenses, credit risk assumptions and the valuation rate of interest used in the estimation of insurance contract liabilities for annuities. – Allowance for maintenance expenses persistency and other assumptions 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 liabilities. The Committee considered the rationale provided by management for the assumptions used and reviewed any benchmarking provided. As part of the review, we also considered the reasonableness of these assumptions in light of COVID-19. The Committee was satisfied that the assumptions adopted by management were appropriate. Further information on key assumptions can be found in Notes 27 and 34 of the consolidated financial statements in respect of the insurance contract liabilities and in Note 18 of the consolidated financial statements in respect of the defined benefit pension liabilities.
Valuation of complex and illiquid financial assets	We 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 (classified as Level 3 under the fair value hierarchy). These assets include property assets, lifetime mortgages, private credit and investments in private equity vehicles. We gave due regard to the impact of the COVID-19 pandemic and the resulting uncertainties around valuation of such assets. Specifically the valuation of investment properties that were subject to Material Uncertainty Clauses (MUCs) at points during the year were an area of focus for the Committee. 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 basis of valuation for these assets was appropriate. Further information on key assumptions can be found in Note 33 of the consolidated financial statements.

Critical estimate/Key judgement	How the Committee addressed the issue
Recoverable amount of goodwill	The Committee reviewed the results of annual impairment testing carried out in respect of goodwill associated with MGG. This involved reviewing the key inputs used in the assessment, including the discount rate and future cash flows used to determine value in use for the investment in MGG. We considered the results of the work performed and confirmed the conclusion that no impairment was required in respect of goodwill. Further information on key assumptions can be found in Note 13 of the consolidated financial statements.
Provisions	The Committee reviewed the Group's significant provisions, including those in respect of regulatory and conduct-related matters. We considered the key inputs used in measurement and the uncertainties surrounding the outcomes associated with the relevant provisions. Based on the review, we were satisfied that the level of provisioning adopted by management was appropriate. Further information on provisions can be found in Note 30 of the consolidated financial statements.
Other significant judgements	The Committee reviewed and considered the other significant judgements as disclosed within Note 1.3 of the consolidated financial statements: – Consideration over the Group's interest in structured entities and whether control exists which would require their consolidation. – The judgement with respect to whether contracts issued by the Group contain significant insurance risk. – Consideration of whether the assets and liabilities related to the proposed sale of the annuity portfolio to Rothesay Life PLC met the criteria of being classified as held for sale. Following review of the basis of the above judgements the Committee was satisfied that these were appropriate.

The Committee also considered the following critical estimates and key judgements in respect of the Company financial statements.

Critical estimate/Key judgement	How the Committee addressed the issue
Recoverable amount of M&G Group Regulated Entity Holding Company Limited in the Company financial statements	Management performed an impairment assessment in advance of the year end in relation to the Company's investment in M&G Group Regulated Entity Holding Company Limited, which in turn is the holding company for the Group's two main operating subsidiaries, MGG and PAC. As a result the recoverable amount of M&G Group Regulated Entity Holding Company Limited has been determined by reference to the recoverable amount of these two main operating subsidiaries. The Committee considered management's assessment of the recoverable amounts based on the value in use calculation, which was derived from management's expectations of revenue in respect of MGG and the surplus capital available for distribution in respect of PAC. Management also considered alternative valuation techniques consistent with established valuation principles to determine the recoverable amount. As part of the review, the Committee also considered the loss recognised by the Company during the year on the transfer of MGG from the Company to M&G Group Regulated Holding Company Limited as part of a group reorganisation. Based on the review, the Committee concluded that there was sufficient evidence to support the view that no impairment was required.

Internal controls

The Group Risk Management Framework sets out the Audit Committee's responsibility for assisting the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of our financial reporting, including obligations for the effectiveness of our internal control and for risk management systems.

During 2020, we carried out work to further embed the Group-wide Integrated Control Framework (ICF) which, in combination with the "I Am Managing Risk" programme discussed below, provides renewed focus on risk culture and management across the Group. The ICF consolidates the previous multiple control frameworks into a single enterprise-wide control framework with a focus on key management, process and transactional level controls. The framework is continuing to be embedded, with further roll-out due in the first half of 2021 to focus on management self-assessing and evidencing the design and operating effectiveness of key controls.

Our approach to risk culture is centred around the enterprise-wide programme of "I Am Managing Risk", which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk and working together to do the right thing for our customers and clients, our stakeholders and our business in line with our Code of Conduct. This approach to risk culture is supported by the refreshed Operational Risk Policy, Framework, Standards and associated training, which articulates how the business expects colleagues to positively manage risk.

The new framework is underpinned with the introduction of a new Group-wide Governance, Risk and Compliance (GRC) tool provided by MetricStream. All colleagues have risk management accountabilities as part of their core objectives. Colleagues must follow the "I Am Managing Risk" principles, which encourage openness and transparency in order to self-identify risks and issues to M&G plc and its subsidiaries.

Further, during the COVID-19 pandemic a monthly Critical Controls Dashboard has been produced to provide the Board with comfort over the control environment by monitoring the key risks and operation of the key controls impacted with input from all three lines of defence. In addition, the critical incident response plans were activated in March 2020, including frequent decision-making meetings of the priority incident response teams and oversight of the solvency and investment performance through the Executive Solvency Monitoring Group and Investment Performance Risk Committee, respectively.

The Committee receives regular reports regarding 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

We carry out a formal evaluation of the systems of internal controls and risk management at least once a year. The 2019 risk management and internal control effectiveness review operated in the same manner as for previous years when the Group was part of the Prudential plc group. However, we enhanced the review for 2020 to include the following:

- A single Group-wide internal control assessment with new assessments from first line business areas in addition to those provided by the second and third line teams;
- Significantly improved control environment and associated management information and assessment of significant control failings or weaknesses;
- Review and attestation of compliance with the Group Governance Framework policy requirements for the reporting period;
- Review of the effectiveness of the Risk and Resilience and Compliance Functions.

Effectiveness of risk management and internal controls

The Audit Committee has considered the outcome of the risk management and internal control effectiveness review for 2020 which covered all material controls, including financial, operational and compliance controls, and the impact of the COVID-19 pandemic on the control environment. 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 further embedding the new consolidated risk and control frameworks put in place across the Group over 2020.

The Risk and Audit Committees at Group and subsidiary level collectively monitor outstanding actions and embedding plans in these and other areas, and ensure sufficient resource and focus is in place to resolve such actions within a reasonable timeframe. We receive regular reports enabling us to monitor outstanding issues, set parameters for reasonable closure and challenge management to resolve issues in a reasonable timeframe.

Whistleblowing policy and framework

The Group 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. Our Whistleblowing policy was updated in June incorporating changes to improve alignment with our Values and Behaviours, and assurances of the whistleblower protections we have in place across the Group so anyone who does speak out feels safe and confident in doing so. The Whistleblowing policy is supported by an independent external service provider "Speak Out" which is managed under the Group Financial Crime Compliance (GFCC) function and owned by the Audit Committee with oversight from the Board.

The GFCC 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. Formal reporting to the Audit Committee occurs in January and July. We are satisfied that the whistleblowing policies and procedures remain robust and adequate.

Internal Audit

The Committee has a responsibility to assess the effectiveness of the Internal Audit function and has concluded that the function remains effective. This section sets out the main monitoring activities that the Committee considers in making its assessment.

The primary objective of Internal Audit is to provide independent and objective assurance to the Board and Executive Management regarding the adequacy of the design and effectiveness of the Group's systems of internal control, including risk management, governance and operational processes. This helps them protect the assets, reputation and future sustainability of the Group.

The Audit Committee approved the Group's Internal Audit Charter in October 2020, following an annual review to assess its continued validity in light of business developments, current Internal Audit professional standards and regulatory expectations.

The Chair of the Audit Committee is responsible for setting the objectives and reviewing the performance of the Chief Audit Officer (CAO), Ian Robinson. 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 cycle of work. This is based on an assessment of the inherent risk, control environment, prior coverage, and a review of external factors such as emerging industry themes, strategy and Executive Management priorities.

The 2020 internal audit plan was revised at the end of Q2 in light of the COVID-19 pandemic, resulting in a net reduction of 11 internal audits from the plan, and the addition of nine pieces of advisory assurance work that were performed by Internal Audit. The 2021 audit plan was approved by the Audit Committee in December 2020 and will be reviewed and updated as required to reflect evolving assurance requirements and priorities.

The Committee receives 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 was renewed for the financial year ending 31 December 2020. The external audit is currently led by the audit partner Stuart Crisp, who replaced Dan Cazeaux following the approval of the 2019 Annual Report and Accounts in March 2020. Stuart completed a detailed transition exercise with Dan. 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 two 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 reviewed the Company's Auditor Independence Policy (including the provision of non-audit services) in February and December 2020 and will continue to review the policy at least once a year. The policy was updated to reflect the FRC's Revised Ethical Standard 2019 and the expansion of the requirements applicable to the external auditor to include PwC in preparation for their appointment as external auditor for the period commencing 1 January 2022. 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 reviewed the external audit plan before the start of the 2020 year end process commencing.

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. The assessment carried out in April 2020 considered 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. In assessing auditor effectiveness the Committee also considers whether the external auditor has appropriately challenged management's methodology and assumptions and key accounting policy judgements and exercised professional scepticism. Following the review of external audit performance and effectiveness, the Committee recommended a resolution to shareholders to recommend KPMG for reappointment at the next Annual General Meeting.

Fees paid to the auditor

During the year ended 31 December 2020 the total fees paid to KPMG amounted to £12.1 million (2019: £19.8 million) of which £3.2 million (2019: £11.8 million) related to non-audit services. Non-audit service fees paid in 2019 included £9.9 million of fees paid on behalf of the Company by Prudential plc in relation to demerger. The total fee paid also includes £0.3 million (2019: £0.3 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. We were satisfied that, considering the fees paid and services provided under the policy, the objectivity and independence of KPMG was safeguarded.

Annual evaluation of Audit Committee performance

An evaluation of the Committee's effectiveness was undertaken by means of an internal questionnaire circulated to each Committee member and regular attendees. 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 February 2021. Further details are included in the Board evaluation section of the Governance Report on page 96.

Priorities for 2021

The Committee's main priorities for 2021 are as follows:

- to consider the ongoing impact of COVID-19 on both financial reporting and controls;
- continue to embed the Group-wide Integrated Control Framework, focusing on management self-assessing and evidencing design and operating effectiveness of key controls;
- oversee management's progress and ensure the Committee have undergone the right groundwork for IFRS 17 which comes into effect on 1 January 2023;
- oversee the auditor handover process from KPMG to PwC, and PwC's independence readiness, in preparation for their appointment as external auditor for the period commencing 1 January 2022 subject to approval at the 2021 AGM; and
- keep a focus on the controls topics most relevant to our industry, in particular cyber security and financial crime.

In Focus

External audit tender

The Audit Committee is responsible for conducting the process to select the external auditor and recommends their appointment, re-appointment or removal to the Board for approval by our shareholders at each Annual General Meeting (AGM). As disclosed in last year's report, the Committee agreed to put the external audit out to tender and that a new Independent Auditor should be appointed for the audit of our 2022 Annual Report and Accounts. The tender process ran from July 2020 to October 2020 and was managed in compliance with statutory requirements and guidance issued by the FRC.

Initial assessment

A letter communicating our intention to tender was sent to out to all 'Big Four' audit firms (excluding KPMG as the incumbent) as well as a selection of mid-tier audit firms. Following an initial assessment of the firms that responded to this letter it was determined that the three eligible 'Big Four' firms would be invited to participate in the Company's Request for Proposal (RFP) exercise. The RFP was issued to Ernst & Young LLP (EY), Deloitte LLP and PricewaterhouseCoopers LLP (PwC) on 1 July 2020.

Process

The tender was led by an Evaluation and Selection Panel (the Panel) comprising Clare Thompson (Chair), Clive Adamson, the CFO, the deputy CFO, and the Director of Group Reporting. The firms were given access to a virtual data room providing information to help them understand our business and the scope of the audit. Firms were provided with an opportunity to ask questions via the virtual data room, with the responses given to all firms to help ensure the process was fair and transparent. Due to the impact of COVID-19, firms attended management meetings virtually in place of face-to-face site visits. This allowed access to and information from the business teams that will be heavily involved in the audit, and to enable a proper understanding of the business. All firms met with the same management team members. Each firm submitted a proposal document in line with the requirements outlined in the RFP.

A key part of the evaluation process was the presentation that each firm made to the Panel, to talk through their proposition, allowing for a question and answer session with key members of each firm's proposed audit team. Follow-up questions were issued to the firms to enable comparisons to be made. Separate submissions were requested outlining proposed fees, however, this did not form part of the key decision criteria.

Assessment criteria

The core focus of the evaluation and selection criteria was on audit quality. The criteria against which the firms were evaluated were: service proposition, organisational fit, capability, understanding, behaviours and deliverables, value add practices and technology.

Recommendation and decision

At the Committee meeting in October 2020, the Panel presented its findings based on the outcomes from the management meetings, review of the RFP responses, the presentations and responses to follow-up questions. After considering the findings and debate, the conclusion was that PwC had scored highest across the selection criteria consistently through all three evaluation channels.

Based on this information, the Committee recommended two firms to the Board with PwC identified as the first choice. We noted that the strength and depth of the PwC team's experience of the asset management and insurance industries was evidenced throughout the evaluation process and supported confidence that PwC would perform a high quality audit. Therefore, the Board agreed to appoint PwC as the Group's external auditor for the period commencing 1 January 2022, subject to shareholder approval at the 2021 AGM.

Transition

PwC will shadow KPMG during their audit of the Group's 2021 Annual Report and Accounts. The Auditor Independence Policy was applied to PwC from 1 December 2020 to ensure their independence at appointment.

The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2020.

Risk Committee Report

Clive Adamson
Committee Chair

Role and responsibilities of the Risk Committee

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.
- Inputting into the Audit Committee's review of effectiveness of the Group's Integrated Control Framework.
- Reviewing the effectiveness of the Group's Internal Model including stress testing.
- Reviewing the Group Own Risk and Solvency Assessment (ORSA) and overseeing the Internal Capital Adequacy Assessment Process (ICAAP) and ORSA processes in our subsidiaries.
- In conjunction with the Audit Committee, ensuring 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
www.mandgplc.com

Membership and meeting attendance
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Dear Shareholder

As you will see from our Areas of focus, this year's risk agenda has been dominated by COVID-19. As Chair, I have been proud to see the careful work of the Committee to understand and analyse the impact of COVID-19 across our risk profile, from financial to operational risk and resilience, and think deeply about how it affects all our stakeholders. We allowed extra meeting time to dedicate to this.

Working through a pandemic has also led to the development of more agile and meaningful information from management, which supports the Committee's work and answers questions for our regulators. This was a strong area of progress for the Committee this year.

As a Committee, we want to support the business by monitoring the risks where it matters most. To do this, we have implemented a schedule of deep dives at each Committee meeting which allow us to hear more from specific functions or business areas. We particularly value these sessions as they allow us to meet more of the senior team around the Group and see first hand some of the day-to-day challenge between the first and second lines of defence.

Deep dives over 2020 included: Fund Liquidity Oversight; Investment Performance; Credit Risk; Technology and Information Security; and HR/People.

Given the Group's ongoing transformation in 2020, the Committee is also closely monitoring the management of change risk across the business with regular updates from both the first and second lines of defence.

A key priority for 2021 is to continue to embed sustainability and ESG into all aspects of our Risk Management Framework.

Moving on to people and our roles, the work of this Committee has been made more robust by my role as Chair of the Risk Committee of PAC allowing me a wider oversight of risk issues in the Group.

The Committee works closely with the Audit and Remuneration Committees and the cross-membership principles that we follow ensure all Non-Executives have the right information provided in the most efficient way – the Risk and Audit Chairs are members of each others' Committees and the Remuneration Chair.

My thanks go to Caroline Silver who stepped down from the Committee on 27 May 2020 and to Robin Lawther who is stepping down on 15 March 2021. We welcome Clare Chapman to the Committee from 15 March 2021.

I'd also like to thank Julian Adams, our Director of Public Policy and Regulation, who undertook the role of Interim Chief Risk and Resilience Officer (CRRO) between February and December 2020 and to welcome Peter Grewal, who joined us in January as the new Group CRRO. The Committee is already working closely with Peter and we look forward to his contribution in 2021.

Clive Adamson
Committee Chair

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 66 to 76 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.

Regulatory affairs

The Director of Public Policy and Regulation, who has responsibility for all regulatory affairs and compliance matters, attends at all meetings, and produces a written report to the Committee. The report covers both functional programmes to support compliance, such as PA Dealing and Whistleblowing, and issues that have arisen such as breaches to 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 Director of Public Policy and Regulation is also available for the Committee to consult regarding any other agenda items that have a regulatory aspect.

Areas of focus in 2020

The Risk Committee held 10 meetings during 2020: seven regular scheduled meetings and three held jointly with the Audit Committee.

Group risk appetite, tolerance, profile and strategy	The Committee has reviewed regular reports from the Chief Risk and Resilience Officer (CRRO) and the Director of Public Policy and Regulation including updates on the risk profile, key risks and issues facing the Group, the Group's capital and liquidity position against appetite, the control environment, and operational risks including customer and regulatory risks. The Committee also received regular reports from subsidiary Board Risk Committees. During 2020, a key area of focus was the financial and non-financial risk impact of COVID-19. The Committee considered the impact on markets and the associated financial risks, and reviewed and recommended to the Board a range of economic scenarios for business planning purposes. The Committee also oversaw the Company's response to the impact of COVID-19, including remote working arrangements on the effective operation of key business processes and controls, establishing a specific regular report for this purpose. The Committee regularly reviewed and provided advice to the Board on the assessment and analysis of the management of the principle financial and non-financial risks faced by the Group. The Committee also was provided with detailed deep-dive reviews of a number of individual key risks including credit risk, investment performance risk and investment due diligence, technology and information security risk, people risk and regulatory risk. The Committee received presentations from Executives on key risks under their management and regular updates on business transformation activities and key programmes including the operational resilience capabilities across the Group.
Group Risk Management Framework and internal controls	As part of our annual review of the Group Risk Management Framework, the Committee reviewed and approved the Group's risk policies. The Committee reviewed and recommended to the Board for approval, updates to the Group's financial risk appetite and individual risk limits and reviewed the outcome of stress and scenario testing for the 2021-2024 business plan. The Committee, in conjunction with the Group Audit Committee, also reviewed and approved enhancements to the Group's internal control and operational risk framework including non-financial risk appetites.
Risk models and measures	The Committee, in conjunction with the Group Audit Committee, reviewed and approved the overall methodology and key assumptions for the Solvency II valuation and reviewed the overall effectiveness of the Group's Internal Model by reviewing and approving the results of the annual programme of Solvency II Internal Model validation. The Committee also approved the Internal Model validation plan for the forthcoming year.
Regulatory matters	The Committee reviewed and recommended for approval to the Board, the Group's ORSA and in conjunction with the Audit Committee reviewed and recommended to the Board for approval regulatory and public Solvency II disclosures. The Committee also received updates on emerging regulations, regulatory risks and other regulatory matters arising during the year.
Compliance and fraud	The Committee reviewed and approved updates on a number of Group-wide policies including those relating to regulatory compliance risk, tax risk, privacy and data protection, conduct risk, market abuse, fraud risk, bribery, corruption and tax evasion risks, and anti-money laundering, terrorist financing and sanctions risks.
Remuneration	The Committee advised the Remuneration Committee on risk management considerations to be taken into account regarding Remuneration Policy performance measures including risk adjustments to the incentive pool and individual incentive packages.

Annual evaluation of Risk Committee performance

We review the effectiveness of the Committee annually 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 on 22 February 2021. Outcomes arising from the report will contribute to the 2021 work plan. We will review progress against these throughout the year.

Priorities for 2021

The Committee's main priorities for 2021 are as follows:

- Monitor the ongoing impact of COVID-19 on our risk profile in both the short and longer-term;
- Continue to embed sustainability and ESG into our Risk Management Framework;
- Keep a focus on the risk areas most relevant to our industry, including both financial and operational resilience;
- Oversee the embedding and maintenance of a supportive risk culture across the Group; and
- Oversee the continued implementation and embedding of the Group's Risk Management Framework, in particular in relation to operational risk.

Details of Committee members' relevant skills and experience and attendance at Committee meetings are shown in the Corporate Governance report on pages 81 to 83.

Directors' Remuneration Report

Robin Lawther, CBE
Committee Chair

Role and responsibilities of the Remuneration Committee

Deciding the framework of the remuneration policies: Establishing, approving and maintaining the principles and framework of the remuneration policies of the Group; and

Remuneration: Determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, Group Executive Committee, individuals identified as Solvency II staff and Material Risk Takers under remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

The Remuneration Committee's terms of reference
www.mandgplc.com

Membership and meeting attendance
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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 2020. This is our second report following our listing on the London Stock Exchange as a FTSE 100 company on 21 October 2019, and the first full year under our Directors' Remuneration Policy, approved by shareholders on 27 May 2020.

Performance delivered and incentive outcomes in an extraordinary year

2020 has been an extraordinary year with the outbreak of COVID-19 having a significant impact on our business and the wider economy. This has been a severe test of our capabilities, however, the Company responded quickly with a rapid move to home working for all colleagues, helping to ensure we continued to operate with minimal disruption to customers and clients.

Our financial results represent a strong and resilient performance despite the challenging economic environment, and demonstrate the benefits of being an asset manager and an asset owner, together with our proven track record in delivering management actions. Our Savings and Asset Management segment's financial performance was impacted by net outflows from our Retail Asset Management business driven by weak investment performance in our retail businesses. However, this was partly offset by the Institutional Asset Management business performing well, reflecting excellent investment performance and the appeal of our innovative investment solutions. Our Heritage segment again produced stable results. Total capital generation was strong for 2020, despite the volatile market conditions, reflecting our focus on the delivery of management actions to protect the balance sheet. Total capital generation underpins our dividend.

We remained on track to meet our 2025 ambition to have 40% female representation within the leadership team by achieving the 2020 gender target. The 2020 One Voice survey returned good results including a Sustainable Engagement outcome of 80%, well above the maximum of the scorecard range. Our transformation continued to deliver better customer outcomes leveraging technology which, as the pandemic hit, gave us an ability to continue to serve our customers and clients. We set ambitious targets for digital enablement, not all of which, despite good progress, we were able to attain. Migrating customers onto modern systems continued in 2020 – which resulted in a small increase in our net promoter scores as we transitioned the service to new systems, but the improvements were not as significant as we targeted.

The 2020 Short-Term Incentive (STI) delivered an outcome of 59.4% of maximum opportunity for both Executive Directors (compared to outcomes of 64.3% and 60% for the Chief Executive and Chief Financial Officer in 2019). The outcomes were primarily driven by:

- total capital generation (excluding market movements) of £1,113m, above the maximum performance level;
- adjusted operating profit before tax (including restructuring costs) of £715m, slightly below target reflecting the net client outflows in Retail Asset Management combined with the downward pressure on retail margins;
- there was a reduction in the With-Profits Fund's per policy renewal expenses to the maximum performance level, due to the amount spent on our transformation activities being lower in 2020 than planned, with benefits remaining on track, and strong With-Profits Fund investment performance, slightly above target, which given the current volatile economic environment demonstrates the unique strength and diversification of the Fund; and
- good performance in relation to non-financial elements relating to people, customer and digital, although not all targets in the scorecard were met.

The 2018 LTIP awards covered the period 2018 to 2020 and will vest at 59.6% for the Chief Executive and 82.4% for the Chief Financial Officer (compared to the 2017 LTIP vesting of 63.5% and 90.8% in 2019). The difference in outcomes for the Executive Directors is a result of the different performance measures in their LTIP scorecards, which reflected their roles within Prudential plc at the time of grant. Profit measure outcomes were between threshold and target, whilst the capital, diversity and conduct/culture measure outcomes were all at, or close to, maximum levels. The Committee took consideration of a review from the Chief Risk and Resilience Officer, with input from the Risk Committee, in respect of the conduct/culture measure.

In determining the appropriateness of the 2020 variable pay outcomes, the Committee also considered a number of factors, including:

- *The experience for M&G's shareholders* – the Committee noted our relative Total Shareholder Return since the Company listed in October 2019, which has performed in line or better than the FTSE 100 Index and our FTSE 100 Financial Services peers over the period, as well as our continued commitment to our policy for a stable or increasing dividend.
- *The experience of M&G's employees* – the Committee noted that the Group did not join the UK Government's furlough scheme and has not made any compulsory redundancies due to the pandemic. Colleagues were provided with extensive support during the year, including financial assistance with home office set-up and the cost of home working, a broad range of health and wellbeing resources and flexible working to support parents and carers. This focus on colleague wellbeing and culture reflected in our improved employee engagement score for 2020.
- *Risk and conduct performance of the business* – the Committee received an independent review of the control environment and risk issues by the Chief Risk and Resilience Officer, as well as input from the Risk Committee and the subsidiary boards for PAC and MGG. The Committee noted the progress made in improving the control environment whilst observing that this remained a focus area for future improvement.

Taking all the above into consideration, the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2020 incentives for Executive Directors. Further details of the incentive schemes and outcomes are provided in the main report.

Consideration of pay and conditions across the wider workforce

The Committee takes careful consideration of pay and conditions for the wider workforce in the normal course of its duties. This is also a key input when determining salary reviews and incentive outcomes for the Executive Directors. The key indicators considered by the Committee as part of its 2020 year-end decision-making included:

- The Chief Executive Total Remuneration Ratio, which was 45:1 in 2020 at median (down from 58:1 in 2019);
- The year-on-year percentage change in incentive and total remuneration outcomes for 2020 for the Executive Directors were significantly lower than the increases for the average colleague; and
- The salary increase budget of 2.0% in 2021 across the UK workforce, compared to the Executive Directors who received no increases.

These indicators gave the Committee assurance that the incentive outcomes and trends in total remuneration for the Executive Directors were fair and reasonable when compared to wider workforce experience over the period.

Our mean gender pay gap increased in 2020 to 30.5% from 25.0% in 2019 and our mean gender bonus gap decreased to 70.8% from 72.1% in 2019. These pay gaps are larger than we would like them to be and are primarily driven by the shape of our organisation with a higher proportion of men in senior roles versus women. The demerger from Prudential plc in late 2019 also impacted the gender pay gap data and contributed towards the increase in the base pay gap. A number of executive and senior leaders transferred from our former Parent Company or were recruited externally to perform roles which had not previously been required. A large proportion of these roles, on senior reward packages, are filled by men. We are committed to a range of initiatives and continue to make progress toward our 2025 senior management gender diversity goal of 40%.

Implementation of the policy

Long-term incentive awards granted in 2020

In April 2020 we granted our first LTIP awards under the new M&G plc Performance Share Plan which were made at a relatively low grant price of £1.135. At the end of the performance period we are committed to reviewing the overall vesting levels to ensure that windfall gains will not be received. This will be monitored closely, and a detailed disclosure will be made at this time on the conclusions reached.

Salary review and Incentive plan measures for 2021

No salary increases are proposed to be awarded to the Executive Directors in 2021, in line with other senior leaders in the business. This compared to a 2% salary review budget for the wider workforce (with some variations in our international locations to reflect market conditions). Some changes have been made to the performance scorecards for 2021 incentives. In our first implementation of the Directors' Remuneration Policy for 2020 the Committee focused on metrics that were available and could be clearly and transparently defined and measured. We acknowledged that some aspects of non-financial performance would not be represented in the incentive plan outcomes (unless an event necessitated downward discretion) and that this should be kept under review. I signposted last year that the measures would be subject to further review for 2021.

In doing so, we have introduced non-financial measures to incentivise effective risk management, align with our sustainability objectives and retain a strong alignment to customer outcomes, diversity, engagement and culture.

We have retained a 30% weighting for non-financial measures in the 2021 STI scorecard, consisting of three equally weighted categories. We have replaced digital enablement with a measure for Risk and Controls and retained the Customer and People/Culture measures. For the 2021 LTIP, we have introduced a non-financial scorecard, with 25% weighting, comprising Risk and Conduct, Diversity and Sustainability. Further details of these measures are provided in the report.

In terms of financial measures, for the 2021 STI scorecard, we will be introducing an asset-weighted investment performance measure in respect of our retail, wholesale and institutional funds with a 5% weighting, alongside the With-Profits Fund investment performance measure with a reduced weighting of 5%. This will enable a wider view of fund investment performance. For the 2021 LTIP scorecard, we have replaced total capital generation with operating capital generation. This is a key performance measure for the Company and is considered a more appropriate measure to employ during a period with the potential for significant market volatility. The weighting on capital generation has been reduced to 50% (from 60%) and Relative TSR to 25% (from 40%) to accommodate the new non-financial measures.

Although the policy gives the Committee flexibility to review and amend incentive plan measures annually within prescribed limits, meaningful engagement with shareholders on Directors' remuneration is a high priority. We contacted shareholders representing over 50% of our register in January to advise of the intended changes and to invite feedback. The feedback received primarily emphasised the importance of the rationale for all measures being clearly explained with transparent and measurable performance objectives. The Committee has carefully considered this feedback in the final design process.

Finally, we anticipate that new regulatory requirements under the Investment Firm Prudential Regime will apply from 1 January 2022. We will assess the impact of the final rules as part of the Committee's activities during 2021. At this time we do not anticipate that this will require a change to the operation of the Policy for the Executive Directors.

Changes to the Committee and advisors

We undertook a formal tender process to appoint an ongoing advisor in the second half of 2020 (as indicated in the 2019 report). During the process, the intention to appoint PwC as external auditor to the Company for the period commencing 1 January 2022 was announced and PwC were therefore required to withdraw their proposal. After careful consideration Deloitte were chosen as advisor to the Committee, being formally appointed from 2 December 2020. I would like to take this opportunity to thank PwC for their invaluable support and advice through 2019 and 2020.

We have had a number of changes to the Committee over the year. Caroline Silver stepped down from the Board on 27 May 2020 and I would like to thank Caroline for her invaluable contribution to the Committee through the demerger and listing and our first Policy and Annual Report disclosures. Massimo Tosato and Fiona Clutterbuck joined the Board and Committee on 1 April 2020 and 9 October 2020 respectively. They bring a diversity of thought and wealth of skills and experience to the Committee.

Also, as announced on 19 June 2020, I will shortly be stepping down from the Board and my role as Chair of the Remuneration Committee and welcome Clare Chapman, who joins as incoming Chair of the Remuneration Committee. I would like to extend thanks and warm appreciation to my fellow Committee members for their expertise and guidance over the past years, as well as to all our stakeholders with whom we have interacted.

To close, the Committee was happy with the level of shareholder support (95%) for the Policy in 2020, following consultation with almost half of our shareholder base, which provided valuable feedback. Our initial remuneration report for 2019, including our intended implementation of the policy for 2020, also received a strong level of support.

On behalf of the Remuneration Committee, I would like to thank you again and respectfully ask for your continued support at the upcoming AGM.

Robin Lawther, CBE
Committee Chair

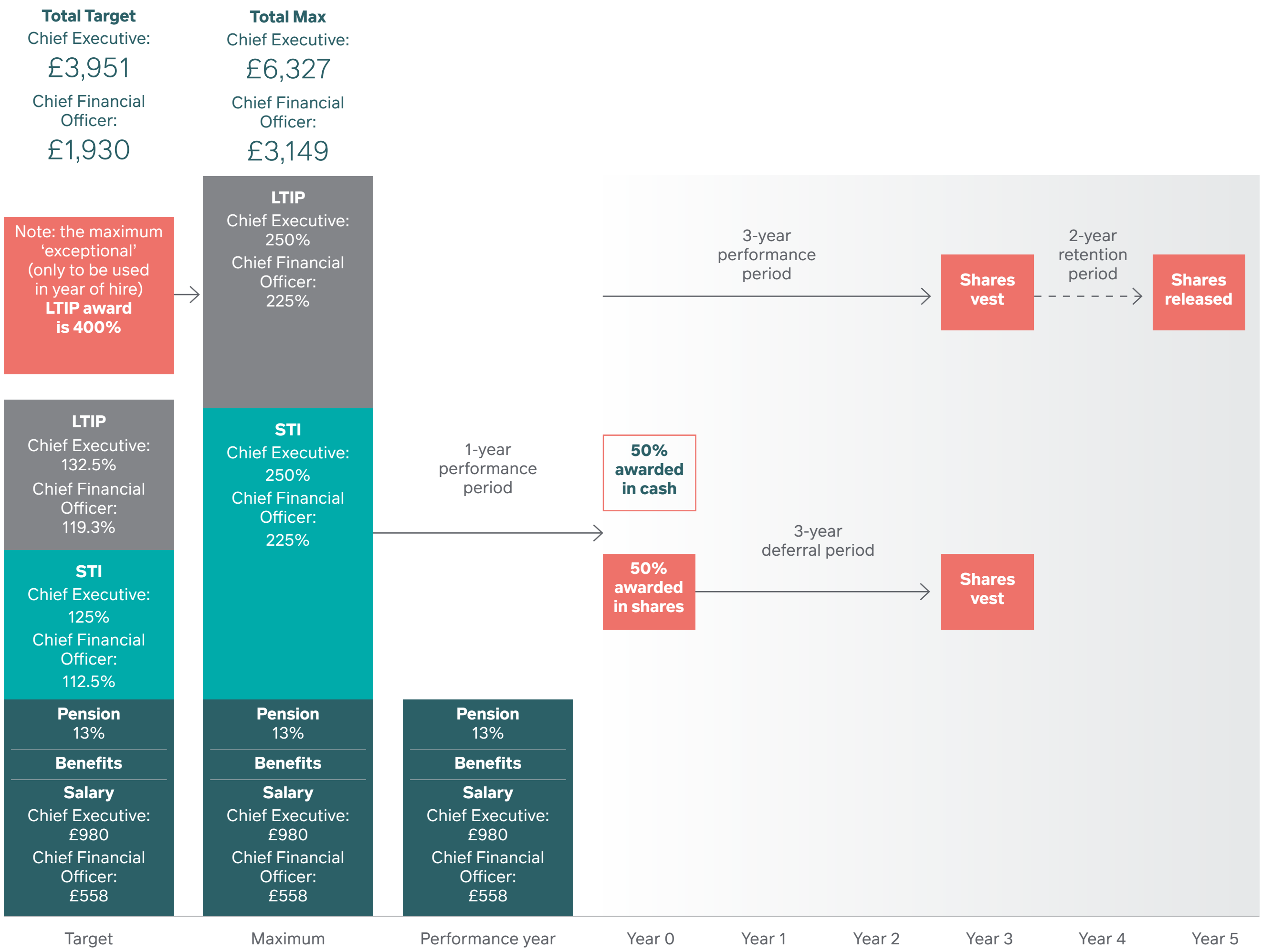
Remuneration at a glance

This section provides an overview of the remuneration outcomes for our Executive Directors in 2020, the Directors' Remuneration Policy and our implementation decisions for 2021. The key principles underpinning the policy and its implementation are shown at the beginning of the full policy section on page 138. Through our implementation and operation of the policy we ensure that:

- Remuneration is simple and transparent, including incentive plan awards with clearly defined and, wherever possible, quantitative performance measures that give clarity to shareholders on the performance required to deliver threshold, target and maximum outcomes. If the Committee applies discretion to the outcomes of awards, this will be clearly explained in the relevant remuneration report.
- Incentive outcomes have strong alignment to effective risk management across the Company. In 2021 we have introduced specific risk, conduct and controls measures to the STI and LTIP scorecards to reinforce and incentivise an appropriate risk management culture. In addition, the Chief Risk and Resilience Officer and Risk Committee provide independent input to the Remuneration Committee annually to help with the assessment of scheme design and outcomes to ensure that they are consistent with our risk management principles and policies (further information on this process can be found on page 136).
- Remuneration opportunity and outcomes are predictable and proportionate for the roles and responsibilities of our Executive Directors and the performance delivered. Packages have clearly defined target and maximum opportunity with performance objectives directly aligned to our business planning and strategic goals. The Committee takes a range of internal and external factors into consideration, including external benchmarking, trends in the CEO ratio and change in pay relative to the wider workforce to ensure that the remuneration packages and outcomes for the Executive Directors are appropriate.
- Remuneration supports our purpose and values to build a safe, respectful and inclusive culture across the Company. In 2021 non-financial measures in the incentive scorecards include alignment to the culture programme goals and milestones, the sustainable engagement index score outcome from our 2021 One Voice survey and a diversity target for our senior leadership population. In 2020 we launched a new Code of Conduct and failure to meet the required standards will be reflected in personal performance assessments and incentive outcomes.

Overview of the Directors' Remuneration Policy

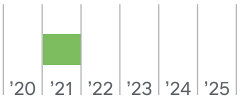
The following chart shows the operation of the key elements of our Directors' Remuneration Policy, which was approved by shareholders at our 2020 AGM. Summary details of the Policy are provided in the next section (all amounts in £'000):



Summary of the Directors' Remuneration Policy and 2021 implementation

Remuneration element and time horizon	2020 Policy summary	2021 Implementation

Base Pay



Operation

Reviewed annually – any increases take effect from 1 April each year.

Opportunity

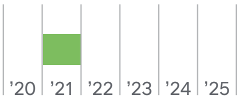
There are no prescribed maximum salary levels. The Committee considers a range of internal and external factors to ensure that base salaries are appropriate.

Performance

Individual and Company performance will be taken into consideration.

	Effective 1 April 2021 £	Effective 1 April 2020 £	% increase
John Foley	980,000	980,000	+0.0%
Clare Bousfield	558,200	558,200	+0.0%
Wider workforce 2021 (budget)			+2.0%

Benefits



Operation

Reviewed periodically against market practice taking consideration of benefits offered to colleagues across the Company.

Opportunity

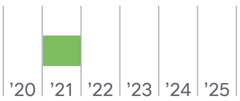
Where applicable, maximum levels are prescribed by the terms of the benefit provider or HMRC limits. Costs are monitored to ensure they remain reasonable for the benefit/service provided.

Performance

There are no performance measures.

- Life, disability and critical illness insurance
- Private health insurance (including spouse and dependants) and annual health assessment
- Eligibility to participate in the Company Sharesave and Share Incentive Plan (SIP)
- The Chief Executive has grandfathered entitlement to a car/driver, international medical cover and security costs from employment with Prudential plc

Pension



Operation

Defined contribution pension participation or cash in lieu.

Opportunity

13% of base salary per annum, aligned with the wider workforce.

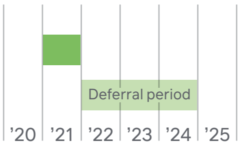
Performance

There are no performance measures.

	Contribution 2021	Contribution 2020
John Foley	13%	13%
Clare Bousfield	13%	13%

Remuneration element and time horizon	2020 Policy summary	2021 Implementation

Short-term incentives (STI)



Operation

An annual incentive award subject to performance conditions assessed at the end of the calendar year. Performance outcomes are subject to a discretionary downward risk adjustment. 50% of any STI payable is deferred into shares with a three-year vesting period. Malus and clawback provisions apply to cash and deferred STI.

Opportunity

Up to a maximum of 250% of base salary, subject to performance. A threshold, target and maximum performance level is established for each award with a 0% outcome for threshold performance and 50% outcome for target performance.

Performance

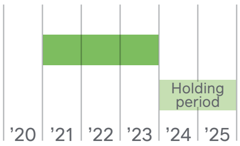
Performance scorecards comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures must comprise a minimum of 50% of the scorecard.

2021 Implementation

Financial measures comprise 70% and non-financial measures 30% of the 2021 STI scorecard (see page 133 for details). There were no changes to target and maximum STI opportunity as a % of base salary for 2021:

	Target STI % 2021	Maximum STI % 2021
John Foley	125%	250%
Clare Bousfield	112.5%	225%

Long-term incentives (LTIP)



Operation

LTIP awards over M&G plc shares are normally granted annually subject to performance conditions assessed at the end of a three-year vesting period. Vested shares are subject to a two-year holding period. Performance outcomes are subject to a discretionary downward risk adjustment. Malus and clawback provisions apply to the awards over the five-year period.

Opportunity

Up to a maximum of 250% of base salary, subject to performance. Threshold, target and maximum performance levels are established for each award.

Performance

Performance scorecards comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures (including TSR) must comprise a minimum of 75% of the scorecard.

2021 Implementation

Financial measures comprise 75% (Cumulative operating capital generation comprises 50% and Relative TSR 25%) and non-financial measures 25% of the 2021 LTIP scorecard (see page 134 for details). There were no changes to maximum LTIP opportunity as a % of base salary for 2021:

	Maximum LTIP % 2021
John Foley	250%
Clare Bousfield	225%

Shareholding requirements

The Chief Executive and Chief Financial Officer must attain a shareholding requirement of 300% and 200% of base salary respectively within five years. Vested shares must be held until the requirement is met (unless there are exceptional circumstances). Unvested shares not subject to performance conditions count towards the requirement on a net-of-tax basis. In addition, shares subject to the shareholding requirement must be held in full for two years post-employment.

At 31 December 2020 the shareholding for each Executive Director was as follows:

Name	Guidelines	Shares at 31 December 2020
John Foley	300% of base salary	271.4%
Clare Bousfield	200% of base salary	81.1%

2020 Performance outcomes

The performance scorecards for 2020 STI were the same for both Executive Directors. For the 2018 LTIP the performance scorecards were different, as explained in detail in the annual remuneration report from page 120. Taking consideration of a range of factors as outlined in the Remuneration Chair Statement, the Committee was satisfied that the plans had operated as intended and no adjustments were applied to the formulaic outcomes. The component and total outcome of the scorecards were as follows:

2020 STI – % of maximum opportunity

		Financial Measures	Non-Financial Measures	Overall STI Outcome
John Foley	2020	64.0%	48.7%	59.4%
	2019	56.9%	93.8%	64.3%
Clare Bousfield	2020	64.0%	48.7%	59.4%
	2019	46.7%	80.0%	60.0%

2018 LTIP – % of maximum opportunity

		Financial Measures (excl. TSR)	TSR	Capital, Conduct and People Measures	Overall LTIP Outcome
John Foley	2020	69.8%	0.0%	98.8%	59.6%
	2019	100.0%	0.0%	54.2%	63.5%
Clare Bousfield	2020	78.4%	n/a	98.8%	82.4%
	2019	100.0%	n/a	54.2%	90.8%

Remuneration outcomes

The Executive Directors' 2020 single figure earnings are summarised below (with prior year for comparison):

Year	**Executive Director**	Fixed Remuneration £'000	STI £'000	LTIP £'000	Total (inc. "Other") £'000
2020	John Foley	1,427	1,455	995	3,877
2019	John Foley – restated	1,370	1,303	606	3,281
2019	John Foley – original	1,208	1,303	1,224	3,737
2020	Clare Bousfield	634	746	331	1,712
2019	Clare Bousfield – recalculated	604	868	192	1,666
2019	Clare Bousfield – original	604	868	389	1,863

- Fixed remuneration includes salary, benefits, pension and other items of remuneration. John Foley's benefit figure has been restated for 2019. This is explained in the notes to the single figure table.
- STI includes both the cash and deferred elements of the STI awarded for 2020 (and 2019).
- LTIP vesting proceeds from awards granted in 2018 for the year ended 31 December 2020 (and 2017 for the year ended 31 December 2019). The significant decrease in the 2017 LTIP values in the restated/recalculated 2019 single figure is a result of the actual vesting share price of £1.1284 relative to the estimated share price of £2.2796 used in the original disclosure.

Full details of the single figure methodology, including the details of the restated 2019 single figure amounts, and incentive plan scorecards can be found in the Annual Report on Remuneration from page 118.

Rationale for measures and link to strategy

The performance scorecards for short and long-term incentive awards are reviewed annually to ensure they effectively align the Executive Directors' remuneration to the Group's strategic objectives, financial goals, culture and values. We use a combination of financial and non-financial measures in the scorecards to ensure we have an appropriate balance between what performance has been delivered and how that performance has been delivered. For 2021 we have reviewed the scorecards to incorporate a broader range of measures aligned with key priorities for the Group and to ensure the financial targets are appropriate in the context of the current external environment.

We have introduced non-financial measures to incentivise effective risk management, align with our sustainability objectives and retain a strong alignment to customer outcomes, diversity, engagement and culture.

For the 2021 STI scorecard, we will be introducing an investment performance measure in respect of our retail, wholesale and institutional funds with a 5% weighting, alongside the With-Profits Fund investment performance metric which will have a reduced weighting of 5%. This will enable the strength of investment performance across our assets under management to be incorporated into the scorecards.

For the 2021 LTIP scorecard we have replaced cumulative total capital generation with cumulative operating capital generation. This is also a key performance measure for the Group and given it excludes the impact of market fluctuations it is considered a more appropriate measure to assess performance during a period with the potential for significant market volatility. The Committee was satisfied that the Executive Directors retained alignment with shareholders on the impact of market volatility through the 2020 LTIP awards, which had a 60% weighting for cumulative total capital generation, as well as a smaller component in the 2019 LTIP awards. It also excludes restructuring costs, however, the Executive Directors remain firmly aligned to the management of transformation and restructuring costs through the STI scorecard adjusted operating profit before tax and total capital generation measures, defined below.

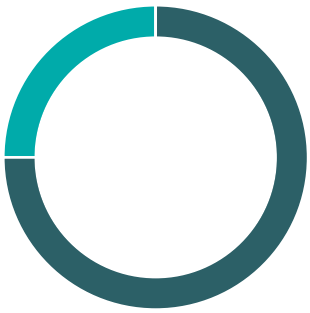
Performance measures

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 2021 are shown below.

STI

Financial	**70%**
Total capital generation	30%
Adjusted operating profit before tax including restructuring costs	20%
With-profits expenses	10%
Investment performance	10%
Non-financial	**30%**
Customer	10%
People	10%
Risk and controls	10%

LTIP



Financial	**75%**
Cumulative operating capital generation	50%
Relative total shareholder return	25%
Non-financial	**25%**
Risk and Conduct	10%
People (Diversity)	7.5%
Sustainability	7.5%

2021 Financial measures

Total capital generation excluding market movements (short-term incentives)

Total capital generation (defined on page 283) is a key performance measure and represents the change in surplus capital during the period before dividends and other capital movements. We consider it to be integral to the management of the business and decisions on capital allocation and investment, and ultimately our dividend policy. The Remuneration Committee believes it is appropriate to exclude the impact of market movements when determining the outcome of short-term incentives. Total capital generation includes restructuring costs. The successful delivery of the transformation activities in the short-term is key to the success of our strategy, therefore the Remuneration Committee felt it was appropriate for restructuring costs to be included for determining the short-term incentive outcomes.

Adjusted operating profit before tax including restructuring costs (short-term incentives)

Adjusted operating profit before tax (defined on page 283) is the Group's non-GAAP alternative performance measure used to demonstrate the longer-term performance of the Group as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax. Adjusted operating profit before tax is IFRS profit before tax excluding short-term fluctuations from investment returns, profit/(loss) on disposal of businesses and corporate transactions, restructuring and other costs, and profit/(loss) before tax from discontinued operations. Restructuring costs have been included in this measure for the same rationale as outlined above for total capital generation excluding market movements.

With-profits expense measures (short-term incentives)

The With-Profits Fund is an integral part of the business to both the Savings and Asset Management and Heritage segments. It is included in the short-term incentive scorecard to ensure there is an appropriate balance between the interests of shareholders and policyholders. This is represented by two measures: With-Profits renewal expenses per policy and With-Profits new business expenses as a percentage of flows.

Investment performance measures (short-term incentives)

Strong investment performance is key to the successful execution of our strategy and delivering good customer outcomes. This is represented by two measures: With-Profits Fund investment performance and investment performance of our retail, wholesale and institutional funds.

Cumulative operating capital generation (long-term incentives)

Operating capital generation (defined on page 283) is a key performance measure which is less affected by short-term market volatility and other non-recurring items than total capital generation, and is representative of the long-term capital generation of the business. The Remuneration Committee felt that it was the most appropriate capital generation measure to assess performance during a period with the potential for significant market volatility.

Relative Total Shareholder Return (long-term incentives)

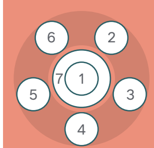
A long-term measure that ensures direct alignment of remuneration outcomes to shareholder experience relative to shareholders of FTSE 100 financial services companies (excluding investment trusts).

2021 Non-financial measures

Across the short and long-term incentive plans we have non-financial measures aligned to key strategic priorities:

- Customer measures aligned to our commitment to deliver great outcomes for our customers and clients and deliver digital innovation and adoption to ensure we are fit for the future.
- Sustainability measure aligned to our pledge to reduce our own carbon emissions to net zero by 2030.
- People measures aligned to our stretching long-term diversity targets and embedding our culture, values and behaviours.
- Risk and Conduct measures aligned to our commitment to operate within an embedded risk culture and strong risk governance framework.

Link to strategy pillars



Metric	1 **One M&G** Realise collaboration synergies and embed ESG	2 **Revitalise UK** Re-establish market share	3 **Expand Institutional** Broaden capabilities and internationalise	4 **Grow Europe** Build on partnership approach	5 **Build International** Focused expansion in Asia and Americas	6 **Protect Heritage** Focus on retention, effective controls	7 **Active Capital Management and Operational Efficiency** Pro-actively manage for all stakeholders
Capital generation	●	●	●	●	●	●	●
Adjusted operating profit before tax including restructuring costs	●	●	●	●	●	●	●
With-Profits expense measures	○	●	○	○	○	●	●
Investment performance	○	●	●	●	●	●	○
Non-financial measures	●	●	●	●	●	●	○

Relative Total Shareholder Return aligns the Executive Directors to the experience of shareholders. However, as a Group-level metric it does not apply to the individual strategy pillars and has therefore been excluded from the Link to strategy pillars table.

More on our strategy
Pages 23 to 29

Annual report on remuneration

Single figure remuneration

Single figure total remuneration table (Audited)

The following table provides the 2020 single figure remuneration for the Executive Directors. All figures are provided on a full year basis.

Year	Executive Director	Base Salary £'000	Benefits £'000	Pension £'000	Total fixed remuneration £'000	STI £'000	LTIP £'000	Other £'000	Total variable remuneration £'000	Total £'000
2020	John Foley	980	320	127	1,427	1,455	995	–	2,450	3,877
2019	John Foley – restated	904	309	157	1,370	1,303	606	2	1,911	3,281
2019	John Foley – original	904	147	157	1,208	1,303	1,224	2	2,529	3,737
2020	Clare Bousfield	556	6	72	634	746	331	1	1,078	1,712
2019	Clare Bousfield – recalculated	530	6	68	604	868	192	2	1,062	1,666
2019	Clare Bousfield – original	530	6	68	604	868	389	2	1,259	1,863

Notes to the single figure table

- STI represents the full amount awarded in respect of 2020 including both the cash and deferred shares components.
- LTIP awards vesting in 2020 reflect legacy Policy rather than the new M&G plc Remuneration Policy approved by shareholders in 2020. The outcome of these awards 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 in 2020 was £1.7910, using an average of the closing price for the final three months of 2020. The actual share price will be determined in April 2021 and will be disclosed with the actual vesting value in the 2021 Annual Report.
- The 2019 benefits amount for John Foley has been restated from £147,000 to £309,000 due to an error in the calculation of the previously disclosed amount. This restatement has no impact on what was received by John Foley, as this represents a restatement of the cost to the company of providing non-monetary benefits.
- The 2017 LTIP vesting figures reported in the 2019 single figure now reflect the actual vesting price of the shares, which vested on 2 April 2020 at £1.1284 per share. The values previously included in the 2019 report were based on an average share price from admission to 31 December 2019 (£2.2796).
- 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.

Single figure remuneration – Base salary (Audited)

The base salaries for the Executive Directors were reviewed in 2020. No increase was applied to the base salary for the Chief Executive, which remained at £980,000. The base salary for the Chief Financial Officer was increased by 1.49% from £550,000 to £558,200 with effect from 1 April 2020. These increases were below the average increases applied to the wider workforce.

Single figure remuneration – Benefits (Audited)

Benefits include the total value of all benefits paid in respect of the year ended 31 December 2020. These comprise life, ill-health and critical illness insurance, private medical cover and health assessments. In accordance with the Remuneration Policy, John Foley has also retained a number of taxable benefits that he was offered as a Director of Prudential plc, in addition to standard benefits. These comprise private international healthcare, including his family, home security support and the use of a car/driver for business purposes, with values inclusive of tax paid by the Company. A full list of benefits and their values are provided in the following table.

Benefit	John Foley 2020 £'000	John Foley 2019 £'000	Clare Bousfield 2020 £'000	Clare Bousfield 2019 £'000
Car/driver	**250**	245	**n/a**	n/a
Security costs	**4**	4	**n/a**	n/a
International healthcare	**51**	50	**n/a**	n/a
Healthcare and insurances	15	10	6	6
Total	**320**	309	**6**	6

The Chief Executive, in consultation with the Committee, has agreed to materially reduce the taxable benefit relating to the car/driver from 2021 onwards.

Single figure remuneration – Pension (Audited)

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. Neither of the Executive Directors are accruing benefits under the Company's legacy defined benefit pension plans.

Single figure remuneration – Short-Term Incentive (Audited)

For the purposes of determining the 2020 STI outcome, the Remuneration Committee assessed the performance of the Company and the individuals by reference to the 2020 STI scorecard, which included a combination of financial and non-financial measures, as follows:

2020 Executive Director STI scorecard outcome

	2020 STI Scorecard	Weighting	Threshold 0%	Target 50%	Maximum 100%	Actual	Outcome	Weighted Outcome
Financial	Adjusted operating profit before tax including restructuring costs (£m)	20%	669	787	905	715	19.5%	3.9%
Financial	Total capital generation excluding market movements (£m)	30%	544	640	736	1,113	100.0%	30.0%
Financial	With-Profits renewal expense per policy	5%	114	104	94	94	100.0%	5.0%
Financial	With-Profits new business expense as % of flows	5%	1.49%	1.35%	1.22%	2.59%	0.0%	0.0%
Financial	With-Profits Fund investment performance (three-year)	10%	0%	1%	3%	1.34%	58.5%	5.9%
Non-financial	Customer – brand preference ranking	3.33%	Below 10th	8th	5th or above	16th	0.0%	0.0%
Non-financial	Customer – net promoter score	3.33%	Below +10	+11	+13 or above	9	0.0%	0.0%
Non-financial	Customer – complaints ratio	3.33%	Above 4	3.85	3.6 or below	3.6	100.0%	3.3%
Non-financial	People – diversity	5.00%	29.0%	30.0%	31.0%	30.0%	50.0%	2.5%
Non-financial	People – sustainable engagement index	5.00%	70.0	72.5	75.0	80	100.0%	5.0%
Non-financial	Strategic – digital enablement (Wealth – customer)	3.33%	19.6%	23.0%	26.4%	19.1%	0.0%	0.0%
Non-financial	Strategic – digital enablement (Wealth – advisor)	3.33%	52.9%	62.2%	71.5%	56.1%	17.2%	0.6%
Non-financial	Strategic – digital enablement (Heritage)	3.33%	5.4%	6.4%	7.4%	7.3%	95.0%	3.2%
Total								59.4%

Consideration of individual performance

The Committee considered performance assessments for the Executive Directors and concluded that the formulaic outcome of the STI was appropriate in the context of their personal contribution over the performance period.

Consideration of risk

The Committee received an independent review of the control environment and risk issues by the Chief Risk and Resilience Officer, as well as input from the Risk Committee and the subsidiary boards for PAC and MGG. The Committee noted the progress made in improving the control environment whilst observing that this remained a focus area for future improvement. Taking the above into consideration, the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2020 STI for the Executive Directors.

Deferral policy

50% of any STI amount awarded is deferred for three years in M&G plc shares, subject to continued employment, good leaver and malus provisions. Dividend equivalents accrue on a reinvestment basis during the vesting period.

STI opportunity and outcome

The maximum STI opportunity for the Chief Executive and Chief Financial Officer remained unchanged at 250% of base salary and 225% of base salary respectively for 2020. The total STI amounts in the single figure table reflect the awards to be paid in 2021 in respect of 2020 performance inclusive of both the cash and deferred elements as follows:

Executive Director	Maximum STI Opportunity £'000	Total STI Outcome £'000	Cash STI £'000	Deferred STI £'000
John Foley	2,450	1,455	728	728
Clare Bousfield	1,256	746	373	373

2020 STI metric definitions

Metric	Definition
Adjusted operating profit before tax including restructuring costs	The definition of adjusted operating profit is given in the supplementary information on page 283.
Total capital generation excluding market movements	The definition of total capital generation is given in the supplementary information on page 283.
With-Profits renewal expense per policy	Represents the renewal expenses including associated restructuring costs incurred by the With-Profits Fund on a per-policy basis.
With-Profits new business expense as % of flows	Represents new business expenses, including associated restructuring costs, incurred by the With-Profits Fund as a proportion of new business flows.
With-Profits Fund investment performance	The three-year investment performance of the With-Profits Fund, relative to its benchmark, the ABI Mixed Investment 20-60% Shares fund.
Customer Outcomes	This consists of three separate performance measures, equally weighted, aligned to our brand preference ranking in the Fund Brand Report Europe, Net Promoter Score and complaints ratio per 1,000 customers, both across our Wealth and Heritage businesses.
People	This consists of two separate measures equally weighted: Diversity – the proportion of females within the senior leadership team by the end of 2020. Engagement – the sustainable engagement index score outcome from the 2020 Employee Opinion One Voice survey.
Strategic – Digital enablement and adoption	This consists of three separate performance measures, equally weighted, for the % of total interactions with advisers and customers across our Wealth and Heritage businesses that are digital.

Single figure remuneration – LTIP vesting in year (Audited)

LTIP awards that were granted in 2018 under the Prudential plc Long-Term Incentive Plan vest on the basis of performance measured at the end of 2020. 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'.

2018 LTIP Scorecards

Chief Executive

	Weighting	Measure	Period	Sub-Weight	Threshold (25%)	Target (80%)	Maximum (100%)	Actual	Vesting	Weighted Outcome
Pru UK / M&G plc Group Profit (£m)	31%	Prudential UK Operating Profit	1/1/18 – 31/12/18	10.33%	546	607	668	1,095	100.0%	24.3%
		M&G plc AOP before tax (inc. restructuring costs)	1/1/19 – 31/12/20	20.67%	1,584	1,760	1,936	1,720	67.5%	
MGG / M&G plc Group Profit (£m)	19%	M&G Group Limited Operating Profit	1/1/18 – 31/12/18	6.33%	424	471	518	430	32.1%	10.6%
		M&G plc AOP before tax (inc. restructuring costs)	1/1/19 – 31/12/20	12.67%	1,584	1,760	1,936	1,720	67.5%	
TSR	25%	Percentile ranking relative to the peer group	1/1/18 – 31/12/20	25.00%	50th		75th	44th	0.0%	0.0%
Balanced Scorecard	25%	See details of individual capital, people and conduct measures below	1/1/18 – 31/12/20	25.00%					98.8%	24.7%
Total										59.6%

Chief Financial Officer

	Weighting	Measure	Period	Sub-Weight	Threshold (25%)	Target (80%)	Maximum (100%)	Actual	Vesting	Weighted Outcome
Pru UK / M&G plc Group Profit (£m)	80%	Prudential UK Operating Profit	1/1/18 – 31/12/18	26.67%	546	607	668	1,095	100.0%	62.7%
		M&G plc AOP before tax (inc. restructuring costs)	1/1/19 – 31/12/20	53.33%	1,584	1,760	1,936	1,720	67.5%	
Balanced Scorecard	20%	See details of individual capital, people and conduct measures below	1/1/18 – 31/12/20	20.00%					98.8%	19.7%
Total										82.4%

Notes to the LTIP scorecards:

Profit measures

The original Prudential UK (Pru UK) and MGG operating profit measures, calculated using Prudential plc methodology, were assessed for the period 1 January 2018 to 31 December 2018 against an adjusted target to reflect the shorter period of measurement. For the remaining performance period from 1 January 2019 to 31 December 2020, we used M&G plc Group adjusted operating profit before tax including restructuring costs as a profit measure and assessed against a two-year target. The measures were weighted in accordance with the proportion of the performance period they covered.

TSR outcome table

Prudential plc TSR was measured alongside the peer group as disclosed in the 2018 Prudential plc annual remuneration report up to and including the first day of trading of M&G plc following demerger. In accordance with the terms of the award, we used a 90-day average from the last quarter of 2017 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 2020 relative to a new peer group defined as the FTSE 100 Financial Services sector, excluding investment trusts (consistent with the TSR measure used for new LTIP awards under the M&G plc Remuneration Policy). We used a 90-day average from the last quarter of 2020 to complete the performance period. The resulting combined TSR performance of Prudential plc and M&G plc was ranked relative to the median and upper quartile of the peer groups, similarly on a combined basis as shown below:

		Company TSR	Threshold (Peer Group 50th)	Maximum (Peer Group 75th)	Percentile ranking achieved
Prudential plc TSR	1/1/18 – 21/10/19	(8.2)%	3.1%	21.9%	
M&G plc TSR	21/10/19 – 31/12/20	(4.5)%	(10.0)%	3.5%	
Combined	1/1/18 – 31/12/20	(12.3)%	(7.1)%	26.1%	44th

Balanced scorecard outcome table

The balanced scorecard comprised four equally weighted measures linked to capital, people and conduct measures. We required a replacement M&G plc measure to complete the performance period for the capital measures. As M&G plc does not track the Prudential plc ECap measure, we used a total capital generation measure for both capital measures to complete the performance period:

	Weighting	Measure	Period	Sub-Weight	Threshold (25%) (£m)	Target (50%) (£m)	Maximum (100%) (£m)	Actual (£m)	Vesting	Weighted Outcome
SII Capital	25%	Prudential plc (Group) SII Capital	1/1/18 – 30/6/19	12.5%	4,775	5,305	5,836	6,209	100%	25.0%
		M&G plc total capital generated	1/7/19 – 31/12/20	12.5%	982	1,091	1,200	1,574	100%	
ECap Group Operating capital generated	25%	Prudential plc (Group) ECap	1/1/18 – 30/6/19	12.5%	2,242	2,491	2,740	2,618	90%	23.8%
		M&G plc total capital generated	1/7/19 – 31/12/20	12.5%	982	1,091	1,200	1,574	100%	
Diversity Measure	25%	Percentage of the Leadership Team that is female at the end of 2020	1/1/18 – 31/12/20	25.0%	27.0%	28.0%	29.0%	30.0%	100%	25.0%
Conduct Measure	25%	Conduct/ culture/ governance	1/1/18 – 31/12/20	25.0%	Partial achievement		Full achievement		100%	25.0%
Total										98.8%

Consideration of risk

The Committee received an independent review of the control environment and risk issues by the Chief Risk and Resilience Officer, as well as input from the Risk Committee and the subsidiary boards for PAC and MGG. The Committee noted the progress made in improving the control environment whilst observing that this remained a focus area for future improvement. Taking the above into consideration, the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2018 LTIP awards for the Executive Directors.

In addition, the awards contained a metric linked to conduct/culture issues leading to a significant capital add-on or material fine. The Committee noted that the fine linked to the thematic review of annuity sales practices, issued to M&G plc in late 2019, had been reflected in the zero outcome of this metric in the 2017 LTIP and following the successful closure of the remediation programme in 2020, concluded that it was not appropriate for it to be reflected in the 2018 LTIP outcome. The independent Chief Risk and Resilience Officer report, with input from the Risk Committee, confirmed that there were no other significant capital add-ons or material fines during the performance period of the awards.

Vesting of 2018 LTIP award shares

The unvested LTIP awards granted in 2018 over Prudential plc shares were converted to awards over M&G plc shares in October 2019 using the methodology described in 'Unvested share awards at time of demerger' on page 124. The table below shows:

- the original grant value of the awards and performance outcome;
- the number of shares under award at the vesting date including dividend equivalents that have accrued during the performance period and the number of shares vesting based on the performance outcome;
- the estimated value of the vesting shares using the average closing price for the final three months of 2020, £1.791; and
- the vesting value attributable to the accrual of dividend equivalents and share price growth over the performance period. This has been calculated as the difference between the grant value adjusted for performance outcome and the actual vesting value. The Committee concluded that it was not necessary to apply discretion to the outcome of the LTIP awards as a result of share price appreciation.

	Grant value £'000	Performance outcome	Shares under award at vesting	Shares vesting	Estimated value of shares vesting £'000	Value attributable to share price movement and dividend equivalents £'000
John Foley	1,953	59.6%	932,551	555,800	995	(168)
Clare Bousfield	470	82.4%	224,464	184,958	331	(56)

2018 LTIP metric definitions

All financial metrics are cumulative over the vesting period.

Metric	Definition
Prudential UK and M&G Group 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 Limited 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	The definition of adjusted operating profit before tax is given in the supplementary information on page 283.
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. TSR for the Prudential plc peer group was measured from 1/1/18 to 21/10/19 to determine the 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 Insurance Group TSR for the M&G plc peer group was measured from 21/10/19 to 31/12/20 to determine the median and upper quartile performance for that period. The peer group being: – FTSE 100 financial services companies (excluding investment trusts).
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. Prudential plc definition of 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.
M&G plc total capital generation	The definition of total capital generation is given in the supplementary information on page 283.
Diversity	Percentage of the Leadership Team that is female at the end of 2020. The target for this metric is based on progress towards the goal that Prudential plc set when it signed the Women in Finance Charter, specifically that 30% of our Leadership Team will be female by the end of 2021.
Conduct	Through appropriate management action, ensure there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines.

Amendment to the capital measure in the 2017-2019 LTIP awards

The 2019 remuneration report stated that, for the period 1 July 2019 to 31 December 2019, the level of vesting of 2017 LTIP awards in respect of the 2019 financial year was in part calculated by reference to the Group's operating capital generation performance of £522m. However, the maximum performance target of £423m, against which this performance outcome was calculated, was by reference to the Company's total capital generation (in line with the definition set out on page 283). For the relevant period noted above, total capital generation was £579m. This amendment does not affect the level of vesting of 2017 LTIP awards or the value delivered to any LTIP participants (including the Executive Directors, as reported in the 2019 remuneration report). The Committee intends to measure the equivalent components of the LTIP awards granted in 2018 and 2019 with reference to total capital generation.

Single figure remuneration – Other (Audited)

Comprises the value of matching shares received on share purchases made through the company SIP during the year, at a rate of one matching share for every two shares purchased. The matching shares have been valued using a three-day average price preceding the date of each purchase, which is typically monthly, in accordance with the plan rules. This amount would also include the value of any gain realised on the maturity of a Sharesave contract, however no Sharesave contracts matured for the Executive Directors during 2020.

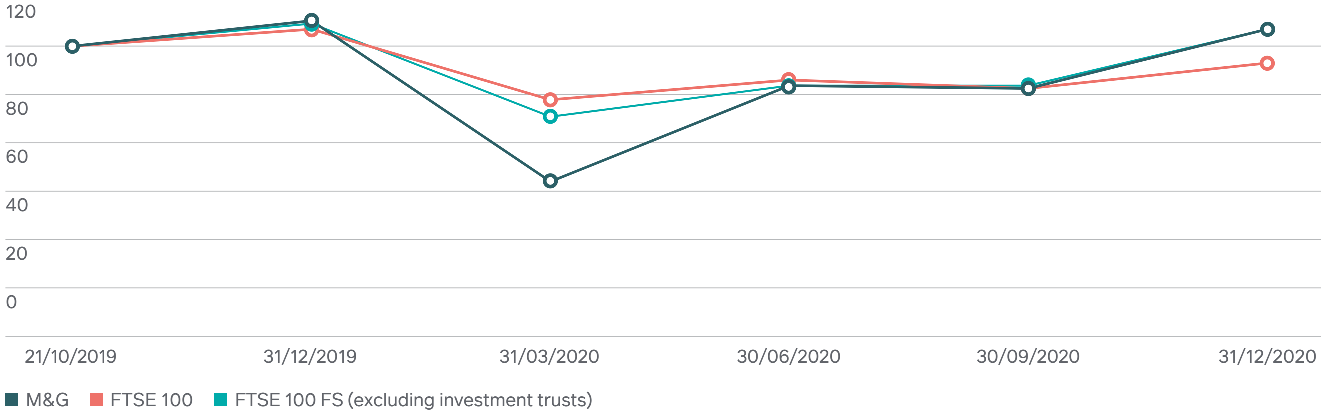
Unvested share awards at time of demerger

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 report when the awards vest.

Total shareholder return performance graph and Chief Executive pay



The performance graph shows the Total Shareholder Return of M&G plc compared to the FTSE 100 and FTSE 100 financial services (excluding investment trusts) TSR peer group for the period October 2019-December 2020. These comparators have been chosen as M&G plc is a member of the FTSE 100 index and the FTSE 100 financial services sector (excluding investment trusts) is used to measure relative performance in the LTIP.

The following table sets out a breakdown of the Chief Executive's remuneration for 2019 and 2020. The 2019 total remuneration figure reflects the restated amount disclosed earlier in this report.

	2019	2020
Chief Executive	John Foley	**John Foley**
Total remuneration (£'000)	3,281	**3,877**
STI as % of maximum	64.3%	**59.4%**
LTIP as % of maximum	63.5%	**59.6%**

Non-Executive Director single figure total remuneration table (Audited)

The total remuneration for the full year ended 31 December 2020 for the Chair and each Non-Executive Director is detailed below:

	Fees for 2020 £'000	Taxable benefits £'000	2020 Total £'000	2019 Total £'000
Mike Evans	450.0	2.6	452.6	450.7
Fiona Clutterbuck	36.4	–	36.4	–
Clare Thompson	152.0	–	152.0	98.5
Clive Adamson	246.0	–	246.0	146.6
Massimo Tosato	198.8	–	198.8	–
Robin Lawther	138.9	–	138.9	101.1
Caroline Silver	65.2	–	65.2	124.4

Notes to the table:

- Benefits for 2020 comprises private medical cover for the Chair and his spouse. The Chair pays the tax due on private medical cover.
- Clive Adamson's fees include £110,000 for his roles on the PAC Board during 2020 (and £47,500 in the 2019 amount).
- Massimo Tosato joined the Board on 1 April 2020. The table reflects fees paid from this date, including fees of £131,300 for his Chair role on the MGG Board.
- Clare Thompson acted as Interim SID from 27 May 2020 to 9 October 2020 and received an additional fee for that role over this period.
- Fiona Clutterbuck joined the Board on 9 October 2020. The table reflects fees paid from this date.
- Caroline Silver left the Board on 27 May 2020. The table reflects fees paid up to this date.
- With the exception of Mike Evans who joined the Board in 2018, 2019 fees reflect the amount paid from date of appointment.

Director share interests and other payments (Audited)

In this section

Awards granted in 2020 (Audited)

The following table provides the details of scheme interests awarded to the Executive Directors during 2020:

Plan	Participant	Type of award	Basis of award	Grant Date	Vesting Date	Face Value at Grant £'000	Number of shares awarded	% payable for threshold performance
Deferred Incentive Plan	John Foley	Share Award	Deferred STI: 40%	03-Apr-20	03-Apr-23	521.3	459,295	n/a
Performance Share Plan	John Foley	Share Award	% of Salary: 250%	03-Apr-20	03-Apr-23	2,450.0	2,158,590	10%
Deferred Incentive Plan	Clare Bousfield	Share Award	Deferred STI: 20%	03-Apr-20	03-Apr-23	148.5	130,837	n/a
Performance Share Plan	Clare Bousfield	Share Award	% of Salary: 225%	03-Apr-20	03-Apr-23	1,256.0	1,106,563	10%

Notes on the scheme interests table:

The number of shares granted under deferred STI and LTIP awards was calculated using the average middle-market closing share price for the three business days immediately preceding the Award Date, being £1.135. Each of the Executive Directors received a deferred STI award of M&G plc shares on 3 April 2020 in respect of their 2019 STI. The face value of the awards were based on deferral rates that reflected the legacy policy in effect prior to the Demerger, as follows:

- John Foley – 40% of the 2019 STI award outcome of £1,303,000, being £521,300
- Clare Bousfield – 20% of the 2019 STI award outcome of £743,000, being £148,500

Each of the Executive Directors received an LTIP award under the M&G plc Performance Share Plan on 3 April 2020, subject to performance conditions (as described in the table below), with a vesting date of 3 April 2023 and subject to 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. The Committee was mindful that the grant was made at a relatively low grant price of £1.135 and is therefore committed to reviewing the overall vesting levels to ensure that windfall gains will not be received.

Performance conditions for LTIP granted in 2020

	Weighting	Threshold	Target	Maximum
Vesting		0%		100%
Cumulative total capital generation (£m)	60%	1,850	2,150	2,450
Vesting		25%		100%
Relative TSR percentile ranking	40%	50th		75th

2020 LTIP metric definitions

Metric	Definition
Cumulative total capital generation	Defined as the total capital generation over the three-year period 1 January 2020 to 31 December 2022. The definition of total capital generation is given in the supplementary information on page 283. 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 percentile ranking	Defined as the 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.

Directors' share interests (Audited)

The following table shows the interests that each Director and their connected persons had in M&G plc shares at 31 December 2020. This comprises personally/legally owned shares, shares purchased and held within the Company's Share Incentive Plan (SIP) and unvested shares under deferred STI and LTIP awards. Shares vesting to John Foley in 2020 from his 2017 LTIP award were subject to a two-year holding period to April 2022 after the sale of shares for tax. These shares are included in the shares owned outright column of the table.

The value of the shares has been calculated using the average closing M&G plc share price for the final three months of 2020, which was £1.791.

Name	Shares owned outright	Subject to SIP	Deferred STI shares	LTIP subject to performance conditions	Total	Value	Multiple of salary
John Foley	940,046	1,056	1,026,682	4,696,979	6,664,763	£11,936,591	1,218%
Clare Bousfield	107,313	2,731	269,493	2,311,077	2,690,614	£4,818,890	863%
Mike Evans	83,627	–	–	–	83,627	£149,776	n/a
Fiona Clutterbuck	–	–	–	–	–	–	n/a
Clare Thompson	22,100	–	–	–	22,100	£39,581	n/a
Clive Adamson	8,600	–	–	–	8,600	£15,403	n/a
Massimo Tosato	61,000	–	–	–	61,000	£109,251	n/a
Robin Lawther	5,668	–	–	–	5,668	£10,151	n/a

There were no changes to Executive Directors' or Directors' interest in ordinary shares between 31 December 2020 and 3 March 2021, with the exception of Clare Bousfield who acquired a further 235 shares during the period due to her participation in the Company SIP.

Shareholding guidelines

The Executive Directors are required to build up and maintain a shareholding in the Company under the Directors' Remuneration Policy. The holding requirement must be achieved within five years of the introduction of the policy in 2020 (or recruitment date for new Executive Directors). Current holdings are shown in the table below:

Name	Guidelines	Shares at 31 December 2020
John Foley	300% of base salary	271.4%
Clare Bousfield	200% of base salary	81.1%

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 following the completion of the three-year performance period) count towards the shareholding requirement on a net-of-tax value basis.

Payments to past Directors (Audited)

No payments have been made to past directors.

Payments for loss of office (Audited)

No payments have been made for loss of office. Caroline Silver, who left the Board on 27 May 2020, only received regular fees up to her exit date, as disclosed in the Non-Executive Director single figure table, and no other fees/payments were made.

Remuneration arrangements throughout the Company

In this section

Workforce remuneration

A Remuneration Policy is in place for establishing standards for the design and operation of remuneration across the Company, and is based on principles consistent with the Directors' Remuneration Policy. The core components of remuneration and how they are operated for colleagues across the Company are explained in the table below.

The Board has an established approach to how it engages with colleagues, including both formal and informal meetings. Full details of colleague engagement during 2020 can be found on page 85. Although travel restrictions limited site visits, we held two virtual sessions in the UK and Europe in 2020, with further sessions planned in Q1 2021. One Voice survey results were discussed by the Board in Q3 2020 with identified areas for improvement communicated back to the business. We built on our ambitions to align colleague interests with our business strategy through further offerings of the UK and International Sharesave plans.

Remuneration element	Details
Base salary	Base salaries are set at a competitive level taking into account a range of factors including: – The individual's skills, performance and experience; – Internal relativities and wider workforce salary levels; – External benchmark data; and – The size, responsibility and geographical scope of the role. The Company is committed to maintaining base salaries at or above the London Living Wage/ National Living Wage, as applicable, across our UK offices and is seeking to achieve formal accreditation as a Living Wage Employer during 2021. Base salaries are reviewed annually. In 2020 a 2.75% budget applied to the majority of our UK colleagues, with a lower budget of 1.49% reserved for senior management roles. For 2021 we have applied a 2.0% budget for the wider UK workforce, with no increases for senior managers and executives. For our non-UK offices salary review budgets are determined on the basis of economic and market data for each location.
Pension	Across the Company all colleagues are eligible to participate in a pension scheme, which is designed to be competitive, but not excessive, in each of the markets in which we operate. Our standard defined contribution scheme in the UK offers a core contribution of 8% of salary (increased from 6% in 2019) with additional matching to a maximum company contribution of 13% (2019: 12%), aligned with the Executive Directors. Certain UK colleagues have retained the right to accrue benefits under defined benefit schemes, which are closed to new entrants (neither Executive Director is accruing benefits under a defined benefit scheme).
Benefits	Benefit packages are designed to be competitive, but not excessive, aligning with local market practice for businesses with which we compete for talent, and with the culture and values of the Group. Benefit packages are benchmarked periodically to ensure they remain consistent with these principles. In 2019 the Company launched an updated suite of flexible and family friendly policies, and in 2020, a consistent core and flexible benefit offering across our UK businesses. This included the addition of a standard core single private medical benefit for all UK colleagues (benefiting over 2,500 colleagues who previously funded this benefit themselves) and a core critical illness benefit. During 2020 and 2021 we have operated a wide range of programmes to support colleagues, including financial support to purchase IT equipment and set up an appropriate home-working environment, financial support with higher utility costs and an extensive range of health and well-being resources.

Remuneration element	Details
Short-Term Incentive Plans (STI)	All colleagues are eligible to participate in an STI plan with outcomes closely aligned with Group performance, customer outcomes and individual objectives, including the effectiveness of risk management, conduct, culture and behaviours. We operate bespoke schemes for our Investment Management and Distribution colleagues, consistent with these principles. Performance of colleagues engaged in a control function is assessed independently of the performance of the business overseen. The introduction of a standardised target/maximum STI structure by work level across our functions was introduced in 2020. Any colleague with lower entitlement was increased to the new structure, positively impacting c.50% of UK colleagues at lower work levels. We operate a Group-wide deferral policy whereby a proportion of STI over a threshold is deferred for three years, typically in M&G plc shares, unless regulation requires a higher level of deferral or alternative deferral mechanism.
Long-Term Incentive Plans (LTIP)	Participation in an LTIP is reserved for senior management colleagues with the highest influence over the determination and execution of our strategic goals, delivery of business performance and creation of shareholder value. The majority of the Group Executive Committee participate in the performance-based share plan aligned with that disclosed for the Executive Directors, with other senior management and those executives engaged in a control function, participating in a non-performance based share award. Eligibility to participate is assessed annually. A number of colleagues had the fair value of LTIPs previously received annually consolidated into base salary from 2020 as part of a remuneration package simplification exercise.
All-colleague share plans	All colleagues have an opportunity to participate in an all-colleague share plan, to align with and share in the success of the Company. In the UK all colleagues are eligible to participate in the Company Sharesave (SAYE) and Share Incentive Plan (SIP) on the same terms as the Executive Directors. Both schemes are HMRC-approved. We operate an International Sharesave in all other locations, providing the same opportunity as the UK Sharesave, subject to the rules/regulations that apply in each location. In 2019 all colleagues globally received a free share award of 920 M&G plc shares, to recognise the Demerger from Prudential plc.

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 workforce for both base salary and total remuneration. 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, using data on a consistent date to the information used in the calculation of the Chief Executive single figure total.

	Year	Method	25th percentile	Median	75th percentile
Salary	2020	B	22:1	15:1	11:1
Salary	2019	B	23:1	16:1	12:1
Single figure total remuneration	2020	B	67:1	45:1	31:1
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. The changes in the ratio from 2019 are primarily driven by the following factors:

- In 2020 the base salary for the Chief Executive increased by 8.4% as a result of the mid-2019 package review having a full year impact in 2020. No increase to salary was applied in 2020. The median salary for the wider workforce has increased by 15.7% due to a number of factors in addition to the 2020 salary review process, explained in the workforce remuneration table. Demographic changes through the year also have some impact on the outcome. As a result there was a small decrease to the ratio.
- The Chief Executive single figure increased by 4.5% in 2020 from 2019. There are a number of factors driving the increase in total remuneration for the wider workforce, as explained in the workforce remuneration table. Demographic changes through the year also have some impact on the outcome. As a result there was a decrease to the ratio.

For the purpose of comparing 2019 and 2020 pay levels and determining the pay ratio at each percentile, the single figure methodology was used for total remuneration, as disclosed earlier in this report for the Executive Directors. The 2019 and 2020 salary and total remuneration of the representative individuals at each quartile were as follows:

	25th percentile £	50th percentile £	75th percentile £
Salary 2020	44,187	64,500	90,245
Salary 2019	39,484	55,750	77,750
Total remuneration (2020)	57,490	85,410	124,603
Total remuneration (2019)	46,854	64,707	105,542

Directors vs average employee pay

	Change to base salary/fee	Change to benefits	Change to STI outcome
John Foley	8.4%	3.5%	11.7%
Clare Bousfield	1.5%	(2.2)%	(14.1)%
Mike Evans	0.0%	(7.1)%	
Clare Thompson	12.6%		
Clive Adamson	38.6%		
Robin Lawther	6.8%		
UK workforce	3.3%	13.4%	70.4%

Notes to the table:

- Changes for the Executive Directors are taken from the single figure table on page 118. John Foley did not receive a salary increase in 2020 and Clare Bousfield received an increase of 1.49%. As noted in the 2019 report, the 2019 STI amount for Clare Bousfield included an amount vesting from a legacy incentive scheme, which is driving the negative year-on-year change.
- Fiona Clutterbuck and Massimo Tosato are excluded from the table as they commenced their roles during 2020. Caroline Silver left the Board during 2020. On an annualised basis her fees would have been flat between 2019 and 2020.
- Mike Evans received private medical insurance from October 2019. For the purpose of comparison, the 2019 cost has been annualised.
- The 2019 M&G plc board fees received by each Non-Executive Director have been annualised for the purpose of comparison. The change in fees is driven by:
  - Clare Thompson commenced membership of the Nominations Committee during 2020 and also received additional fees for being the SID for an interim period;
  - Clive Adamson commenced membership of the Nominations Committee during 2020. In addition, his PAC Board fees increased due to a change in policy to pay fees for all subsidiary board roles undertaken; and
  - Robin Lawther commenced membership of the Audit Committee during 2020.
- Consistent with the Chief Executive pay ratio, the UK workforce is considered the most appropriate employee population for the basis of comparison:
  - The 2020 salary review was managed to an overall budget of 2.5%. The higher average increase reflects that those in the lower remuneration quartiles received higher increases.
  - The change in benefits reflects enhanced core benefits, an increased core pension contribution and insurance rate changes in 2020.
  - The high average increase in average STI reflects the standardisation and simplification of remuneration packages during 2020, explained in the workforce remuneration table.

Gender/Ethnicity pay gap

The Group will disclose its gender pay gap reports for 2020 later in 2021 for each UK employing entity where there are more than 250 people. M&G plc has five separate employing entities that meet this criteria. However, as shown below, we have calculated a combined set of figures for the Group that we believe provides a more meaningful view of our organisation's gender pay gap. Individual entity gender pay gap reports will be available from our website later in 2020. The 2019 gender pay gap data is also shown for comparison.

Year	Mean gender pay gap	Median gender pay gap	Mean gender bonus gap	Median gender bonus gap
2020	30.5%	26.6%	70.8%	51.1%
2019	25.0%	24.7%	72.1%	53.4%

While our mean pay gap increased in 2020 to 30.5% from 25.0% in 2019, our mean bonus gap decreased to 70.8% from 72.1% in 2019. These pay gaps are larger than we would like them to be and are primarily driven by the shape of our organisation with a higher proportion of men in senior roles compared to women. The demerger from Prudential plc in late 2019 also impacted the gender pay gap data and contributed towards the increase in the base pay gap. A number of executive and senior leaders transferred from our former Parent Company or were recruited externally to perform roles which had not previously been required. A large proportion of these roles, on senior reward packages, are filled by men. Notwithstanding this we continue to make progress toward our 2025 senior management gender diversity goal of 40% female and as a result saw positive change in the proportion of women in senior management roles.

M&G plc will also voluntarily disclose its ethnicity pay gap data for 2020 in 2021 in support of our position to improve not only gender representation but also ethnic diversity in senior leadership roles. We are, as shown below, reporting a combined gender and ethnicity set of figures for the Group in alignment with our gender pay gap reporting. The complete M&G plc ethnicity pay gap report will be available from our website later in 2021.

Year	Mean combined pay gap	Median combined pay gap	Mean combined bonus gap	Median combined bonus gap
2020	9.3%	(8.4)%	43.6%	1.4%

The mean gender pay 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 determined by ranking the pay for each man from lowest to highest to determine the mid-point and comparing this to the equivalent mid-point for a woman. Pay quartiles are calculated by ranking the pay for each employee from lowest to highest. This list is then divided into four equally sized segments and the proportion of men and women in these segments are reported (pay quartiles are also calculated and reported within our publicly disclosed gender pay gap reports). The M&G plc ethnicity pay gap report follows the methodology described in the gender pay gap legislation for our Caucasian population versus our combined Black, Asian and minority ethnic population within the UK.

M&G plc is committed to achieving year-on-year improvement in the representation of gender and ethnicity in senior leadership roles with goals of 40% women and 20% ethnicity 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. We recognise 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

The following table shows the relative importance of spend on pay in 2020 compared to shareholder dividends, adjusted operating profit before tax and total capital generation. These measures have been chosen as they are key performance measures for the business which are linked to the financial measures in the Executive Directors' STI performance scorecard (as defined on page 119). No share buybacks were made in 2020.

£m	Spend on pay	Share dividends	Adjusted operating profit before tax[i]	Total capital generation[ii]
2020	835	562	788	995
2019	628	n/a	1,149	1,509

i The STI measure is adjusted operating profit before tax as stated in the table adjusted to include restructuring costs.

ii The STI measure is total capital generation as stated in the table adjusted to exclude market movements.

Statement of implementation of Remuneration Policy in 2021

2021 Salary review

With effect from 1 April 2021 base salaries are as follows:

Name	Salary	Salary Increase
John Foley	£980,000	0.0%
Clare Bousfield	£558,200	0.0%

The Committee concluded that salaries for the Executive Directors remained competitively positioned and that in line with other senior leaders across the Company, no increase should apply for 2021. A salary review budget of 2.0% was operated for the wider workforce, as explained in that section of the report. The next review will take place in Q1 2022.

Incentive measure changes 2021

For 2021 we have reviewed the scorecards to incorporate a broader range of measures aligned with key priorities for the Group and to ensure that financial targets are appropriate in the context of the current external environment.

We have introduced non-financial measures to incentivise effective risk management, align with our sustainability objectives and retain a strong alignment to customer outcomes, diversity, engagement and culture. We have retained a 30% weighting for non-financial measures in the 2021 STI scorecard and, as before, it includes three equally weighted categories. We have replaced digital enablement with a measure for Risk and Controls and retained the Customer and People/Culture measures. For the 2021 LTIP, we have introduced a non-financial scorecard, with 25% weighting, comprising Risk and Conduct, Diversity and Sustainability.

For the 2021 STI scorecard, we will also be introducing an investment performance measure in respect of our retail, wholesale and institutional funds with a 5% weighting, alongside the With-Profits Fund investment performance metric which will have a reduced weighting of 5%. This will enable the strength of investment performance across our assets under management to be incorporated into the scorecards.

For the 2021 LTIP scorecard we have replaced cumulative total capital generation with cumulative operating capital generation. This is also a key performance measure for the Company and given it excludes the impact of market fluctuations it is considered a more appropriate measure to assess performance during a period with the potential for significant market volatility. The Committee was satisfied that the Executive Directors retained alignment with shareholders on the impact of market volatility through the 2020 LTIP awards, which had a 60% weighting for cumulative total capital generation, as well as a smaller component in the 2019 LTIP awards. It also excludes restructuring costs, however, the Executive Directors remain firmly aligned to the management of transformation and restructuring costs through the STI scorecard adjusted operating profit and total capital generation measures, defined below.

There are no changes proposed to the other financial measures used in the incentive scorecards for 2021. However, in the LTIP scorecard the weighting of the capital generation measure has been reduced to 50% (from 60%) and Relative TSR measure to 25% (from 40%) to accommodate the new non-financial measures. Further details of these measures are provided below.

2021 Short-term incentive

The maximum STI opportunity for our Executive Directors in 2021 is unchanged from 2020:

- Chief Executive – 250%
- Chief Financial Officer – 225%

The following table shows the 2021 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 with the exception of culture, which will be based on an objective assessment of the deliverables and outcomes of the culture programme. Full details of the measures and targets will be disclosed retrospectively with performance outcomes in the 2021 Annual Report on Remuneration due to the commercial sensitivity of the targets, as they indicate the Company's forward plan for the year.

	Metrics	Weighting
Financial metrics	Adjusted operating profit before tax including restructuring costs	20%
	Total capital generation excluding market movements	30%
	With-Profits renewal expense per policy	5%
	With-Profits new business expense as % of flows	5%
	With-Profits Fund investment performance (three years)	5%
	Asset-weighted investment performance (one and three years)	5%
Non-financial metrics	Customer Outcomes	10%
	People/Culture and Engagement	10%
	Risk and Conduct	10%

2021 STI metrics definitions

Metric	Definition
Financial metrics	
Adjusted operating profit before tax including restructuring costs	The definition of adjusted operating profit is given on page 283 of the supplementary information.
Total capital generation excluding market movements	The definition of total capital generation is given on page 283 of the supplementary information.
With-Profits renewal expenses	Represents the renewal expenses, including associated restructuring costs, incurred by the With-Profit Fund on a per-policy basis.
With-Profits new business expenses	Represents new business expenses, including associated restructuring costs, incurred by the With-Profits Fund as a proportion of new business flows and restructuring costs.
Investment performance	Represents three measures, equally weighted: – The three-year investment performance of the With-Profits Fund, relative to its benchmark, the ABI Mixed Investment 20-60% Shares fund; and – investment performance of retail, wholesale and institutional funds on an asset weighted basis over one and three years, measured against relevant benchmarks/targets, as appropriate.
Non-financial metrics	
Customer outcomes	Represents three separate measures across our Wealth and Heritage businesses aligned to: – Digital Adoption – the percentage of total customer interactions that are undertaken using digital capability – NPS – three-month rolling net promoter score – Customer Complaints – the ratio of complaints received per 1,000 policies All measures have quantitative targets and performance ranges.
People/Culture and Engagement	The measure for the culture component is an assessment of the culture programme goals and milestones, which was launched in 2020 and is described on page 62 of this Annual Report, to assess that these have been met and that the implementation and management of the programme has been effective. The measure for the engagement component is the sustainable engagement index score outcome from the 2021 Employee Opinion One Voice survey, relative to a target and performance range.
Risk and Controls	Represents three separate measures aligned to assessing the effectiveness of risk management culture across the Company. All measures have quantitative targets and performance ranges.

2021 Long-term incentive

The maximum LTIP awards for our Executive Directors in 2021 are unchanged from 2020:

- Chief Executive – 250%
- Chief Financial Officer– 225%

The table below shows the 2021 LTIP scorecard of performance measures, weightings, targets and performance ranges that will apply to both Executive Directors:

		Weighting	Threshold	Target	Maximum
	Vesting		0%	50%	100%
Cumulative operating capital generation (£m)		50%	2,213	2,604	2,995
Risk and Conduct		10%		See definitions table for details	
Diversity		7.5%	33%	35%	37%
Sustainability – own emissions reduction		7.5%	14.7%	16.8%	18.9%
	Vesting		25%		100%
Relative TSR percentile ranking		25%	50th		75th

Definitions:

Metric	Definition
Cumulative operating capital generation	Defined as the cumulative operating capital generation over the three-year period from 1 January 2021 to 31 December 2023. The definition of operating capital generation is given in the supplementary information on page 283. 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.
Risk and Conduct	For the three-year performance period the outcome of this measure will be determined on a qualitative basis by reference to an independent report from the Chief Risk and Resilience Officer, approved by the Risk Committee, taking consideration of the following criteria: – Adherence to risk appetite policy and limits; and – Adherence to conduct/culture/governance policies and standards A detailed and transparent disclosure of how the Committee has determined the outcome of this measure will be provided at vesting of the awards.
Diversity	The proportion of females within the senior leadership team at the end of 2023, defined as the Executive Committee and their direct reports. 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.
Sustainability	The percentage reduction in the Company's Scope 1, 2 and 3 emissions from the baseline position disclosed for 31/12/2019 in the 2019 Annual Report. The target aligns to our objective to achieve net zero emissions by 2030. Despite welcome reductions in 2020, we expect our emissions to increase once COVID-19 restrictions are lifted. We therefore intend to measure and report key performance indicators annually against our net zero 2019 base year. 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 2021 is detailed in the table below. No increase was applied in 2021 (or 2020). The fee structure will be subject to a further review for 2022:

£'000	2021 fees	2020 fees
Chair	450	450
Non-Executive Director basic annual fee	75	75
Senior Independent Director	30	30
Chair of the Risk Committee	40	40
Chairs of the Audit and Remuneration Committees	30	30
Members of the Risk, Audit and Remuneration Committees	15	15
Members of the Nominations Committee	10	10

Other related disclosures

In this section

Remuneration Committee

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

The Committee's principal areas of focus are:

- Framework of the remuneration policies: Establishing, approving and maintaining the principles and framework of the remuneration policies and for the Group.
- Remuneration: Determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, Group Executive Committee, individuals identified as Solvency II staff and Material Risk Takers under remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

The Remuneration Committee comprises Robin Lawther (Chair), Clare Thompson, Massimo Tosato and Fiona Clutterbuck. The Committee met six times during 2020 and full details of Committee member attendance can be found on page 81 of the Governance Report. Other attendees during 2020 comprised: Mike Evans, Board Chair; Clive Adamson, Board member; and Jo Dawson, Non-Executive Board member of PAC. Where appropriate the Chief Executive, Chief Financial Officer, Chief HR Officer, General Counsel, Chief Risk and Resilience Officer and Reward Director also attended meetings. No individual was in attendance for discussions/decisions in respect of their own remuneration.

A summary of the activities undertaken by the Committee is presented below:

Q1 2020	Q2 2020
– Salary review and incentive outcomes for the executives and broader workforce – Completion and disclosure of the DRP and 2019 Annual Remuneration Report – 2020 individual performance objectives for the executives (closed in Q2)	– Annual share grants for STI deferrals and LTIPs – AGM – Approval of the package for the hire of the new Chief Risk and Resilience Officer, Peter Grewal – Amendments to the internal Remuneration Policy and governance framework to ensure effective alignment to management of conflicts of interest
Q3 2020	**Q4 2020**
– Incentive plan forecasts and planning – Workforce remuneration dashboard – Review of non-financial measures for 2021 – Advisor selection process (closed in Q4)	– Incentive plan forecasts and planning – Remuneration policy effectiveness (including regulatory compliance) – Review of sales/distribution incentive arrangements – Review of financial and non-financial measures for 2021

External advisers to the Committee

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 and listing of M&G plc and its first Directors' Remuneration Policy and annual remuneration reporting cycle.

During 2020, in addition to advice to the Committee, PwC provided other services to M&G plc including benchmarking data and remuneration regulatory advice. This did 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 were 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.

We note the intention to appoint PwC as independent auditors of M&G plc for the period commencing 1 January 2022. In Q3 2020 the Remuneration Committee commenced a formal tender process to identify and appoint a remuneration adviser. Following this, Deloitte LLP were appointed as advisers to the Committee as of 2 December 2020. PwC's availability to provide full advice to the Remuneration Committee was retained to the end of 2020 and formally ceased in respect of forward looking remuneration policy and implementation decisions as of 1 January 2021. The Committee retained PwC for a short period in 2021 for feedback and advice on the disclosure of decisions taken by the Committee during PwC's tenure as advisor. We are confident that there are no conflicts of interest.

Deloitte are founding members of the Remuneration Consultants Group and provide advice in line with its Code of Conduct. The Committee is satisfied that the advice received from Deloitte is objective and independent. The Committee is comfortable that Deloitte do not have any current connections with any individual M&G plc Directors that may impair their independence and objectivity. In addition to advice regarding remuneration, separate teams from Deloitte also provided other unrelated professional services to the Group during the year including technology change services, regulatory support, tax and transaction related advice.

	Key areas of advice	Total fees 2020
PwC	Remuneration Policy including shareholder consultation, impact of COVID-19, Directors' Remuneration Report and regulatory advice	£185,252
Deloitte	Directors' Remuneration Report and 2021 incentive measures	£8,900

Consideration of risk

The design and operation of all remuneration policies and incentive schemes must be aligned with the Company's risk management principles and policies through the appropriate use of performance measures and targets and the discretion to adjust outcomes to reflect risk, compliance and conduct events.

The Risk Committee provides independent input to the Remuneration Committee to help with the assessment of scheme design and outcomes to ensure that they are consistent with these principles and policies. A formal risk and compliance report, compiled by the Chief Risk and Resilience Officer (CRRO) and approved by the Risk Committee is submitted to the Committee annually to provide an assessment of:

- The appropriateness of scheme design for the coming year; and
- The effectiveness of the risk and control environment, material events and specific conduct and compliance issues over the one and three-year performance periods of awards to enable the Remuneration Committee to determine if the outcome of schemes are appropriate or if any adjustments should be applied at scheme or individual level.

Input from the report is also used to assess whether there have been any events that warrant the consideration of malus and/or clawback on previously determined awards.

Any adjustments applied to scheme outcomes for the Executive Directors will be explained in the relevant Remuneration Report.

Sustainability risk

As a responsible investor we consider the sustainability risks of all our investments and advice by taking into consideration ESG factors that have the potential to have a material financial impact and seek to incorporate them into our general risk management framework. The effectiveness of sustainability risk management in investment decisions and advice is a consideration in the CRRO Risk and Compliance report and adherence to relevant principles and policies is monitored and reported to the Remuneration Committee as part of this report. In accordance with the 2021 M&G Remuneration Policy, any failings to meet the required standards of these principles and policies will be transparently reflected in the determination of remuneration outcomes.

Consideration of shareholder views

As with the consultation undertaken before the finalisation of our Directors' Remuneration Policy, we contacted shareholders representing over 50% of our register in January, along with advisory firms, to invite feedback before the planned changes to incentive plan measures in the 2021 scorecards were finalised. Shareholders were generally supportive of the proposed non-financial measures. The feedback received primarily emphasised the importance to shareholders that the rationale for all measures is clearly explained with transparent and measurable performance objectives. The Committee adhered to these design principles for the majority of measures. Where this was not possible for the two non-financial measures that are more qualitative in design, a detailed and transparent explanation of how performance has been determined will be provided when outcomes are disclosed.

Voting outcomes at the annual general meeting (AGM) 2020

The following table provides the voting outcomes at the May 2020 AGM for the Directors' Remuneration Policy and 2019 Annual Remuneration Report.

Voting Item	For	Against	Abstain
Remuneration Policy	94.86% 1,778,648,117 votes	5.14% 96,342,690 votes	28,544,261 votes[i]
2019 Remuneration Report	90.69% 1,702,599,489 votes	9.31% 174,876,823 votes	26,058,756 votes[i]

i Votes withheld are not votes in law and therefore have not been counted in the calculation of the proportion of the votes for and against a resolution.

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 on 31 December 2018. As at 31 December 2020 M&G plc's standing against these dilution limits was:

- 0.33% (0.93% at 31 December 2019) where the guideline is no more than 5% in any 10 years under all discretionary share plans
- 1.21% (1.46% at 31 December 2019) 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 page 82 of the Annual Report.

The Directors Remuneration report was approved by the Board on 8 March 2021.

Robin Lawther, CBE
Remuneration Committee Chair
8 March 2021

Directors' Remuneration Policy

Remuneration Policy for Executive Directors

The Remuneration Policy, which took 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 policy were as follows:

- Remuneration packages are 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 provide clear alignment of objectives and performance with our financial and non-financial strategic priorities;
- A 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 between remuneration and 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;
- Support for the Group's purpose and values to build a safe, respectful and inclusive culture through remuneration policies and schemes that promote and reward good conduct and behaviours for the benefit of our customers and colleagues; and
- Promotion of 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: – company 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; and – and benchmarking information for FTSE 100 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 Company 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. 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); and – Annual health screening. The Executive Directors are able to participate in self-funded voluntary benefits and discounted M&G 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 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'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 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 financial and non-financial strategic objectives annually. 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 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 Risk Committee, including an assessment of risk and compliance events and the effectiveness of risk management relative to M&G's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. 50 per cent of any STI payable to an Executive Director will be deferred for three years into an award of M&G 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 in on page 142.	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 per cent 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 company. Any adjustments applied will be explained in the relevant annual remuneration report. Performance targets and ranges will be disclosed with the performance outcomes of STI awards in the annual remuneration report 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 Committee. Awards are normally granted annually over M&G plc shares. Awards are subject to performance conditions which are measured over a three-year vesting 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 Risk Committee, including an assessment of risk and compliance events and the effectiveness of risk management relative to M&G's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. 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 on page 142.	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 per cent 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 remuneration report. 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 remuneration report for the year prior to the grant of LTIP awards.

Malus and clawback

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

Application to STI	– Cash STI – Deferred STI (in shares)	– Clawback for 3 years from the payment date – Malus for the 3-year vesting period
Application to LTIP	– 3-year vesting period – 2-year holding period	– Malus for the 3-year vesting period – Clawback for the 2-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 remuneration report 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 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 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 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; and
- to amend the 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; and
- aligning with the long-term sustainable success of the company and value creation for shareholders.

Shareholding requirement

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

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 5 years of this 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.

Shareholding levels will be tested annually following completion of the annual grant and vesting of awards, which will be disclosed in the annual remuneration report.

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 2 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 remuneration report.

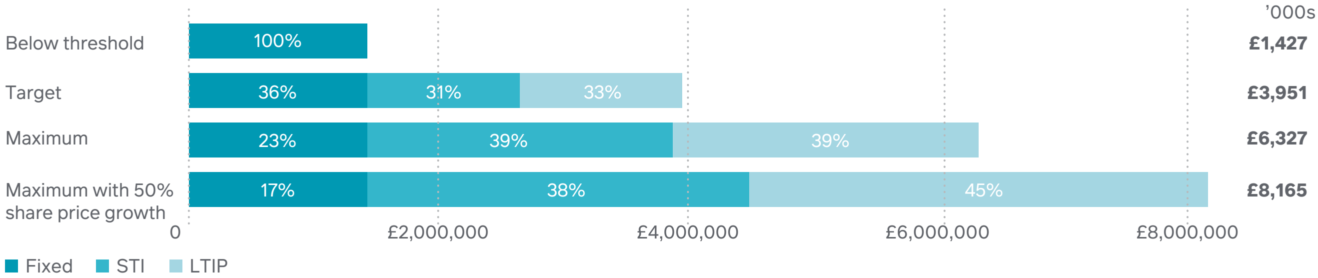
Remuneration regulations

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

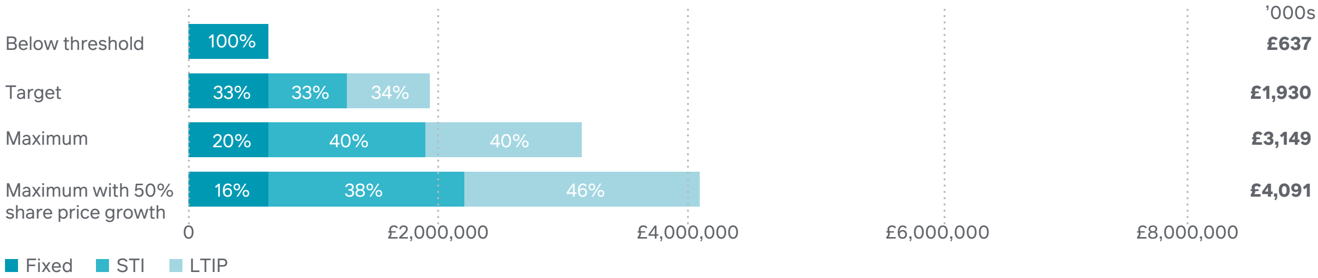
Scenario charts

This 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 2021 base salary, benefits (based on the 2020 single figure) 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 53% outcome for on-target performance (financial/non-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 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 policy.

The Company may cover reasonable legal costs and certain relocation expenses in accordance with the Company'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 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 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 contracts 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 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 company may require that all or an element of the notice period be taken as gardening leave. – The company 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 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 company redundancy policy in effect at that time.
STI awards	A good leaver[i] will be entitled to a pro-rated STI award for the period worked (excluding garden 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.

Element	Policy
Treatment of incentive awards	Unvested deferred STI awards for good leavers[i] continue to their normal vesting date. Unvested awards for bad leavers will lapse. Unvested LTIP awards for good leavers[i] 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.

i 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

Element	Policy
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 Chairship 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: 6 months by either party without liability for compensation. – NED: 6 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 policy

There have been no changes to the policy since it was approved by shareholders in May 2020.

Directors' Report

The Directors present their Report for the financial year ended 31 December 2020. The Directors' Report comprises the Governance section (pages 78 to 145), and the Directors' Strategic Report (pages 2 to 76). In addition, the risk factors set out on pages 68 to 75 and the additional unaudited financial information set out on pages 283 to 296 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 82 to 83. The Directors who served during 2020 are set out below:

Director	Appointment	Resignation
Clive Adamson	22 March 2019	
Fiona Clutterbuck	9 October 2020	
Mike Evans	1 October 2018	
Robin Lawther	22 March 2019	Effective 15 March 2021
John Foley	2 July 2018	
Clare Bousfield	23 January 2019	
Caroline Silver	22 March 2019	27 May 2020
Clare Thompson	7 May 2019	
Massimo Tosato	1 April 2020	

Strategic Report

The Strategic Report on pages 2 to 76 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 2020 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) 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 8 March 2021, Trustees held 2.66% 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 127 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 which is expected to take place on 26 May 2021.

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 which is expected to take place on 26 May 2021. There were no share buybacks in the period to 31 December 2020.

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2020, 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.	6.61%
The Capital Group Companies, Inc	5.19%
Norges Bank	4.93%

Dividend information

2020 dividend	Shareholders registered on the UK register
Ex-dividend date	18 March 2021
Record date	19 March 2021
Payment date	28 April 2021

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 can be found on our website at https://www.mandgplc.com/investors/shareholder-information/mandg-dividend-reinvestment-plan.

The September 2020 M&G plc dividend payment was the last for which cheques were issued. The ability to receive dividend payments by cheque is being withdrawn from the next dividend payment, expected to take place on or around 28 April 2021. Dividends will instead be paid by direct debit or shareholders can join the Dividend Re-investment Plan to use their dividend to purchase further M&G plc shares. Receiving dividends in this way, rather than by cheque, means shareholders can receive funds more quickly, more securely and in a more environmentally friendly way.

Political donations

The Group does not make political donations.

Equal opportunities and employment of disabled persons

M&G plc's Global 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 61 and the proportion of women on the Board and in senior executive positions can be found on page 80. The Company's ethnicity targets can be found on page 61.

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 reborrowed 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 which allows M&G to manage risk within agreed appetite levels is set out on pages 66 and 67. 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 (e.g. hedging) and exposure (e.g. price, credit, liquidity, cash flow risk) is contained in the financial statements on pages 241 to 256.

Environmental, employee and social policies

Policies relating to environmental matters, the Company's employees and social, community and human rights issues can be found on pages 42-63 of this Report.

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 258 sets out details of related party transactions.

Directors' and executives' beneficial interests

Details of Directors' and executives' beneficial interests can be found in the Directors' Remuneration Report on page 127.

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 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 2020.

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

The Group's business activities, together with the factors that may affect its future development and performance are stated in the Strategic Report. The Strategic Report also describes the Group's business model and key components of our strategy. The principal risks and uncertainties that the Group is exposed to and how the Group manages and mitigates them is set out on pages 68-76.

The Board undertook a comprehensive going concern assessment to satisfy themselves of the appropriateness of the use of the going concern assumptions in relation to these consolidated financial statements. As part of the assessment, the Board considered the liquidity projections of the Group, including the impact of applying specific liquidity stresses. The Board also considered the ability of the Group to access external funding sources and the management actions that could be used to manage liquidity.

As part of the assessment, the Board also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and certain stressed scenarios, which included a pessimistic COVID-19 scenario and a severe Brexit scenario.

Based on the assessment undertaken, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the financial statements for the year ended 31 December 2020.

Greenhouse gas emissions

Further details of our approach to the environment, including information in relation to greenhouse gas emissions, can be found on pages 42 to 55. This forms part of the ESG Report section of the Annual Report on pages 42 to 63.

Branches

The Group has branches in Belgium, France, Germany, Ireland, Isle of Man, Italy, Malta, the Netherlands, Poland, Spain, Sweden and the UK. More details of the extent of our international footprint can be found on page 6.

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 expected to take place on 26 May 2021.

On 30 October 2020, the Board announced its intention to appoint PricewaterhouseCoopers LLP ('PwC') as its auditor for the year ending 31 December 2022. This followed a competitive tender process actively overseen by the Audit Committee, as referred to on page 106, and resulted in a recommendation which was approved by the Board. The appointment of PwC will be recommended to the Company's shareholders for approval at the 2022 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 page 79. This page include details of internal control and risk management systems and diversity policies as well as the discussion of issues raised, topics considered and feedback received during engagement with employees and how directors have had regard to the need to foster the Company's business relationships with suppliers and customers.

Assessing and monitoring culture

Information on actions the Board has taken in relation to culture in 2020 can be found in the Strategic Report on pages 2 to 76 and in the Governance Report on pages 78 to 150.

Conflicts of interest

The Company has a Conflicts of Interest Policy and maintains a Conflicts of Interest Register. Mandatory training on conflicts for all M&G plc employees took place over 2020 and the Director of Public Policy and Regulation reports to the Board and its Committees on conflicts as required.

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 page 283
9.8.4(4)R	Details of long-term incentive schemes required by Listing Rule 9.4.3	Directors' Remuneration Report page 109
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 page 298
9.8.4(13)R	Shareholder waivers of future dividends	Shareholder Information page 298
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:

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Disclosure of information to auditor	Directors' Report	148
Directors in office during the year	Governance	146
Corporate responsibility governance	ESG	59
Employment practices and engagement	ESG	85
Greenhouse gas emissions	ESG	55
Charitable donations	ESG	59
Political donations and expenditure	Directors' Report	147
Remuneration Committee Report	Governance	109
Directors' interests in shares	Directors' Remuneration Report	127
Agreements for compensation for loss of office or employment on takeover	Directors' Remuneration Report	144
Details of qualifying third-party indemnity provisions	Directors' Report	148
Internal control and risk management	Risk management	66
Rules governing appointment of Directors	Governance	93
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Future developments of the business of the Company	Strategic Report	2
Post-balance sheet events	Note 40 of the financial statements	263
Rules governing changes to the Articles of Association	Shareholder Information	298
Structure of share capital, including changes during the year and restrictions on the transfer of securities, voting rights and significant shareholders	Directors' Report and Shareholder Information	146
Business review	Strategic Report	31
Changes in borrowings	Note 28 of the financial statements	227
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In addition, the principal risks set out on pages 68 to 76 and the additional unaudited financial information set out on pages 283 to 296 are incorporated by reference into the Directors' Report.

Signed on behalf of the Board of Directors

Alan F Porter
General Counsel and Company Secretary
8 March 2021

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

Company law requires the Directors to prepare consolidated and Company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework. In addition the financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 Company and of the Group's profit or loss for that period.

In preparing the consolidated and 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 and prudent;
- for the consolidated financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company 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
8 March 2021

Financial Information

Notes to the consolidated financial statements

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1. Our opinion is unmodified

We have audited the financial statements of M&G plc ("the Company") for the year ended 31 December 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity, 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 Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; 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 to the extent applicable.

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 three financial years ended 31 December 2020. 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	£60m (2019:£70m) 1.1% (2019: 1.4%) of Group net assets	
Coverage	96% (2019:97%) of Group net assets	
Key audit matters		**vs 2019**
Recurring risks	Valuation of insurance contract liabilities	↑
	Valuation of investments that require judgement	↑
	Recoverability of the Company's investment in subsidiaries	↑

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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 decreasing order of audit significance, 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 and investment contract liabilities with discretionary participation features (collectively, 'insurance contract liabilities')
(£156,273 million; 2019: £156,528 million)
The risk has increased compared to the prior year.
Refer to page 174-175 (accounting policy) and page 220-226 (financial disclosures).
	Subjective valuation:
	The Group has significant insurance contract liabilities representing 70% (2019: 71%) of the Group's total liabilities.
	This is an area that involves significant estimation over uncertain future outcomes, mainly the ultimate total settlement value of insurance contract liabilities, and we consider the risk to have increased in the current year due to the higher degree of estimation uncertainty resulting from changes in both demographic and economic conditions caused by the Coronavirus pandemic (COVID-19).
	The valuation of insurance contract liabilities in relation to the annuity business requires significant judgement in the selection of key assumptions covering both operating 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 includes consideration of the impact of COVID-19, and the expected level of future expenses, which is based on the expected future costs for administering the underlying policies.
	The key economic assumption, that impacts the calculation of the discount rate that is applied to the annuity business, is the credit risk which is based on the Group's view of expected future investment defaults including the impacts of COVID-19 on investment markets.
	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 sensitivities estimated by the Group.
		We used our own actuarial specialists to assist us in performing our procedures in this area.
		Our procedures included:
		– **Control design and reperformance:** We have tested, assisted by our own IT specialists, 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. Our testing identified weaknesses in the design and operation of controls. As a result we expanded the extent of our detailed testing over and above that originally planned.
		– **Methodology choice:** We have assessed the methodology for selecting assumptions and calculating the insurance contract liabilities. This included:
		  – Assessing the methodology adopted for selecting the assumptions by applying our industry knowledge and experience and comparing the methodology used against standard industry 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 impact of methodology and assumptions adopted; and
		  – Comparing changes in methodology to our expectations derived from market experience.

The risk	Our response
Calculation error and data capture: The Group uses complex actuarial models to calculate insurance liabilities. There is the risk that the modelling does not appropriately reflect the model specifications and/or the product features and/or there are unauthorised or erroneous changes to the models. In addition, there is a risk that data input into the models may be incomplete.	– **Historical comparison:** – Evaluated the evidence used to select the mortality rate by reference to actual mortality rate of the policyholders in order to assess whether this supports the year-end assumptions adopted. This included assessing the impact of COVID-19. – Assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing current year unit costs, considered the expected future level of expense inflation and assessed the appropriateness of the likely impact of planned management actions on future costs. – Reconciled the completeness and accuracy of the assets used in the calculation of the Valuation Interest Rate to the assets used to back the insurance liabilities. – **Benchmarking assumptions and sector experience:** – Evaluated the analysis performed by the Group to compare expected against actual mortality experience of the policyholders in order to assess whether this supported the year end assumptions. – Evaluated the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience including assessing the impact of COVID-19 on investment markets. – Used the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality and credit risk. – **Model evaluation:** – Evaluated 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. – Used our own valuation models to perform an independent recalculation of a sample of insurance liabilities to ensure that the models have been calibrated in line with the Group's specifications. – Evaluated that changes made to the actuarial models over the year have been appropriately reviewed and approved; and evaluated the appropriateness of the financial impact of the changes made to the models during the year. – Tested the completeness of data used in the valuation of annuity liabilities by reconciling the data from the policy administration system to the data in the model point files used in the actuarial models. – **Assessing transparency:** Considered whether the 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 (2019 result: acceptable).

	The risk	Our response

Valuation of investments that require judgement
(£43,368 million; 2019: £41,851 million)
The risk has increased compared to the prior year.
Refer to page 176, 179 (accounting policy) and page 231-240 (financial disclosures of level 3 assets).
	Subjective valuation:
	The areas that involve significant audit effort and judgement are the valuation of illiquid positions within the financial investments portfolio 24% (2019: 23%) and we consider the risk to have increased in the current year due to the higher degree of estimation uncertainty resulting from the economic conditions and their outlook caused by the COVID-19 pandemic.
	These include private placement loans, unlisted Net Asset Value ('NAV') funds, equity release mortgages, terminal value loans and investment properties.
	For these positions an observable price was not readily available and therefore, the application of expert judgement 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 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.
		We used our own actuarial and valuation specialists to assist us in performing our procedures in this area.
		Our procedures included:
		– **Control design and observation:** Tested the design, implementation and operating effectiveness of key controls over the valuation process for the investments, including review and approval of the estimates and assumptions used for the valuation.
		– **Methodology choice:** Assessed 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:** Produced our own valuation for certain investments and compared the output to the Group's valuations.
		– **Benchmarking of assumptions and sector experience:** Agreed the key inputs and assumptions used for the valuation and compared these to our own market and industry benchmarks.
		– **Assessing valuers' credentials:** Assessed the competence and qualifications of external valuers and reconciled the valuations provided by them to the valuations recorded by the Group.
		– **Tests of detail:**
		  – Independently obtained the most recent Net Asset Value ('NAV') statements, investment manager and administrator control reports to assess the appropriateness of the fair value of the unlisted funds.
		  – Performed 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:** Assessed 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 (2019 result: acceptable).

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	The risk	Our response
Recoverability of the Company's investment in subsidiaries (£ 10,494 million; 2019: £11,069 million) The risk has increased compared to the prior year. Refer to page 277 (accounting policy) and page 279-280 (financial disclosures).	**Forecast-based assessment:** The Company holds its investments in subsidiaries at cost less impairment, representing 90% (2019: 89%) of the Company's total assets. The carrying amount of the Company's investments in subsidiaries is significant due to their materiality in the context of the Company financial statements and has a higher degree of estimation uncertainty and higher risk profile in 2020 given the carrying value when considered in the context of Group's market capitalisation and the volatility in the share price. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets. We consider the risk to have increased in the current year resulting from the economic conditions and their outlook caused by the COVID-19 pandemic. The effect of these matters is that, 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. The Company financial statements (Note A) disclose the sensitivity estimated by the Company.	Our procedures included: – **Control design and observation:** evaluated the design and implementation of key controls within the impairment in subsidiaries assessment procedures. – **Benchmarking assumptions:** Involved our own valuation and actuarial specialists in challenging the cash flow and discount rate assumptions used in the cash flows included in the forecasts based on our knowledge of the Group and the markets in which the subsidiaries operate. – Where value in use calculations are performed, challenged the cash flow and discount rate assumptions used in the cash flows based on our knowledge of the markets in which the subsidiaries operate and challenged the appropriateness of the discount rate applied based on our industry experience. – **Historical comparisons:** Assessing the reasonableness of the budgets by considering the historical accuracy of the previous forecasts. – **Comparing valuations:** Compared and reconciled the recoverable amount for the Company's investments in subsidiaries to the market capitalisation of the Group and corroborating any significant differences. – **Assessing impairment:** Where impairment is recognised, we performed test of detail over management's assessment, including challenging the assumptions used by management. – **Our sector experience:** Evaluated the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market. – **Assessing transparency:** Assessed the adequacy of the Company's disclosures in respect of the investment in subsidiaries balance. **Our results** – We found the balance of the Company's investments in subsidiaries and the related impairment charge to be acceptable (2019: acceptable).

The key audit matter identified in 2019 related to the first time adoption of IFRS and the formation of the M&G plc Group has been removed in 2020, as the Group is now into its second reporting cycle as an independently listed business.

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 £60m, determined with reference to a benchmark of net assets of which it represents 1.1%.

In addition, we applied materiality of £200 million to the with-profits and unit-linked assets and liabilities in the consolidated statement of financial position, consolidated income statement and related notes, determined with reference to the lower of a benchmark of the unallocated surplus of the With-Profits Fund of which it represents 1.3%, and a benchmark of total unit linked assets of which it represents 0.8%. This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurance in the United Kingdom.

Materiality for the Company financial statements as a whole was set at £55m (2019: £60m), determined with reference to a benchmark of total assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.5% (2019: 0.5%) of the stated benchmark.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

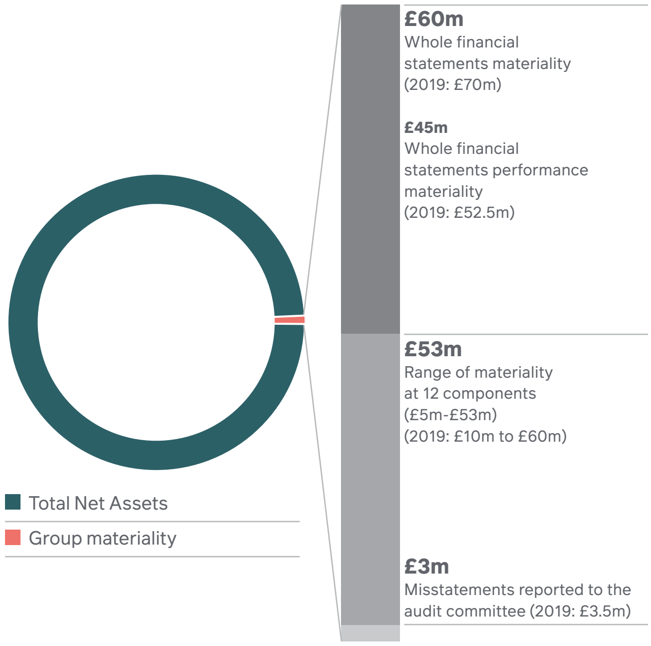
Performance materiality for the Group and Company was set at 75% (2019: 75%) of materiality for the financial statements as a whole. For the Group, this equates to £45m (2019: £52.5m) for the financial statements as a whole and £150m (2019: no comparative) for with-profits and unit-linked assets and liabilities, and £41m (2019: £44.6m) for the Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

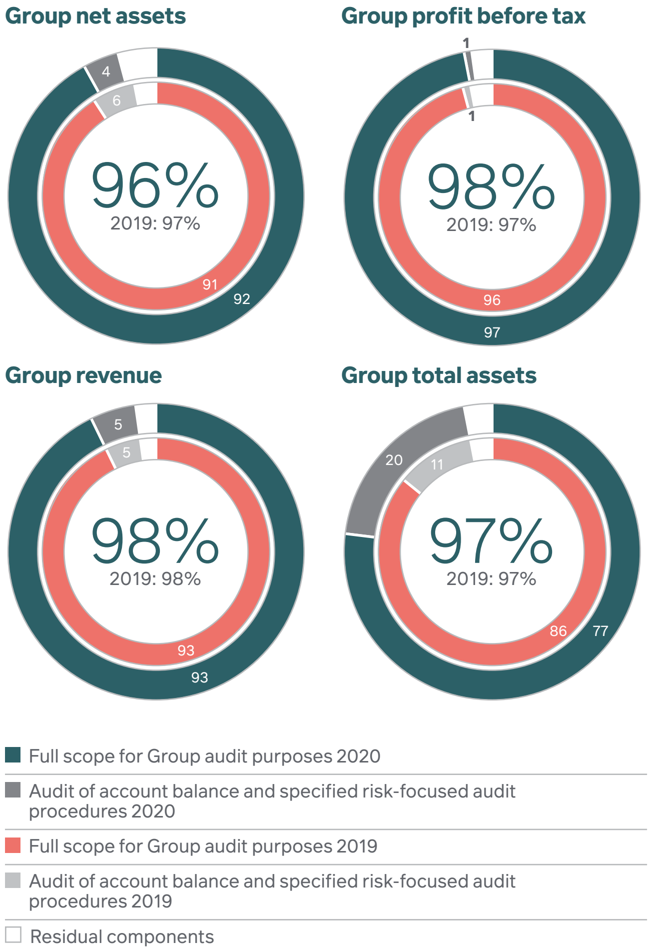
We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £3m (2019: £3.5m) and £10m for the with-profits and unit-linked assets and liabilities, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2019:11) reporting components, we subjected 2 (2019: 3) to full scope audits for Group purposes, 9 (2019: 7) to audit of account balance and 1 (2019: 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. 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.

Total Net Assets
£5,585m (2019: £5,131m)

Group materiality
£60m (2019: £70m)





The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. 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 having regard to the mix of size and risk profile of the Group across the components which ranged from £5m to £53m for the financial statements as a whole. For the relevant components, we also applied a materiality which ranged from £30m to £175m to the with-profits and unit-linked assets and liabilities in the consolidated statement of financial position, consolidated income statement and related notes. The work over 8 of the 12 components was performed by component auditors and the rest was performed by the Group Team. The audit of the Company was also performed by the Group team.

Whilst it would be conventional practice to visit component teams, the impact of the COVID-19 restrictions on travel has required an alternative approach this year, which required more extensive use of video and telephone conference meetings with component auditors. During these video and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor. The Group team also routinely reviews the audit documentation of all component audits.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also attended selected component audit committee meetings and participated in meetings with local components to obtain additional understanding, first hand, of the key risks and audit issues at a component level which may affect the Group financial statements.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over 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").

We have used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model 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 including, but not limited to, wider credit spreads and defaults which affect regulatory capital solvency coverage ratios, liquidity ratios, the valuations of the Group's investments and valuation of insurance contract liabilities;
- Adverse fund outflows, policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as the failure of counterparties who have transactions with the Group (such as banks and reinsurers), which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the solvency and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We also consider whether the going concern disclosure in Note 1 gives a full and accurate description of the director's assessment of going concern, including the identified risks, and dependencies, and related sensitivities. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in Note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risk of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee, and all other relevant committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors, including short term and long term incentive plans.
- Using analytical procedures to identify any usual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group.
- Inspecting correspondence with regulators to identify instances or suspected instances of fraud.
- Reviewing the audit misstatements from prior period to identify fraud risk factors.
- Reading broker reports and other public information to identify third-party expectations and concerns.

We communicated identified fraud risks throughout the audit team and remained alert of any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of insurance contract liabilities and valuation of investments that require judgment.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgement involved in the valuation and recognition of all material revenue streams.

We also identified a fraud risk related to:

- The valuation of insurance contract liabilities in response to the required significant judgement by management over uncertain future outcomes, being the ultimate total settlement value of long-term insurance liabilities.
- The valuation of investments that require judgment in response to the high degree of estimation uncertainty due to the illiquid positions within the financial investments portfolio and lack of readily available observable price.
- Further detail in respect of the above fraud risks is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identified journal entries and other adjustments to test for all full scope components based on risk criteria and compared the identified entries to supporting documentation. These included those posted by unauthorised personnel and those posted with unusual description.
- Evaluated the business purpose of any significant unusual transactions.
- Assessed significant accounting estimate for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 the Group level, and a request for component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

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 the Group's license to operate. We identified the areas of regulatory capital and liquidity, market abuse, financial crime and customer conduct regulations as those most likely to have such an effect 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the pension mis-selling review disclosed in Note 35.3.1 we have performed audit procedures over the provisions and reserves established by management.

As set out on page 64 of the Strategic Report, M&G plc faces the potential risk of the facilitation of financial crime and has begun a programme of work to verify that the controls that operate across the Group are sufficiently comprehensive and resilient to mitigate this risk in line with relevant legal and regulatory requirements and to undertake any necessary remediation, where appropriate. We made enquiries of the directors and management to understand progress and inspected related correspondence with the Group's regulators in order to consider the implications for our audit.

We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The director s 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on page 41 that they have carried out a robust assessment of the emerging and 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 how emerging risks are identified, 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.

We are also required to review the Viability Statement, set out on page 41, under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the Annual Report describing the work of the audit committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 150, 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's and 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

9. 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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

8 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	For the year ended 31 December 2020 £m	2019 £m
Gross premiums earned		**5,796**	11,074
Outward reinsurance premiums		**(927)**	115
Earned premiums, net of reinsurance		**4,869**	11,189
Investment return	4	**9,255**	19,619
Fee income	5	**1,031**	1,286
Other income		**61**	35
Total revenue, net of reinsurance from continuing operations		**15,216**	32,129
Benefits and claims	27	**(12,674)**	(24,375)
Outward reinsurers' share of benefit and claims	27	**1,477**	431
Movement in unallocated surplus of the With-Profits Fund	27	**433**	(2,549)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance from continuing operations		**(10,764)**	(26,493)
Administrative and other expenses	6	**(2,734)**	(2,876)
Movements in third-party interest in consolidated funds		**109**	(1,005)
Finance costs	6	**(167)**	(28)
Total charges, net of reinsurance from continuing operations		**(13,556)**	(30,402)
Share of (loss)/profit from joint ventures and associates	15	**(55)**	18
Profit before tax from continuing operations[i]		**1,605**	1,745
Tax charge attributable to policyholders' returns	9	**(208)**	(440)
Profit before tax attributable to equity holders from continuing operations		**1,397**	1,305
Total tax charge	9	**(463)**	(680)
Less tax charge attributable to policyholders' returns		**208**	440
Tax charge attributable to equity holders	9	**(255)**	(240)
Profit after tax attributable to equity holders from continuing operations		**1,142**	1,065
Profit after tax for the year attributable to equity holders from discontinued operations	10	**–**	58
Profit for the year		**1,142**	1,123
Attributable to equity holders of M&G plc:			
From continuing operations		**1,138**	1,062
From discontinued operations		**–**	58
Attributable to non-controlling interests:			
From continuing operations		**4**	3
Profit for the year		**1,142**	1,123
Earnings per share from continuing operations:			
Basic (pence per share)	11	**44.4**	40.9
Diluted (pence per share)	11	**44.0**	40.8
Earnings per share:			
Basic (pence per share)	11	**44.4**	43.1
Diluted (pence per share)	11	**44.0**	43.0

i 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 167 to 273 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	For the year ended 31 December 2020 £m	2019 £m
Profit for the year		**1,142**	1,123
Less: profit from discontinued operations	10	**–**	58
Profit for the year from continuing operations		**1,142**	1,065
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	26	**3**	(7)
		3	(7)
Items that will not be reclassified to profit or loss:			
Loss on remeasurement of defined benefit pension schemes	18	**(117)**	(206)
Transfer in of net defined benefit pension asset	18	**–**	15
Tax on remeasurement of defined benefit pension schemes	9	**23**	31
		(94)	(160)
Add amount transferred to unallocated surplus of the With-Profits Fund, net of related tax		**13**	155
Other comprehensive income on items that will not be reclassified to profit or loss		**(81)**	(5)
Other comprehensive income for the year, net of related tax from continuing operations		**(78)**	(12)
Total comprehensive income for the year from continuing operations		**1,064**	1,053
Profit after tax from discontinued operations	10	**–**	58
Total comprehensive income from discontinued operations		**–**	58
Total comprehensive income for the year		**1,064**	1,111
Attributable to equity holders of M&G plc:			
From continuing operations		**1,060**	1,050
From discontinued operations		**–**	58
Attributable to non-controlling interests:			
From continuing operations		**4**	3
Total comprehensive income for the year		**1,064**	1,111

The Notes on pages 167 to 273 are an integral part of these consolidated financial statements.

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Consolidated statement of financial position

As at 31 December 2020

	Note	As at 31 December 2020 £m	As at 31 December 2019 £m
Assets			
Goodwill and intangible assets	13	**1,495**	1,439
Deferred acquisition costs	14	**98**	104
Investment in joint ventures and associates accounted for using the equity method	15	**456**	524
Property, plant and equipment	16	**2,066**	1,505
Investment property	17	**19,106**	19,136
Defined benefit pension asset	18	**58**	77
Deferred tax assets	9	**108**	78
Reinsurance assets	27	**11,761**	11,958
Loans	19	**6,031**	5,954
Derivative assets		**5,705**	3,962
Equity securities and pooled investment funds		**68,419**	72,388
Deposits		**17,629**	14,221
Debt securities		**85,439**	85,434
Current tax assets	9	**418**	375
Accrued investment income and other debtors	21	**3,023**	2,923
Assets held for sale[i]		**138**	119
Cash and cash equivalents	22	**6,776**	6,046
Total assets		**228,726**	226,243
Equity			
Share capital	23	**130**	130
Share premium reserve	23	**370**	370
Shares held by employee benefit trust	24	**(117)**	(26)
Treasury shares	24	**(1)**	(1)
Retained earnings	25	**16,853**	16,342
Other reserves	26	**(11,658)**	(11,690)
Equity attributable to equity holders of M&G plc		**5,577**	5,125
Non-controlling interests		**8**	6
Total equity		**5,585**	5,131
Liabilities			
Insurance contract liabilities	27	**76,650**	78,480
Investment contract liabilities with discretionary participation features	27	**79,623**	78,048
Investment contract liabilities without discretionary participation features	27	**15,547**	15,651
Unallocated surplus of the With-Profits Fund	27	**15,621**	16,072
Third-party interest in consolidated funds		**13,265**	11,643
Subordinated liabilities and other borrowings	28	**8,267**	7,499
Defined benefit pension liability	18	**170**	28
Deferred tax liabilities	9	**916**	1,065
Current tax liabilities	9	**276**	298
Derivative liabilities		**3,460**	2,204
Lease liabilities	29	**354**	360
Other financial liabilities		**3,391**	3,517
Provisions	30	**235**	326
Accruals, deferred income and other liabilities	31	**5,291**	5,921
Liabilities of operations held for sale[i]		**75**	–
Total liabilities		**223,141**	221,112
Total equity and liabilities		**228,726**	226,243

i Assets held for sale on the consolidated statement of financial position as at 31 December 2020 includes £18m (2019: £88m) of seed capital classified as held for sale as it is expected to be divested within 12 months and £24m of investment property classified as held for sale (2019: £17m). Additionally £96m (2019: £14m) of assets held for sale and £75m (2019: £nil) of liabilities of operations held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

The Notes on pages 167 to 273 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 162 to 166 were approved by the Board and signed on its behalf by the following Directors:

John Foley
Chief Executive
8 March 2021

Clare Bousfield
Chief Financial Officer
8 March 2021

Consolidated statement of changes in equity

For the year ended 31 December 2020

	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
As 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[i]	25	–	–	–	–	(4,935)	–	(4,935)	–	(4,935)
Shares distributed by employee trusts	23	–	–	2	–	(2)	–	–	–	–
Expense recognised in respect of share-based payments	26	–	–	–	–	–	40	40	–	40
Shares acquired by employee trusts		–	–	(28)	–	–	–	(28)	–	(28)
Treasury shares acquired 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)
As at 31 December 2019		130	370	(26)	(1)	16,342	(11,690)	5,125	6	5,131
As at 1 January 2020		**130**	**370**	**(26)**	**(1)**	**16,342**	**(11,690)**	**5,125**	**6**	**5,131**
Profit for the year from continuing operations		**–**	**–**	**–**	**–**	**1,138**	**–**	**1,138**	**4**	**1,142**
Other comprehensive income for the year from continuing operations	25, 26	**–**	**–**	**–**	**–**	**(81)**	**3**	**(78)**	**–**	**(78)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**1,057**	**3**	**1,060**	**4**	**1,064**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Transactions with equity holders	12	**–**	**–**	**–**	**–**	**(562)**	**–**	**(562)**	**–**	**(562)**
Shares distributed by employee trusts	25	**–**	**–**	**14**	**–**	**(14)**	**–**	**–**	**–**	**–**
Vested employee share-based payments	25, 26	**–**	**–**	**–**	**–**	**17**	**(17)**	**–**	**–**	**–**
Expense recognised in respect of share-based payments	26	**–**	**–**	**–**	**–**	**–**	**51**	**51**	**–**	**51**
Shares acquired by employee trusts		**–**	**–**	**(105)**	**–**	**–**	**–**	**(105)**	**–**	**(105)**
Tax effect of items recognised directly in equity	26	**–**	**–**	**–**	**–**	**13**	**(5)**	**8**	**–**	**8**
Net (decrease)/increase in equity		**–**	**–**	**(91)**	**–**	**511**	**32**	**452**	**2**	**454**
As at 31 December 2020		**130**	**370**	**(117)**	**(1)**	**16,853**	**(11,658)**	**5,577**	**8**	**5,585**

i In addition to amounts noted in Note 25 there was a distribution in kind of £570m, which 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 Notes on pages 167 to 273 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2020

	Note	For the year ended 31 December 2020 £m	2019 £m
Cash flows from operating activities:			
Profit before tax from continuing operations		**1,605**	1,745
Profit before tax from discontinued operations	10	**–**	88
Non-cash and other movements in operating assets and liabilities included in profit before tax:			
Investments		**399**	(14,918)
Other non-investment and non-cash assets		**(133)**	(8,613)
Policyholder liabilities (including unallocated surplus)		**(895)**	23,037
Other liabilities (including operational borrowings)		**1,902**	(841)
Interest income, interest expense and dividend income		**(3,884)**	(4,798)
Other non-cash items		**229**	417
Operating cash items:			
Interest receipts and payments		**2,282**	2,595
Dividend receipts		**1,704**	2,107
Tax paid[i]		**(633)**	(613)
Net cash flows from operating activities[ii]		**2,576**	206
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(821)**	(393)
Proceeds from disposal of property, plant and equipment		**–**	8
Investment in subsidiaries[iii]		**(136)**	(95)
Cash inflow from disposal of subsidiaries[iv]	10	**–**	98
Net cash flows from investing activities		**(957)**	(382)
Cash flows from financing activities:			
Interest paid		**(189)**	(22)
Lease repayments	29	**(24)**	(25)
Substitution of subordinated liabilities		**–**	3,219
Shares purchased by employee benefit trust		**(105)**	–
Dividends paid	12	**(562)**	(3,516)
Net cash flows from financing activities		**(880)**	(344)
Net increase/(decrease) in cash and cash equivalents		**739**	(520)
Cash and cash equivalents at 1 January		**6,046**	6,570
Effect of exchange rate changes on cash and cash equivalents		**(9)**	(4)
Cash and cash equivalents at 31 December		**6,776**	6,046

i Tax paid for the year ended 31 December 2020 includes £264m (2019: £228m) 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 Investment in subsidiaries includes total cash consideration in respect of the acquisition of Ascentric of £86m, of which £49m represented a repayment of loan to Royal London. The remaining amounts represents further investment by the Group's consolidated infrastructure capital private equity vehicles.

iv Cash inflow from disposal of subsidiaries reflects the net cash flow from the disposal of Prudential Vietnam Finance Company Limited in 2019.

The Notes on pages 167 to 273 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

The consolidated financial statements for the year ended 31 December 2020 comprise the financial statements of M&G plc ("the Company") and its subsidiaries (together referred to as "the Group"). The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRICs). The consolidated financial statements have been prepared 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), insurance contract liabilities that are measured in accordance with the requirements of IFRS 4: Insurance contracts, 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).

Going concern

The Directors have reasonable expectation that the Group as a whole has adequate resources to continue in operational existence over a period of at least 12 months from the date of approval of the consolidated financial statements.

To satisfy themselves of the appropriateness of the use of the going concern assumptions in relation to the consolidated financial statements, the Directors have considered the liquidity projections of the Group, including the impact of applying specific liquidity stresses. The Directors also considered the ability of the Group to access external funding sources and the management actions that could be used to manage liquidity.

In addition, the Directors also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and certain stressed scenarios, which included a pessimistic COVID-19 scenario and a severe Brexit scenario.

The results of the assessment demonstrated the ability of the Group to meet all obligations and future business requirements for the foreseeable future. In addition, the assessment demonstrated that the Group was able to remain above its regulatory solvency requirements in a stressed scenario.

For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

1.2 New accounting pronouncements

1.2.1 New accounting pronouncements adopted by the Group

In preparing these consolidated financial statements the Group has adopted the following standards, interpretations and amendments that became effective during the year:

Effective from 1 January 2020:
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

Effective from 1 June 2020:
- COVID-19-Related Rent Concessions – Amendment to IFRS 16

None of the above interpretations and amendments to standards are considered to have a material effect on these consolidated financial statements.

1 Basis of preparation and significant accounting policies continued

1.2.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group. 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 June 2020, the IASB amended IFRS 17 so that the revised effective date of the standard is for periods beginning on or after 1 January 2023. The IASB also confirmed through this amendment that IFRS 9 could be delayed for insurers to keep the effective dates of IFRS 9 and IFRS 17 aligned.

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 2020, 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[i]		All other financial assets, net of derivative liabilities	
Financial assets on the consolidated statement of financial position	**Fair value as at 31 December 2020 £m**	**Movement in fair value during the year £m**	**Fair value as at 31 December 2020 £m**	**Movement in fair value during the year £m**
Loans	2,647	(14)	3,475	33
Derivative assets – net of derivative liabilities	–	–	2,245	1,527
Equity securities and pooled investment funds	–	–	68,419	(533)
Deposits	17,629	–	–	–
Debt securities	–	–	85,439	4,092
Accrued investment income and other debtors	3,023	–	–	–
Cash and cash equivalents	6,776	–	–	–
Total financial assets, net of derivative liabilities	**30,075**	**(14)**	**159,578**	**5,119**

i Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in All other financial assets.

1 Basis of preparation and significant accounting policies continued

Financial assets on the consolidated statement of financial position	Financial assets that pass the SPPI test[i] Fair value as at 31 December 2019 £m	Financial assets that pass the SPPI test[i] Movement in fair value during the year £m	All other financial assets, net of derivative liabilities Fair value as at 31 December 2019 £m	All other financial assets, net of derivative liabilities 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 pooled investment funds	–	–	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

i Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in All other financial assets.

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 initially applied to annual periods beginning on or after 1 January 2021, subsequently, the IASB issued an exposure draft in June 2019 that proposed to delay the effective date to 1 January 2022. Thereafter, in March 2020, the IASB decided to delay the effective date further to 1 January 2023, which was duly affected through an amendment in the standard in June 2020. 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, plus 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.

Profit before tax from 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.

1 Basis of preparation and significant accounting policies continued

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 an ongoing project to implement IFRS 17 which is continuing to develop technical interpretations and the related operational capabilities to implement the standard by the revised adoption date of 1 January 2023. The impact from adoption of the standard cannot be quantified at this stage. However it will lead to significant changes to the presentation and disclosure in the consolidated financial statements.

Other

In addition to the above, the following new accounting pronouncements have also been issued and are not yet effective:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), issued in August 2020 and effective from 1 January 2021
- Reference to the Conceptual Framework (Amendments to IFRS 3), issued in May 2020 and effective from 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), issued in May 2020 and effective from 1 January 2022
- Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37), issued in March 2018 and effective from 1 January 2022
- Classification of Liabilities as Current or Non-current (Amendments to IFRS 1), issued in January 2020 and effective from 1 January 2023
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – (Amendments to IFRS 10 and IAS 28), issued in December 2015 and effective date pending completion of the research project on equity method accounting
- The Disclosure Initiative: Accounting Policy Requirements (Amendments to IAS 1), issued in February 2021 and effective from 1 January 2023
- Definition of accounting estimates (Amendments to IAS 8), issued in February 2021 and effective from 1 January 2023

The Group is currently assessing the impact of these requirements on the consolidated financial statements.

1 Basis of preparation and significant accounting policies continued

1.3 Key judgements in applying accounting policies

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, 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. Judgement is also required where certain seed capital investments in structured entities are classified as held for sale investments, and therefore not consolidated on a line by line basis.	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. Judgement is also required in the case of certain contracts, both investment and insurance, which provide an additional benefit in addition to guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features.	1.5.2	27
Accounting for replacement share awards	Under IFRS 2, where new equity instruments are granted as replacement equity instruments for cancelled schemes, the grant of the replacement equity instruments is 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 was required in respect of the 2019 financial statements in determining whether the new discretionary schemes offered at the point of the Demerger would meet the criteria of a replacement award. The Group is treating the new discretionary schemes offered in October 2019, in place of those administered by Prudential plc, as a replacement award on the basis that these have substantially the same economic value and will be subject to the same scheme rules as the original award. This is not a key judgement for the purposes of the current year financial statements.	1.5.24	39
Classification as held for sale	Under IFRS 5, groups of assets and liabilities are classified as held for sale if the sale is highly probable. Judgement was required in considering whether the successful appeal by PAC and Rothesay Life PLC of the original High Court decision on the Part VII transfer in the Court of Appeal constituted the annuities portfolio being classified as held for sale.	1.5.30	2.3.1

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 areas 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
Assets classified as level 3 under the fair value hierarchy	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, 33
Determination of recoverable amount of goodwill	Goodwill is assessed for impairment at least on an annual basis by comparing the recoverable amount of each cash-generating unit or group of cash-generating units to which goodwill has been allocated with its carrying value. Recoverable amount is defined as the higher of fair value less costs to sell and the value in use where the value in use is based on the present value of future cash flows. The determination of the value in use requires the use of various assumptions around future cash flows, future growth rates and appropriate discount rates based on the risks associated with the cash-generating unit or group of cash-generating units which can have a material impact on the calculation.	1.5.17	13
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 provisions 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, joint control or significant influence 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.

1 Basis of preparation and significant accounting policies continued

(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.

(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), Authorised Contractual Schemes (ACSs) 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, ACSs, SICAVs and unit trusts, which invest mainly in equities, bonds, cash and cash equivalents, and properties.

The assessment of control over OEICs, ACSs, 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 having taken into account substantial removal rights:

- where the Group manages the assets of the entity, and the aggregate of the 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 the 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 the 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

1 Basis of preparation and significant accounting policies continued

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, ACSs, SICAVs and unit trusts as part of its operations through its investment management business, and invests the initial seed capital which results in a significant holding resulting in control of the fund, the Group assesses whether there is a formal plan in place to divest its holding to below the threshold triggering control within 12 months. In this situation, the vehicle is not consolidated, but classified as held for sale and carried at FVTPL.

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.

Other structured entities
The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities.

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 DPF.

The measurement of contracts depends on their classification. Those classified as either insurance contracts or investment contracts with DPF are accounted for as insurance contracts under IFRS 4. Investment contracts without DPF 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 DPF
Unit-linked with significant insurance risk	Insurance contract
Unit-linked without significant insurance risk	Investment contract
Annuities	Insurance contract

1 Basis of preparation and significant accounting policies continued

(ii) Measurement: Insurance contracts and investment contracts with discretionary participation features

Insurance contracts and investment contracts with DPF are accounted for under IFRS 4 Insurance Contracts, which permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) that 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). The Group's With-Profits Fund 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 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 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 DPF 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 DPF, 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 as the service is provided in accordance with IFRS 15.

1 Basis of preparation and significant accounting policies continued

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 business 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 are presented as if they 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.

1.5.4 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 cash flows 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 with 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 Basis of preparation and significant accounting policies continued

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.

1.5.6 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 reinsurance assets.

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 consolidated income statement. Any gains or losses arising on the purchase of reinsurance contracts are immediately recognised in the consolidated 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, platform fee 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.

Platform fees are recognised as the related services are provided to the customer.

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 interest basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

1 Basis of preparation and significant accounting policies continued

1.5.9 Deferred acquisition costs

The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For investment contracts without DPF, 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 2020 and 31 December 2019.

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.

1.5.12 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 on 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 on 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 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 Basis of preparation and significant accounting policies continued

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 employing entity, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the employing entity 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 consolidated 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.

1.5.16 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.

1 Basis of preparation and significant accounting policies continued

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 a group of 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. Separately acquired intangible assets such as licences and software, are recognised at the price paid to acquire them. Intangibles arising from development costs are capitalised when it has been established that the project is technically and financially feasible and the Group has both the intention and ability to use the completed asset.

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, cash-generating unit or group of cash-generating units to which it is allocated.

Amortisation and impairment of intangible assets is charged to the income statement.

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, i.e. 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 acquisitions 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 Basis of preparation and significant accounting policies continued

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 recognised over the vesting period and is based on the number of equity instruments expected to vest, 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.

On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the Group is transferred to retained earnings.

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:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- 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.

1.5.27 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 for the functional currency 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.

1 Basis of preparation and significant accounting policies continued

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.

	2020 Income statement and cash flows (average rate)	**2020 Statement of financial position (closing rate)**	2019 Income statement and cash flows (average rate)	2019 Statement of financial position (closing rate)
Euro (EUR)	**1.13**	**1.12**	1.14	1.18
Indian Rupee (INR)	**95.11**	**99.88**	89.90	94.56
Polish Złoty (PLN)	**5.00**	**5.09**	4.90	5.02
Vietnamese Đồng (VND)	**30.70**	**31.55**	29.65	30.70
US Dollar (USD)	**1.32**	**1.37**	1.28	1.32

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

1.5.29 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 the assets estimated useful lives[i] as follows:

Group occupied property	20–50 years
Right of use asset	2–50 years
Other tangible assets	2–40 years

i Note that the useful lives stated are inclusive of PPE held by consolidated infrastructure private equity vehicles which typically have longer useful lives than other assets of the Group.

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 assesses 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 assets 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 is 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 2020 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.

2 Group structure and products continued

2.2 Transactions relating to corporate restructure

2.2.1 Transfer of ownership of The Prudential Assurance Company Limited and M&G Group Limited

As part of an internal restructure on 23 July 2020, ownership of M&G Group Limited (MGG) and The Prudential Assurance Company Limited (PAC) was transferred from the Company to M&G Group Regulated Entity Holding Company Limited, a direct subsidiary of the Company. The transfer was at fair value in a share for share exchange. As this is an intra-group transaction, there is no impact on the consolidated financial statements.

2.2.2 Transfer of ownership of Prudential Capital Public Limited Company

On 31 August 2020, the Company acquired Prudential Capital Public Limited Company via an in specie dividend from Prudential Capital Holdings Company Limited, a direct subsidiary of the Company. As this is an intra-group transaction, there is no impact on the consolidated financial statements.

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 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 2000. 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.

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 have successfully appealed that decision in the Court of Appeal. There will now need to be a further sanction hearing in the High Court to decide if the transfer should proceed. The date of the sanction hearing has not yet been set and the associated process has not been clarified. As such the assets and liabilities associated with the annuity portfolio have not been classified as held for sale in these consolidated financial statements. The High Court's judgment had no direct impact on the reinsurance arrangement with Rothesay Life PLC.

2.3.2 Ascentric acquisition

On 27 May 2020, the Group announced an agreement with Royal London to acquire its digital wrap and wealth management platform, for UK independent financial advisers, which comprises Wrap IFA Services Limited (Wrap IFA) and all of its subsidiaries together referred to as Ascentric.

The acquisition of Ascentric completed on 1 September 2020 following change of control approval from the FCA. Following acquisition, Wrap IFA is a wholly-owned subsidiary of M&G Group Regulated Entity Holding Company Limited, a wholly-owned subsidiary of the Company.

As at the acquisition date, the consideration, net assets acquired and resulting goodwill and intangible assets from the acquisition were as follows:

	£m
Total cash consideration	86
Less loan repayment	(49)
Consideration to gain control	**37**
Fair value of net assets acquired:	
Accrued income and other debtors	15
Cash and cash equivalents	51
Total assets	**66**
Subordinated liabilities and other borrowings	49
Provisions	2
Accruals, deferred income and other creditors	6
Total liabilities	**57**
Intangible assets acquired[i]	7
Goodwill	21
Total goodwill and intangible assets	**28**

i Intangible assets relate to the existing customer relationships in place at the date of acquisition.

2 Group structure and products continued

As part of the transaction, an amount of £49m was paid to Royal London on behalf of one of the acquired subsidiaries to allow it to repay its existing loan to its previous parent. This does not form part of the purchase consideration.

The goodwill of £21m arising from the acquisition represents the benefits of the acquisition in complementing M&G's strategy to grow its business and expand its range of services for financial advisers and their clients. Ascentric's well-established digital wealth management presence will complement and strengthen M&G's position in the UK savings market where the company sees demand for advice and investment solutions continuing to grow. None of the goodwill recognised is expected to be deductible for income tax purposes.

The revenue and loss before tax included in the consolidated statement of comprehensive income since 1 September 2020 was £12m and £7m respectively. The revenue and loss before tax for the year ended 31 December 2020 for Ascentric was £34m and £15m respectively.

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.

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.

2 Group structure and products continued

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 27.1.1.

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.

2.4.3 Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium, and may be immediate or deferred. For immediate annuities, the regular income starts immediately after the premium payment, but for deferred annuities, the regular income is delayed until a specified date in the future. 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 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 and clients. The Group's retirement and savings products are distributed to retail customers through the wrap platform, intermediaries and 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 EGR.

3 Segmental analysis continued

The Group's investment management capability is offered to both retail customers and institutional clients. 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[ii]. 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.

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:

1 the Defined Charge Participating business, primarily business reinsured from Prudential International Assurance plc; and

2 the with-profits annuities transferred from Equitable Life Assurance Society on 31 December 2007.

The Groups other reportable segment is:

Corporate Centre
Corporate Centre includes central corporate costs 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[iii]: 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.

ii 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.

iii These cash flow hedges do not constitute hedge accounting arrangements under IAS 39.

3 Segmental analysis continued

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 the impact of short-term components of credit risk provisioning, the impact of credit risk experience variances over the period, and total fair value movement on surplus assets backing the shareholder annuity capital, that are not reflective of the longer-term performance of the business.

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. Adjustments are 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 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, including both cash flow and capital hedges.

(ii) Total fair value movements on other capital hedges, which are solely held to optimise the Solvency II capital position.

(iii)Total fair value movements on surplus assets backing the shareholder annuity capital, and the impact of short-term credit risk provisioning and experience variances over the period which are not reflective of the longer-term performance of the business, specifically:

- The impact of credit risk provisioning for short-term adverse credit risk experience;
- The impact of credit risk provisioning for actual upgrades and downgrades relative to best estimate assumptions. This is calculated by reference to current interest rates;
- Credit experience reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring; and
- The impact of market movements on bond portfolio weightings and the subsequent impact on credit provisions.

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 the total longer-term credit allowance and a best estimate credit 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;
- The impact of changes in the long-term component of credit provisioning.

Profit/(Loss) on disposal of businesses and corporate transactions

There were no adjusting items for the year ended 31 December 2020. In the year ended 31 December 2019, £53m 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 gain on disposal of Prudential Vietnam Finance Company is not included in the reconciliation of adjusted operating profit to IFRS profit from continuing operations as it is presented in profit from discontinued operations in the consolidated income statement for the year ended 31 December 2019.

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 adjusted operating profit before tax.

3 Segmental analysis continued

3.3 Analysis of Group adjusted operating profit before tax by segment

	For the year ended 31 December 2020			
	Savings and Asset Management £m	Heritage £m	Corporate Centre £m	Total continuing operations £m
Fee-based revenues[i]	**1,146**	**74**	**–**	**1,220**
Annuity margin	**–**	**438**	**–**	**438**
With-profits shareholder transfer net of hedging gains/(losses)[ii]	**44**	**207**	**–**	**251**
Adjusted operating income	**1,190**	**719**	**–**	**1,909**
Adjusted operating expenses	**(840)**	**(79)**	**(101)**	**(1,020)**
Other shareholder profit/(loss)	**(28)**	**59**	**(142)**	**(111)**
Share of profit from joint ventures and associates[iii]	**10**	**–**	**–**	**10**
Adjusted operating profit/(loss) before tax	**332**	**699**	**(243)**	**788**
Short-term fluctuations in investment returns	**58**	**620**	**–**	**678**
Profit on disposal of businesses and corporate transactions	**–**	**–**	**–**	**–**
Restructuring and other costs[iv]	**(51)**	**(22)**	**–**	**(73)**
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders from continuing operations	**339**	**1,297**	**(243)**	**1,393**
IFRS profit attributable to non-controlling interests	**4**	**–**	**–**	**4**
Profit/(loss) before tax attributable to equity holders from continuing operations	**343**	**1,297**	**(243)**	**1,397**

i Of the fee-based revenues, £114m (2019: £110m) relates to revenues that Savings and Asset Management earned from the Heritage segment, and other presentational differences. These amounts are excluded from 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 adjusted operating profit.

iii Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

iv 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.

	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[iii]	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[iv]	(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

3 Segmental analysis continued

The Group has a widely diversified customer base. There are no customers whose revenue represents greater than 10% of fee-based revenues.

Each reportable segment reports adjusted operating income as its measure of revenue. Fee-based revenues 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 shareholder profit/(loss) 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 profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method.

3.4 Reconciliation of adjusted operating income and expenses to total revenues and expenses as presented in the consolidated income statement

The following tables provide a reconciliation of adjusted operating income and 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			
	2020		2019	
	Income £m	**Expense £m**	Income £m	Expense £m
Adjusted operating income and operating expenses	**1,909**	**(1,020)**	1,987	(963)
Items presented as other shareholder profit/(loss)	**63**	**(174)**	139	(29)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance	**10,764**	**(10,764)**	26,493	(26,493)
Movements in third-party interests in consolidated funds	**(109)**	**109**	1,005	(1,005)
Annuities and With-Profits Fund administration expenses	**1,331**	**(1,331)**	1,603	(1,603)
Renewal commission	**185**	**(185)**	224	(224)
Share of profit from joint ventures and associates	**10**	**–**	15	–
Tax charge attributable to policyholder returns	**208**	**–**	440	–
Short-term fluctuations in investment returns	**678**	**–**	298	–
Loss on disposal of business and corporate transactions	**–**	**–**	53	–
Restructuring and other costs	**–**	**(73)**	–	(198)
Other presentational items	**177**	**(118)**	(128)	113
IFRS total income and total/(expenses) from continuing operations	**15,216**	**(13,556)**	32,129	(30,402)

Adjusted operating income and 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 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 Segmental analysis continued

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	
	2020 £m	2019 £m
UK:		
Earned premiums, net of reinsurance	**4,280**	10,723
Other income	**768**	743
Total UK	**5,048**	11,466
Rest of the world:		
Earned premiums, net of reinsurance	**589**	466
Other income	**324**	578
Total rest of the world	**913**	1,044
Total:		
Earned premiums, net of reinsurance	**4,869**	11,189
Other income	**1,092**	1,321
Total	**5,961**	12,510

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 and clients in the Asset Management business is allocated based on customers and clients domicile.

Total non-current, non-financial assets 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	
	2020 £m	2019 £m
UK	**14,862**	15,361
Rest of the world	**8,359**	7,347
Total	**23,221**	22,708

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 2020 £m	2019 £m
Interest income arising from:			
Cash and cash equivalents		**4**	8
Deposits with credit institutions		**31**	106
Loans[i]		**237**	248
Debt securities		**2,159**	2,497
		2,431	2,859
Dividend income		**1,679**	2,119
Income from investment property:			
Rental income	17	**997**	1,065
Net losses on investment property	17	**(752)**	(859)
		245	206
Gains/(losses) on financial instruments at fair value through profit and loss arising from:			
Equity securities and pooled investment funds		**(533)**	8,819
Loans		**22**	124
Debt securities		**4,092**	4,240
Derivatives		**1,527**	1,402
		5,108	14,585
Net (impairment)/reversal of impairment on loans held at amortised cost		**(30)**	18
Foreign exchange losses		**(178)**	(168)
Total investment return from continuing operations		**9,255**	19,619

i Interest arising on loans of £237m for the year ended 31 December 2020 (2019: £248m) comprises £127m (2019: £130m) arising on loans held at fair value through profit or loss and £110m (2019: £118m) 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 2020 £m	2019 £m
Savings and Asset Management:		
Management fees	**910**	1,198
Rebates	**(34)**	(45)
Total management fees, less rebates	**876**	1,153
Performance fees	**42**	18
Investment contracts without discretionary participation features	**32**	30
Platform fees	**11**	–
Other fees and commissions	**55**	60
Total Savings and Asset Management fee income	**1,016**	1,261
Heritage:		
Investment contracts without discretionary participation features	**15**	25
Total Heritage fee income	**15**	25
Total fee income from continuing operations	**1,031**	1,286

6 Administrative and other expenses

	Note	For the year ended 31 December 2020 £m	2019 £m
Staff and employment costs[i]		**650**	454
Acquisition costs incurred:			
Insurance contracts		**145**	183
Other contracts		**27**	21
Acquisition costs deferred:			
Insurance contracts	14	**(11)**	(15)
Other contracts	14	**(2)**	(1)
Amortisation of deferred acquisition costs:			
Insurance contracts	14	**7**	7
Other contracts	14	**9**	10
Impairment of deferred acquisition costs	14	**3**	–
Depreciation of property, plant and equipment	16	**109**	97
Amortisation of intangible assets	13	**19**	11
Impairment of goodwill and intangible assets	13	**16**	23
Impairment of property, plant and equipment	16	**98**	–
Restructuring costs		**148**	201
Expenses under arrangements with reinsurers		**–**	112
Interest expense		**153**	154
Commission expense		**224**	263
Investment management fees		**191**	221
Property-related costs		**215**	152
Other expenses		**733**	983
Total administrative and other expenses from continuing operations		**2,734**	2,876

i Staff and employment costs for the year ended 31 December 2019 include a benefit of £117m resulting from changes to the Group's defined benefit pension schemes.

In addition to the interest expense shown above of £153m (2019: £154m), the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2020 was £167m (2019: £28m). This is shown as finance costs in the consolidated income statement. Total finance costs incurred for the year ended 31 December 2020 were £320m (2019: £182m).

7 Staff and employment costs

The average number of staff employed by the Group during the year was:

	For the year ended 31 December 2020	2019
Average staff headcount of continuing operations	**6,683**	6,528
Average staff headcount of discontinued operations	**–**	2,341

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 2020 £m	2019 £m
Wages and salaries		**620**	592
Social security costs		**72**	70
Share-based payments	39	**51**	26
Pension costs:			
Defined benefit schemes	18	**45**	(101)
Defined contribution schemes		**47**	41
Total staff and employment costs		**835**	628

7 Staff and employment costs continued

Information in respect of Directors' remuneration is provided in the Directors' Remuneration Report on pages 109 to 145.

The table below provides a breakdown of staff and employment costs charged within administrative and other expenses:

	For the year ended 31 December	
	2020 £m	2019 £m
Staff and employment costs	**650**	454
Acquisition costs	**77**	83
Restructuring costs	**48**	35
Other expenses	**60**	56
Total staff and employment costs	**835**	628

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	
	2020 £m	2019 £m
Fees payable to the Company's auditor and its associates for other services:		
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	**2.0**	2.0
Audit of subsidiaries pursuant to legislation	**6.6**	5.7
Audit-related assurance services	**2.6**	1.2
Other assurance services	**0.6**	0.5
All other services	**–**	0.2
Total fees payable to the auditor	**11.8**	9.6

For more information on non-audit services, refer to the Audit Committee Report on pages 100 to 106.

Additional fees payable to the auditor

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 2020, fees of £0.3m (2019: £0.3m) 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.

9 Tax

9.1 Tax charged to the consolidated income statement from continuing operations

	For the year ended 31 December	
	2020 £m	2019 £m
The total tax charge comprises:		
Current tax		
Current year	**581**	689
Adjustments in respect of prior years	**17**	(171)
Total current tax	**598**	518
Deferred tax:		
Origination and reversal of temporary differences in the year	**(123)**	165
Adjustments in respect of prior years	**(12)**	(3)
Total deferred tax	**(135)**	162
Total tax charge	**463**	680

The tax charge above, comprising current and deferred tax, can be analysed as follows:

	For the year ended 31 December	
	2020 £m	2019 £m
UK tax	**392**	600
Overseas tax	**71**	80
Total tax charge	**463**	680

9.1.1 Allocation of profit 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 2020 of £1,605m (2019: £1,745m) 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 Group 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 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 attributable to policyholders included in the total tax charge.

	For the year ended 31 December					
	2020			2019		
	Equity holders £m	**Policyholders £m**	**Total £m**	Equity holders £m	Policyholders £m	Total £m
Profit before tax from continuing operations	**1,397**	**208**	**1,605**	1,305	440	1,745
Tax charge from continuing operations	**(255)**	**(208)**	**(463)**	(240)	(440)	(680)
Profit after tax for the year from continuing operations	**1,142**	**–**	**1,142**	1,065	–	1,065

9 Tax continued

9.1.2 Tax reconciliation

	For the year ended 31 December 2020			For the year ended 31 December 2019		
	Equity holders £m	Policyholders £m	Total £m	Equity holders £m	Policyholders £m	Total £m
Profit before tax from continuing operations	**1,397**	**208**	**1,605**	1,305	440	1,745
Tax charge based on the standard UK corporation tax rate of 19% (2019: 19%)	**265**	**40**	**305**	248	84	332
Impact of profits earned in jurisdictions with different statutory rates to the UK	**1**	**–**	**1**	1	–	1
(weighted average rate for equity holders is 19.0% (2019: 19.1%)						
Recurring items						
Different basis of taxation – policyholders	**–**	**150**	**150**	–	507	507
Deductions not allowable for tax purposes	**16**	**–**	**16**	14	–	14
Effects of results of joint ventures and associates[i]	**(2)**	**–**	**(2)**	(3)	–	(3)
Income and gains not taxable or taxable at concessionary rates[ii]	**(15)**	**–**	**(15)**	–	–	–
Changes in recognition of deferred tax and effect of unrecognised tax losses	**(3)**	**–**	**(3)**	–	–	–
Other	**–**	**–**	**–**	3	–	3
Non-recurring items						
Adjustments in relation to prior periods	**(13)**	**18**	**5**	(23)	(151)	(174)
Changes in local statutory tax rates or laws[iii]	**6**	**–**	**6**	–	–	–
Tax charge from continuing operations	**255**	**208**	**463**	240	440	680

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.

ii Pre-tax amounts recognised in the income statement are capital in nature for tax purposes and are non-taxable.

iii The standard rate of Corporation Tax in the UK was due to change from 19% to 17% with effect from 1 April 2020. Following the budget announcement on 11 March 2020, the repeal of the legislation to reduce the tax rate was substantively enacted on 17 March 2020. Accordingly, the reduction in tax rate did not take place and the corresponding UK deferred tax balances previously reflected at 17% were revalued to 19%.

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 2020 is the UK Corporation tax rate of 19% as the majority of the Group's profits are earned and taxed in the UK.

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.

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 of these 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.

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 Tax continued

9.1.5 Tax in respect of discontinued operations

	Note	For the year ended 31 December 2020 £m	2019 £m
Tax charge from discontinued operations	10	–	30

9.1.6 Tax credited to other comprehensive income

	For the year ended 31 December 2020 £m	2019 £m
Actuarial losses on defined benefit pension schemes	**(23)**	(31)
Total tax credit to other comprehensive income	**(23)**	(31)

9.1.7 Tax credited to equity

	For the year ended 31 December 2020 £m	2019 £m
Subordinated liabilities	**(8)**	(101)
Share-based payments[i]	–	(5)
Other short-term timing differences	–	2
Total tax credit to equity	**(8)**	(104)

i Includes net £nil impact to equity from the transfer of £5m tax benefits on vested share schemes from other reserves to retained earnings.

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 as recoverable only to the extent it is considered probable, based on all available evidence, 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.

9 Tax continued

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 consolidated statement of financial position 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.

	For the year ended 31 December 2020								
	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	7	2	77	60	7	13	18	23	207
Liabilities	(1,006)	(95)	(4)	(7)	(40)	(42)	–	–	(1,194)
As at 1 January 2020	**(999)**	**(93)**	**73**	**53**	**(33)**	**(29)**	**18**	**23**	**(987)**
Income statement	119	25	23	(8)	(7)	(1)	(8)	(8)	135
Equity and other comprehensive income	–	–	8	–	23	–	–	–	31
Other movements/foreign exchange	4	–	–	–	–	9	–	–	13
As at 31 December 2020	**(876)**	**(68)**	**104**	**45**	**(17)**	**(21)**	**10**	**15**	**(808)**
Assets	7	2	115	51	13	13	10	15	226
Liabilities	(883)	(70)	(11)	(6)	(30)	(34)	–	–	(1,034)
As at 31 December 2020	**(876)**	**(68)**	**104**	**45**	**(17)**	**(21)**	**10**	**15**	**(808)**

	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/foreign exchange	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)

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, i.e. 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 which applied from 1 January 2013. 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

The deferred tax balances arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2020 £m	2019 £m	**2020 £m**	2019 £m
UK	**92**	76	**(700)**	(824)
Overseas	**16**	2	**(216)**	(241)
As at 31 December	**108**	78	**(916)**	(1,065)

9.2.1 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 £547m (2019: £542m) and temporary differences of £49m (2019: £nil) for which no deferred tax asset is being recognised. The Group's unused tax losses primarily relate to capital losses in the UK of £539m (2019: £542m). No deferred tax asset is recognised on the unused tax losses of £547m as it is considered not probable that future taxable UK capital gains or other appropriate profits will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely. The Group's temporary differences of £49m primarily relates to capital allowances acquired as part of the Ascentric transaction during 2020. No deferred tax asset is recognised on these amounts due to a potential restriction on the capital allowances only being available to offset against future profits generated by the acquired group of entities' existing trade for which it is not considered probable that future sufficient taxable profits will be available.

Group investments in subsidiaries, branches and investments

Retained earnings of overseas subsidiaries are expected to be re-invested 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. Consequentially, 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	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Corporation tax	**389**	364	**(222)**	(255)
Other taxes	**29**	11	**(54)**	(43)
As at 31 December	**418**	375	**(276)**	(298)

Movements on corporation tax current tax assets and liabilities were as follows:

	For the year ended 31 December	
	2020 £m	2019 £m
Net corporation tax asset as at 1 January	**109**	15
Income statement – continuing operations	**(598)**	(518)
Reserves movement for the period	**–**	32
Corporation tax paid	**633**	613
Other movements	**23**	(33)
Net corporation tax asset as at 31 December	**167**	109
Corporation tax assets	**389**	364
UK	**368**	346
Overseas	**21**	18
Corporation tax liabilities	**(222)**	(255)
UK	**(208)**	(242)
Overseas	**(14)**	(13)
Net corporation tax asset as at 31 December	**167**	109

9 Tax continued

	Corporation tax assets		Corporation tax liabilities	
	As at 31 December 2020 £m	As at 31 December 2019 £m	**As at 31 December 2020 £m**	As at 31 December 2019 £m
Tax recoverable/(due) within 12 months	**389**	360	**(221)**	(249)
Tax recoverable/(due) after 12 months	**–**	4	**(1)**	(6)
As at 31 December	**389**	364	**(222)**	(255)

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. The position remained unchanged during 2020. As at 31 December 2020, PAC has recognised a total policyholder tax credit of £122m (2019: £122m) in respect of its claim against HMRC. Of this amount, £39m (2019: £39m) has been paid by HMRC leaving a tax recoverable balance of £83m (2019: £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 2021 at which point PAC should receive full and final payment.

9.4 Change in proposed corporation tax rate

On 3 March 2021, the UK Government announced a proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. We expect that, in line with the rate increase proposed, there will be an increase to our effective tax rate for periods from 2023 onwards. In addition, we expect a change to the carrying values of our deferred tax assets and liabilities, the impact of which is not considered significant primarily due to the majority of the UK deferred tax balances being measured at a policyholder rate of tax which is unaffected by the announcement.

10 Discontinued operations

There are no discontinued operations for the year ended 31 December 2020.

On 14 June 2019, Prudential Holborn Life Limited, a subsidiary of PAC, sold Prudential Vietnam Finance Company Limited to Shinhan Card Co. Ltd. Prudential Vietnam Finance Company Limited along with Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited were considered a separate geographical area of operations from a management perspective as they represented 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 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.

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 were presented as discontinued operations in the consolidated statement of comprehensive income in the period to 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
Investment return and other income	60
Total revenue, net of reinsurance from discontinued operations	60
Administrative expenses and other expenses	(27)
Total charges, net of reinsurance from discontinued operations	(27)
Gain on disposal of subsidiaries[i]	55
Profit before tax attributable to equity holders from discontinued operations	88
Total tax credit from discontinued operations	(30)
Tax charge attributable to equity holders	(30)
Total comprehensive income from discontinued operations	58

i This represents the Group's gain on disposal of these subsidiaries.

Cash flows	For the year ended 31 December 2019 £m
Net cash flows from operating activities	(2,455)
Net cash flows from financing activities	(5)
Net cash flows from investing activities	(17)
Total net cash flows from discontinued operations	(2,477)

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
Loans	188
Cash	17
Other assets	20
Total assets	225
Current tax liabilities	(1)
Provisions and other liabilities	(164)
Total liabilities	(165)
Net assets disposed	60
Gain on sale	55
Total cash consideration (net of transaction costs)	115
Cash and cash equivalents disposed	(17)
Cash inflow from disposal of subsidiaries	98

11 Earnings per share

Basic earnings per share for the year ended 31 December 2020 was 44.4p (2019: 43.1p) and diluted earnings per share was 44.0p (2019: 43.0p). Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares and shares held by the employee benefit trust. 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					
	2020			2019		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations £m	Discontinued operations £m	Total £m
Profit attributable to equity holders of M&G plc	**1,138**	**–**	**1,138**	1,062	58	1,120

	For the year ended 31 December	
	2020 Millions	2019 Millions
Weighted average number of ordinary shares outstanding	**2,563**	2,597
Dilutive effect of share options and awards	**24**	4
Weighted average number of diluted ordinary shares outstanding	**2,587**	2,601

	For the year ended 31 December					
	2020			2019		
	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	**44.4**	**–**	**44.4**	40.9	2.2	43.1
Diluted earnings per share	**44.0**	**–**	**44.0**	40.8	2.2	43.0

12 Dividends

12.1 Dividends

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Pence per share	**£m**	Pence per share	£m
Dividends relating to reporting period:				
First interim dividend – Ordinary	**6.00**	**152**	–	–
Second interim dividend – Ordinary	**12.23**	**310**	11.92	310
Interim dividends – Special dividends	**–**	**–**	3.85	100
Total		**462**		410
Dividends paid in reporting period:				
Prior year's interim dividend – Ordinary	**11.92**	**310**	–	–
Prior year's interim dividend – Special dividends	**3.85**	**100**	–	–
First interim dividend – Ordinary	**6.00**	**152**	–	–
Total		**562**		–

Subsequent to 31 December 2020, the Board has declared a second interim dividend for 2020 of 12.23 pence per ordinary share and, an estimated £310m in total. The dividend is expected to be paid on 28 April 2021 and will be recorded as an appropriation of retained earnings in the Company financial statements at the time that it is paid.

12.2 Transactions with equity holders

For the year ended 31 December 2019, dividends included amounts paid to Prudential plc by M&G plc post incorporation on 2 July 2018 up to the date of demerger of £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.

Prudential Capital Holdings Company Limited was transferred on 20 September 2019 from Prudential plc, and paid a £5m dividend prior to this.

13 Goodwill and intangible assets

	For the year ended 31 December					
	2020			2019		
	Goodwill £m	Other Intangibles £m	Total £m	Goodwill £m	Other Intangibles £m	Total £m
Cost						
At 1 January	**1,368**	**174**	**1,542**	1,360	155	1,515
Transfer to held for sale	**(11)**	**–**	**(11)**	–	–	–
Additions	**21**	**80**	**101**	10	40	50
Disposals and transfers	**(6)**	**(4)**	**(10)**	–	(16)	(16)
Foreign exchange differences	**3**	**5**	**8**	(2)	(5)	(7)
At 31 December	**1,375**	**255**	**1,630**	1,368	174	1,542
Accumulated amortisation and impairment						
At 1 January	**(5)**	**(98)**	**(103)**	(5)	(64)	(69)
Amortisation	**–**	**(19)**	**(19)**	–	(11)	(11)
Impairment	**(15)**	**(1)**	**(16)**	–	(23)	(23)
Disposals and transfers	**–**	**3**	**3**	–	–	–
Foreign exchange differences	**–**	**–**	**–**	–	–	–
At 31 December	**(20)**	**(115)**	**(135)**	(5)	(98)	(103)
Net book amount	**1,355**	**140**	**1,495**	1,363	76	1,439

	For the year ended 31 December	
	2020 £m	2019 £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	**181**	210
Arising on acquisition of Wrap IFA Services Limited	**21**	–
	1,355	1,363

13.1 Impairment assessment

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to a group of cash-generating units for the purposes of impairment testing. The group of 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, and where there is an indication of impairment, by comparing the carrying amount of the group of cash-generating units, including any goodwill, with its recoverable amount.

Group of cash-generating units comprising M&G Group Limited

The carrying value of the goodwill, arising on the acquisition of M&G Group Limited, relates to the Retail Asset Management, Institutional Asset Management and Internal Asset Management cash-generating units, which is part of the Savings and Asset Management segment. An impairment assessment was undertaken in respect of goodwill as at 30 June 2020, based on which no impairment charge was recognised. Subsequently, the continued adverse impacts of COVID-19 on the global economy and the resulting decline in projected assets under management were considered an impairment indicator by management, and therefore, another impairment assessment was undertaken as at 31 December 2020 which also resulted in no impairment charge being recognised.

The recoverable amount of the group of cash-generating units was determined by calculating the value in use. The value in use represents the present value of future cash flows based on five-year forecasts, approved by management, and cash flow projections for later years.

Based on the assessment, the value in use of the group of cash-generating units was higher than the carrying value and no impairment has been recognised as at 31 December 2020 in respect of goodwill arising on the acquisition of M&G Group Limited.

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 five-year forecasts. 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 forecast.

13 Goodwill and intangible assets continued

- 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 2020, a growth rate of 2.0% (2019: 2.0%) was used to extrapolate beyond the forecast period. A 1% reduction in the assumed growth rate would result in the value in use decreasing by £287m. This would not result in any impairment charge being recorded for goodwill.
- The pre-tax discount rate as at 31 December 2020 was 14% (2019: 13%) is based on the cost of equity for the asset management business derived using the Capital Asset Pricing Model and adjusted for forecasting risk. A 1% increase in the discount rate would result in the value in use decreasing by £135m. This would not result in any impairment charge being recorded for goodwill.
- That asset management contracts continue on similar terms.

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 have undertaken an impairment assessment by comparing the fair value of the subsidiaries with their carrying value. As a result of the assessment, an impairment of £15m (2019: nil) has been recognised in respect of one of the investments.

13.2 Intangible assets

Intangible assets comprise insurance contracts and customer relationships acquired through business combinations, software, service concessions, royalties and licences.

14 Deferred acquisition costs

	For the year ended 31 December					
	2020			2019		
	Insurance contracts £m	Other contracts £m	Total £m	Insurance contracts £m	Other contracts £m	Total £m
At 1 January	**57**	**47**	**104**	49	56	105
Additions	**11**	**2**	**13**	15	1	16
Amortisation to the income statement	**(7)**	**(9)**	**(16)**	(7)	(10)	(17)
Impairment	**(2)**	**(1)**	**(3)**	–	–	–
At 31 December	**59**	**39**	**98**	57	47	104

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	
	2020 £m	2019 £m
Investment in joint ventures	**421**	486
Investment in associates	**35**	38
Investments in joint ventures and associates accounted for using the equity method	**456**	524

	For the year ended 31 December	
	2020 £m	2019 £m
Share of (loss)/profit from joint ventures	**(61)**	3
Share of profit from associates	**6**	15
Share of (loss)/profit from joint ventures and associates accounted for using the equity method	**(55)**	18

There is no share of other comprehensive income from joint ventures or associates.

15.1.1 Investment 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 With-Profits Fund. The results of the Group's joint ventures are reflected in the movement in the unallocated surplus of the With-Profits Fund and therefore do not affect shareholders' results.

No joint ventures are considered to be material individually or in aggregate to the Group for the years ended 31 December 2020 and 31 December 2019. 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 Investments in joint ventures and associates continued

15.1.2 Investment in associates accounted for using the equity method

The Group has investments 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 to the Group for the years ended 31 December 2020 and 31 December 2019. None of the Group's equity-accounted associates are listed, and the reporting date and reporting period of the Group's associates accounted for using the equity method are the same as the Group.

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 With-Profits Fund 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 2020 and 31 December 2019.

The aggregate fair value of associates accounted for at FVTPL was £620m as at 31 December 2020 (2019: £764m).

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							
	2020				2019			
	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	300	113	1,411	1,824	298	59	1,193	1,550
Transfer to held for sale	(1)	(2)	(118)	(121)	–	–	–	–
Additions	26	39	782	847	51	49	344	444
Arising on acquisition of subsidiaries	–	–	1	1	–	11	8	19
Disposals and transfers	(32)	–	(138)	(170)	(49)	–	(113)	(162)
Foreign exchange differences	(1)	9	30	38	–	(6)	(21)	(27)
At 31 December	292	159	1,968	2,419	300	113	1,411	1,824
Accumulated depreciation and impairment								
At 1 January	(33)	(15)	(271)	(319)	(17)	(6)	(260)	(283)
Transfer to held for sale	1	–	54	55	–	–	–	–
Depreciation charge for the year	(26)	(3)	(80)	(109)	(16)	(10)	(71)	(97)
Impairment	(3)	–	(95)	(98)	–	–	–	–
Disposals and transfers	8	–	118	126	–	–	54	54
Foreign exchange differences	1	(1)	(8)	(8)	–	1	6	7
At 31 December	(52)	(19)	(282)	(353)	(33)	(15)	(271)	(319)
Net book amount	240	140	1,686	2,066	267	98	1,140	1,505

16.1 Right of use assets

The Group recognises right of use assets 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 2020, £27m (2019: £32m) of right of use assets were held by the With-Profits Fund.

16.2 Other tangible assets

As at 31 December 2020, £1,558m (2019: £992m) of other tangible assets were held by the With-Profits Fund, of which £218m (2019: £382m) are assets under construction. The other tangible assets within the With-Profits Fund are held by the Group's infrastructure capital private equity vehicles.

During the year, £95m (2019: nil) of impairment was recognised in respect of tangible assets held by the Group's infrastructure capital private equity vehicles.

17 Investment property

Investment property is primarily held by the With-Profits Fund 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	
	2020 £m	2019 £m
At 1 January	**19,136**	18,003
Transfer to held for sale	**(105)**	(149)
Additions:		
Resulting from property acquisitions	**722**	1,888
Resulting from expenditure capitalised	**152**	445
Disposals	**(281)**	(224)
Net fair value losses	**(752)**	(859)
Foreign exchange differences	**234**	32
At 31 December	**19,106**	19,136

For the year ended 31 December 2020, rental income from investment property was £997m (2019: £1,065m). Direct operating expenses, including repairs and maintenance arising from these properties for the year ended 31 December 2020 were £99m (2019: £60m).

The Group's policy is to let investment property to tenants through operating leases. The leases typically include clauses to enable periodic rent reviews according to prevailing market conditions. In some agreements, the rents might be variable and linked to an index. Certain leases contain options to break before the end of the lease term by either party.

Minimum future rental income to be received on non-cancellable leases of the Group's freehold investment property are receivable in the following periods:

	For the year ended 31 December	
	2020 £m	2019 £m
Less than 1 year	**346**	356
1 to 5 years	**1,086**	1,216
Over 5 years	**2,052**	2,435
Total minimum future rental income	**3,484**	4,007

The total minimum future rental income receivable on non-cancellable leases of the Group's leasehold investment property as at 31 December 2020 is £1,170m (2019: £1,437m).

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 2020 is the Prudential Staff Pension Scheme (PSPS), which accounts for 81% (2019: 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 Group Limited (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. As at 31 December 2020, the SASPS and M&GGPS schemes are in deficit based on the IAS 19 valuation.

Until 30 June 2019, the PSPS net economic pension surplus was attributed 70% to the With-Profits Fund and 30% to Prudential plc which is now external to the Group. On 30 June 2019, in preparation for demerger, the 30% attributable to Prudential plc was formally reallocated to the Group's shareholders, and the full value of the scheme surplus allowable under IFRIC 14 was attributed to the Group from this date. 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 during 2019.

18 Defined benefit pension schemes continued

The IAS 19 net surplus/deficit for M&GGPS is lower than its net economic surplus/deficit 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. The SASPS net economic pension deficit is attributed 40% to the With-Profits Fund and 60% to the Group's shareholders.

18.1.1 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 still relate to how many years employees have been active scheme members, as they did previously, as long as the employees remain working for the Group.

The pension scheme valuations for the schemes incorporate the effect of these changes in scheme rules, and the impact was included as a past service credit within the income statement in 2019 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 2020			
	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	**7,884**	**967**	**742**	**9,593**
Present value of defined benefit obligation	**(7,109)**	**(1,073)**	**(605)**	**(8,787)**
Effect of restriction on surplus	**(717)**	**–**	**–**	**(717)**
Net economic pension surplus/(deficit)[i]	**58**	**(106)**	**137**	**89**
Eliminate group issued insurance policies	**–**	**–**	**(201)**	**(201)**
Net total pension surplus/(deficit)	**58**	**(106)**	**(64)**	**(112)**

	As at 31 December 2020			
	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Attributable to:				
Shareholder-backed business	**17**	**(64)**	**(64)**	**(111)**
With-Profits Fund	**41**	**(42)**	**–**	**(1)**
Net total pension surplus/(deficit)	**58**	**(106)**	**(64)**	**(112)**

	As at 31 December 2019			
	PSPS £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 pension surplus/(deficit) attributable to the Group	40	(28)	37	49

	As at 31 December 2019			
	PSPS £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

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.

18 Defined benefit pension schemes continued

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, as at 31 December 2020, is shown in the table below.

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date[i]	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 £2.5m per annum)	Approximately £6m per annum	Approximately £4m per annum
Contributions to cover ongoing administration and other expenses	Approximately £5m per annum	Approximately £1m per annum	Approximately £1.5m per annum

i The next triennial valuations for PSPS and SASPS are underway and are expected to conclude in the first six months of 2021.

The contributions detailed above broadly represent the Group's current expectation of amounts that will be paid to each respective plan in the next annual reporting period.

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. The pensionable salaries for most members are capped at the 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.

18 Defined benefit pension schemes continued

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.

During 2020, PSPS entered into a longevity swap transaction with Pacific Life Re Limited. This arrangement provides long-term protection for PSPS against costs that could result from unexpected increases in life expectancy relating to the pensions that were in payment on 6 April 2019, excluding any future discretionary increases. As at 31 December 2020, the longevity swap covered £3.1bn of current pensioner scheme liabilities, on an IAS 19 basis.

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[i]	Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
31 December 2020	**PSPS**	**S2PMA/S2PFA for males/females**	**CMI 2018**	**27.3**	**29.5**	**28.6**	**30.6**
	SASPS	**S1PMA/S1PFA for males/females**	**CMI 2018**	**27.1**	**29.4**	**30.4**	**32.3**
	M&GGPS	**SAPS2 Light**	**CMI 2018**	**28.8**	**30.8**	**30.3**	**32.2**
31 December 2019	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

i The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2020, this allowance was based on the CMI 2018 mortality improvements model with improvement factors of 1.75% for males (S_k = 7.75) and 1.50% for females (S_k = 8.25) (2019: this allowance was based on the CMI 2017 model with improvement factors of 1.75% for males (S_k = 7.5) and 1.50% for females (S_k = 7.75)).

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 was reflected within gain/(loss) on remeasurement of defined benefit pension asset in the consolidated statement of comprehensive income in 2019.

18 Defined benefit pension schemes continued

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					
	2020			2019		
	PSPS	**SASPS**	**M&GGPS**	PSPS	SASPS	M&GGPS
Discount rate[i]	**1.2%**	**1.3%**	**1.3%**	2.1%	2.1%	2.1%
Salary inflation[ii]	**3.0%**	**2.9%**	**2.9%**	3.1%	3.0%	3.0%
Retail Prices Index (RPI)	**3.0%**	**2.9%**	**2.9%**	3.1%	3.0%	3.0%
Consumer Prices Index (CPI)	**2.2%**	**2.1%**	**2.1%**	2.1%	2.0%	2.0%
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%)	**n/a**	**2.9%**	**2.9%**	n/a	3.0%	3.0%
RPI (maximum 2.5%)	**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 Due to the scheme changes during 2019, the pensionable salary used to determine scheme benefits was 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 higher 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.

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. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2020 and 31 December 2019, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes – comprising £48m for PSPS, £21m for SASPS, and £6m for M&GGPS as at 31 December 2020 (2019: £32m for PSPS, £18m for SASPS and £5m for M&GGPS).

The incremental provision established in respect of the November 2020 Court ruling has been reflected as a past service cost for the year ended 31 December 2020.

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. In addition, the sensitivities shown do not include the impact on assets, which for all schemes would significantly offset the impact of the discount rate and inflation sensitivities on the IAS 19 surplus or deficit. For the PSPS scheme, the mortality rate sensitivity impact would also be partially mitigated by the longevity swap asset held.

18 Defined benefit pension schemes continued

	Sensitivity of the change in assumptions	As at 31 December 2020 Increase/(decrease) in the present value of the scheme's defined benefit obligation PSPS £m	SASPS £m	M&GGPS £m	Total £m
Base position	n/a	**7,109**	**1,073**	**605**	**8,787**
Discount rate	Decrease by 0.2%	**246**	**53**	**32**	**331**
	Increase by 0.2%	**(233)**	**(49)**	**(30)**	**(312)**
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2%	**(38)**	**(37)**	**(20)**	**(95)**
Mortality rate	Increase in life expectancy by 1 year	**253**	**40**	**29**	**322**

	Sensitivity of the change in assumptions	As at 31 December 2019 Increase/(decrease) in the present value of the scheme's defined benefit obligation 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
	Increase by 0.2%	(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

18.3 Plan assets of the schemes

	As at 31 December							
	2020				2019			
	PSPS £m	Other £m	Total £m	%	PSPS £m	Other £m	Total £m	%
Equities:								
UK	**19**	**10**	**29**	**–**	8	7	15	–
Overseas	**14**	**65**	**79**	**1**	25	63	88	1
Bonds:[i]								
Government	**4,855**	**840**	**5,695**	**60**	4,676	688	5,364	61
Corporate	**2,023**	**494**	**2,517**	**26**	1,753	487	2,240	25
Asset-backed securities	**283**	**26**	**309**	**3**	298	14	312	3
Derivatives[ii]	**216**	**3**	**219**	**2**	186	1	187	2
Properties	**160**	**116**	**276**	**3**	150	144	294	3
Other assets	**314**	**155**	**469**	**5**	351	126	477	5
Total value of assets[iii]	**7,884**	**1,709**	**9,593**	**100**	7,447	1,530	8,977	100

i As at 31 December 2020, 90% of the bonds were investment grade (2019: 88%).

ii Included within derivatives is a £15m liability in respect of the longevity swap transaction with Pacific Life Re Limited (2019: nil).

iii As at 31 December 2020, 94% of the total value of the scheme assets were derived from quoted prices in an active market (2019: 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 2020 of £9,392m (2019: £8,840m) is different from the economic basis plan assets of £9,593m (2019: £8,977m) 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	Group £m
Net defined benefit pension asset/(liability) at 1 January 2020	8,977	(7,904)	(887)	186	(137)	49	49
Total expense recognised in income statement:							
Current service cost	–	(22)	–	(22)	–	(22)	(22)
Past service costs	–	(11)	–	(11)	–	(11)	(11)
Net interest income/(expense)	182	(160)	(18)	4	(3)	1	1
Administration expenses	(13)	–	–	(13)	–	(13)	(13)
Total amount recognised in consolidated income statement[i]	169	(193)	(18)	(42)	(3)	(45)	(45)
Remeasurements:							
Actuarial gains and losses:							
Return on the scheme assets less amount included in interest income	804	–	–	804	(15)	789	789
Losses on changes in demographic assumptions	–	(44)	–	(44)	–	(44)	(44)
Losses on changes in financial assumptions	–	(1,229)	–	(1,229)	–	(1,229)	(1,229)
Experience gains on scheme liabilities	–	179	–	179	–	179	179
Unrecognisable surplus	–	–	188	188	–	188	188
Remeasurement gains and (losses)[ii]	804	(1,094)	188	(102)	(15)	(117)	(117)
Transfer in of net defined benefit pension asset	–	–	–	–	–	–	–
Benefit payments	(404)	404	–	–	–	–	–
Employers' contributions	47	–	–	47	–	47	47
Transfer in to investment in Group insurance policies	–	–	–	–	(46)	(46)	(46)
Net defined benefit pension asset/(liability) at 31 December 2020	9,593	(8,787)	(717)	89	(201)	(112)	(112)

i As at 31 December 2020, 90% of the bonds were investment grade (2019: 88%).

ii Included within derivatives is a £15m liability in respect of the longevity swap transaction with Pacific Life Re Limited (2019: nil).

iii As at 31 December 2020, 94% of the total value of the scheme assets were derived from quoted prices in an active market (2019: 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 2020 of £9,392m (2019: £8,840m) is different from the economic basis plan assets of £9,593m (2019: £8,977m) 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

	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 income/(expense)	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 on changes in demographic assumptions	–	117	–	117	–	117	36	81
Losses on changes in financial assumptions	–	(830)	–	(830)	–	(830)	(170)	(660)
Experience losses 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)
Benefit payments	(412)	412	–	–	–	–	–	–
Employers' contributions	50	–	–	50	–	50	3	47
Employees' contributions	–	–	–	–	–	–	–	–
Transfer out to investment in Group insurance policies	–	–	–	–	103	103	–	103
Transfer of shareholder share of PSPS scheme to Group	–	–	–	–	–	–	(15)	15
Net defined benefit pension asset/(liability) at 31 December 2019	8,977	(7,904)	(887)	186	(137)	49	–	49

i An expense of £22m is included in the total amount recognised in the income statement attributable to the Group for the year ended 31 December 2020 relating to the With-Profits Fund (2019: credit of £56m).

ii Included in the share of remeasurement gains and losses for the year ended 31 December 2020 are losses relating to shareholders totalling £101m (2019: losses of £19m) which are recognised in other comprehensive income. The amounts attributable to the With-Profits Fund for the year ended 31 December 2020 amount to losses of £16m (2019: losses of £187m) 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 2020	**269**	**1,122**	**1,532**	**1,508**	**1,438**	**5,305**	**11,174**
As at 31 December 2019	255	1,125	1,538	1,534	1,485	5,799	11,736

The weighted average duration of each scheme's defined benefit obligations (in years) are as follows:

	PSPS	SASPS	M&GGPS
As at 31 December 2020	**17**	**24**	**26**
As at 31 December 2019	17	23	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	
	2020 £m	2019 £m
Mortgage loans	**4,328**	4,377
Policy loans	**2**	2
Other loans	**1,701**	1,575
Total loans	**6,031**	5,954

Mortgage loans includes a securitisation vehicle that the Group consolidates which holds a portfolio of buy-to-let mortgages carried at fair value through profit or loss. The Group's interest is held by the With-Profits Fund. The fair value of the loans as at 31 December 2020 was £1,366m (2019: £1,462m). 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 2020, 80% of the £2,219m (2019: 80% of £2,179m) 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 36% (2019: 35%). The equity release mortgages are carried at fair value through profit or loss. Sensitivities in relation to the valuation of the equity release mortgages are provided in Note 33.9.

Other loans mainly comprise syndicated and bridge commercial loans.

20 Classification of financial instruments

20.1 Financial assets

	Note	As at 31 December 2020			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Loans[i]		3,220	–	2,811	6,031
Derivative assets	33	–	5,705	–	5,705
Equity securities and pooled investment funds	34	68,419	–	–	68,419
Deposits	34	–	–	17,629	17,629
Debt securities	34	85,439	–	–	85,439
Accrued investment income and other debtors	34	–	–	3,023	3,023
Cash and cash equivalents	22	–	–	6,776	6,776
Total financial assets		157,078	5,705	30,239	193,022

i The carrying value of loans held at amortised cost are reported net of allowance for loan losses of £50m as at 31 December 2020 (2019: £20m).

		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		3,339	–	2,615	5,954
Derivative assets	33	–	3,962	–	3,962
Equity securities and pooled investment funds	34	72,388	–	–	72,388
Deposits	34	–	–	14,221	14,221
Debt securities	34	85,434	–	–	85,434
Accrued investment income and other debtors	34	–	–	2,923	2,923
Cash and cash equivalents	22	–	–	6,046	6,046
Total financial assets		161,161	3,962	25,805	190,928

Financial assets expected to be recovered after one year as at 31 December 2020 are £86,531m (2019: £82,838m).

20.2 Financial liabilities

		As at 31 December 2020			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Amortised cost £m	Total £m
Investment contract liabilities without discretionary participation features	27	15,547	–	–	15,547
Third-party interest in consolidated funds	33	13,265	–	–	13,265
Subordinated liabilities and other borrowings	28	1,301	–	6,966	8,267
Derivative liabilities	33	–	3,460	–	3,460
Other financial liabilities		–	–	3,391	3,391
Accruals, deferred income and other liabilities		409	–	3,714	4,123
Total financial liabilities		30,522	3,460	14,071	48,053

20 Classification of financial instruments continued

		As at 31 December 2019			
		Fair value through profit or loss			
	Note	Designated £m	Held for trading £m	Amortised cost £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	33	–	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

Other financial liabilities relate to obligations under funding, securities lending and sale and repurchase agreements.

Accruals, deferred income and other liabilities exclude items which do not meet the definition of a financial liability.

Financial liabilities expected to be settled in more than one year as at 31 December 2020 were £11,192m (2019: £9,352m).

21 Accrued investment income and other debtors

	As at 31 December	
	2020 £m	2019 £m
Interest receivable	**659**	831
Other	**780**	691
Total accrued investment income	**1,439**	1,522
Other debtors:		
Outstanding sales of investment securities	**132**	138
Investment management fee debtors	**163**	187
Property-related debtors	**175**	162
Cancellation of units awaiting settlement	**31**	24
Other	**1,083**	890
Total accrued investment income and other debtors	**3,023**	2,923
Analysed as:		
Expected to be settled within one year	**2,738**	2,703
Expected to be settled after one year	**285**	220
Total accrued investment income and other debtors	**3,023**	2,923

22 Cash and cash equivalents

	As at 31 December	
	2020 £m	2019 £m
Cash	**4,646**	3,579
Cash equivalents	**2,130**	2,467
Total cash and cash equivalents	**6,776**	6,046

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

23.1 Issued share capital

	For the year ended 31 December			
	2020		2019	
Issued shares of 5p fully paid	Number of ordinary shares	Share capital £m	Number of ordinary shares	Share capital £m
At 1 January	**2,599,906,866**	**130**	2,597,930,000	130
Bonus issue	**–**	**–**	1,976,866	–
At 31 December	**2,599,906,866**	**130**	2,599,906,866	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 2019, 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. The share premium reserve at 31 December 2020 was £370m (2019: £370m).

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 £118m as at 31 December 2020 (2019: £27m) is deducted from equity.

24.1 Shares held by employee benefit trusts

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. In addition, there is a separate trust that holds shares in respect of SIP schemes.

The movement in the M&G plc shares held in employee benefit trusts are detailed below:

	For the year ended 31 December	
	2020 Number of shares	2019 Number of shares
At 1 January	**12,839,060**	–
Shared received at date of listing	**–**	1,203,335
Shares acquired during the year	**62,866,551**	12,606,493
Shares awarded during the year	**(7,523,026)**	(970,768)
At 31 December	**68,182,585**	12,839,060

The Trust holds 64,645,185 shares at 31 December 2020 (2019: 8,681,580) whilst a further 3,537,400 shares are held by the trustee of the SIP scheme at 31 December 2020 (2019: 4,157,480).

The cost of shares held in the employee benefit trusts' own shares of £117m as at 31 December 2020 (2019: £26m) is deducted from equity.

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 2020 was 598,106 (2019: 586,885) with a carrying value as at 31 December 2020 of £1m (2019: £1m).

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 2020.

25 Retained earnings

The movements in the following table are aggregated for both continuing and discontinued operations.

	Note	For the year ended 31 December 2020 £m	2019 £m
At 1 January		**16,342**	20,157
Recognised in comprehensive income:			
Profit for the year attributable to equity holders from continuing operations		**1,138**	1,062
Profit for the year attributable to equity holders from discontinued operations		**–**	58
Other comprehensive expenses on items that will not be reclassified to profit or loss		**(81)**	(5)
Total items recognised in comprehensive income		**1,057**	1,115
Recognised directly in equity:			
Transaction with equity holders:			
Dividends	12	**(562)**	(4,365)
Distribution in kind[i]		**–**	(570)
Shares distributed by employee trusts		**(14)**	–
Vested employee share-based payments	26	**17**	(2)
Other movements		**–**	(92)
Tax effect of items recognised directly in equity		**13**	99
Total items recognised directly in equity		**(546)**	(4,930)
Net increase/(decrease) in equity		**511**	(3,815)
At 31 December		**16,853**	16,342

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 in 2019. 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
As at 1 January 2020	**45**	**(11,732)**	**(3)**	**(11,690)**
Exchange movements arising on foreign operations	**–**	**–**	**3**	**3**
Total comprehensive income for the year	**–**	**–**	**3**	**3**
Vested employee share-based payments	**(17)**	**–**	**–**	**(17)**
Expense recognised in respect of share-based payments	**51**	**–**	**–**	**51**
Tax effect of items recognised directly in equity	**(5)**	**–**	**–**	**(5)**
Net increase in equity	**29**	**–**	**3**	**32**
As at 31 December 2020	**74**	**(11,732)**	**–**	**(11,658)**

26 Other reserves continued

	Equity-settled share-based payment reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Total other reserves £m
As 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)
Expense recognised 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
As at 31 December 2019	45	(11,732)	(3)	(11,690)

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.

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. Non-profit business written in the With-Profits Fund is valued consistently with equivalent business written in the shareholder-backed funds, and profit on this business which has accrued to policyholders is included as part of the with-profits contract liability. No policyholder liability is held in respect of future enhancements to with-profits liabilities from non-profit business.

The with-profits contracts are a combination of insurance and investment contracts with DPF, 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 WPBR 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.

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:

- Assumptions relating to persistency and the take-up of options offered under certain with-profits contracts 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 forecast expense levels, including an allowance for ongoing investment management expenses, and are allocated between entities and product groups in accordance with the Group's internal cost allocation model;
- Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve; and
- 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

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. As at 31 December 2020 and 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 consolidated 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.

With-profits options and guarantees
Certain policies written in the Group's With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion.

Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions products, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, guarantees apply at the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter.

The main types of options and guarantees offered for with-profits contracts are as follows:

- For conventional with-profits contracts, including endowment assurance contracts and whole of-life assurance contracts, payouts are guaranteed at the sum assured together with any declared regular bonus;
- Conventional with-profits deferred annuity contracts have a basic annuity per annum to which bonuses are added. At maturity, the cash claim value will reflect the current cost of providing the deferred annuity. Regular bonuses when added to with-profits contracts usually increase the guaranteed amount;
- For unitised with-profits contracts and cash accumulation contracts the guaranteed payout is the initial investment (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses declared. If benefits are taken at a date other than when the guarantee applies, a market value reduction may be applied to reflect the difference between the accumulated value of the units and the market value of the underlying assets;
- For certain unitised with-profits contracts and cash accumulation contracts, policyholders have the option to defer their retirement date when they reach maturity, and the terminal bonus granted at that point is guaranteed;
- For with-profits annuity contracts, there is a guaranteed minimum annuity payment below which benefit payments cannot fall over the lifetime of the policies; and
- Certain pensions products have guaranteed annuity options at retirement, where the policyholder has the option to take the benefit in the form of an annuity at a guaranteed conversion rate.

Determination of bonuses
Profit recognition for traditional with-profits business written in the WPSF is in line with the declaration 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; and
- 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.

27 Policyholder liabilities and unallocated surplus continued

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 WPSF.

	For the year ended 31 December	
	2020 £m	2019 £m
Net income of the WPSF fund:		
Investment return	**5,719**	13,910
Claims incurred	**(9,430)**	(9,106)
Movement in policyholder liabilities	**(364)**	(11,535)
Add back policyholder bonus for the year (as shown below)	**2,258**	2,375
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**(7,536)**	(18,266)
Earned premiums, net of reinsurance	**5,494**	11,755
Other income	**9**	35
Acquisition costs and other expenditure	**(1,250)**	(1,837)
Share of (losses)/profits from investment joint ventures	**(64)**	3
Tax charge	**(297)**	(413)
Net income of the fund before movement in unallocated surplus of the With-Profits Fund	**2,075**	5,187
Movement in unallocated surplus of the With-Profits Fund	**433**	(2,549)
Surplus for distribution for the year	**2,508**	2,638
Surplus for distribution for the year allocated as follows:		
Policyholders' bonus (as shown above)	**2,258**	2,375
Shareholders' transfers[i]	**250**	263
Surplus for distribution for the year	**2,508**	2,638

i Shareholder transfers for most business in the WPSF are one-ninth of the cost of bonus declared to policyholders.

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 the deferred acquisition costs and deferred income that relate to investment management. Deferred acquisition costs and deferred income are recognised in line 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.

27.1.3 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:

27 Policyholder liabilities and unallocated surplus continued

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 2020. 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 CMI 2018 model does not take into account higher mortality improvements observed during 2019, and the Group has therefore adopted a stronger than default calibration of CMI 2018 model. The mortality improvement assumptions used are summarised in the table below:

Period ended	Model version	Long-term improvement rate[i]	Smoothing parameter (Sk)[ii]
31 December 2020	CMI 2018	For males: 2.25% pa For females: 2.00% pa	For males: 7.75 For females: 8.25
31 December 2019	CMI 2017	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.75

i As at 31 December 2020 and 31 December 2019, 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.

An increase in mortality rates has been observed during 2020 due to the COVID-19 pandemic and may be expected to continue to some extent over the short-term, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, the longer-term implications for mortality rates amongst the annuitant population are unknown at this stage. While no change has been made to the annuitant mortality assumptions directly as a result of COVID-19, this is an area the Group continues to monitor.

The mortality assumptions for in-force vested annuities also cover annuities in deferment.

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. 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 downgrades, a provision for credit risk premium, and where appropriate an additional short-term allowance.

The credit risk allowance for the Group's shareholder-backed annuity business as at 31 December 2020 was 46bps per annum (2019: 37bps) corresponding to a net of reinsurance reserve of £862m (2019: £701m). For the annuity business written in the With-Profits Fund, this amount was 43bps (2019: 33bps) corresponding to a net of reinsurance reserve of £406m (2019: £324m). This increase is primarily due to strengthening the short-term provision, in anticipation of short-term deterioration in the number of company default and downgrades due to the current market conditions arising from the COVID-19 pandemic. 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 management expenses 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.

The following tables show the movement in policyholder liabilities and unallocated surplus of the With-Profits Fund by component of business. 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 consolidated 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

		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
As at 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 as held for sale	–	–	10,502	10,502		
Disposal of Hong Kong subsidiaries	(44)	(9)	53	–		
Shareholders' transfers post-tax	(263)	–	–	(263)		
Switches	(156)	156	–	–		
Investment-related items and other movements[ii]	10,925	2,513	1,613	15,051		
Foreign exchange differences	(112)	–	(4)	(116)		
As at 31 December 2019/As at 1 January 2020	**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**		
Net Flows:						
Premiums	**5,500**	**1,632**	**161**	**7,293**		
Surrenders	**(5,730)**	**(2,214)**	**(81)**	**(8,025)**		
Maturities/deaths	**(4,114)**	**(603)**	**(2,077)**	**(6,794)**		
Net flows	**(4,344)**	**(1,185)**	**(1,997)**	**(7,526)**		
Shareholders' transfers post-tax	**(250)**	**–**	**–**	**(250)**		
Switches	**(81)**	**81**	**–**	**–**		
Investment-related items and other movements[ii]	**4,220**	**509**	**2,153**	**6,882**		
Foreign exchange differences	**28**	**56**	**–**	**84**		
As at 31 December 2020	**136,387**	**20,455**	**30,599**	**187,441**	**(11,761)**	**175,680**
Comprising:						
Insurance contract liabilities	**41,172**	**4,987**	**30,491**	**76,650**		
Investment contract liabilities with DPF	**79,592**	**–**	**31**	**79,623**		
Investment contract liabilities without DPF	**2**	**15,468**	**77**	**15,547**		
Unallocated surplus of the With-Profits Fund	**15,621**	**–**	**–**	**15,621**		

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 credit downgrade/default provisioning and annuitant mortality, decreased policyholder liabilities by £238m for the year ended 31 December 2020 (2019: £340m decrease). For the With-Profits Fund, the impact of assumption changes for the year ended 31 December 2020 was a decrease in policyholder liabilities of £339m (2019: £239m decrease), which was offset by a corresponding increase in unallocated surplus of the With-Profits Fund. The assumption change impacts have been amended from those reported in the 31 December 2019 Annual Report and Accounts with no impact on the movement table presented above.

27 Policyholder liabilities and unallocated surplus 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, although certain movements such as premiums received and claims paid on investment contracts without DPF, are not charged to the consolidated income statement.

	Insurance contracts £m	Investment contracts[ii] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurers' share[iii] £m
As at 1 January 2019	69,298	82,598	13,433	(2,812)
Income and expense included in the income statement	(1,063)	12,688	2,549	1,356
Other movements including amounts included in other comprehensive income[i]	10,311	(1,583)	136	(10,502)
Foreign exchange translation differences	(66)	(4)	(46)	–
As at 31 December 2019/As at 1 January 2020	**78,480**	**93,699**	**16,072**	**(11,958)**
Income and expense included in the income statement	**(1,884)**	**2,280**	**(433)**	**203**
Other movements including amounts included in other comprehensive income[i]	**19**	**(865)**	**(11)**	**(4)**
Foreign exchange translation differences	**35**	**56**	**(7)**	**(2)**
As at 31 December 2020	**76,650**	**95,170**	**15,621**	**(11,761)**

i 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 consolidated 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. 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.

ii This comprises investment contracts with discretionary participation features of £79,623m as at 31 December 2020 (2019: £78,048m) and investment contracts without discretionary participation features of £15,547m as at 31 December 2020 (2019: £15,651m).

iii Includes reinsurers' share of claims outstanding of £149m as at 31 December 2020 (2019: £156m).

The below tables show the "Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance" as shown in the consolidated income statement. "Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance" comprises of the movement charged to the consolidated income statement presented in the table above, and the benefits and claims paid over the period, net of amounts attributable to reinsurers.

	For the year ended 31 December 2020		
	Policyholder liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	**(396)**	**433**	**–**
Movement in reinsurance asset included in consolidated income statement	**–**	**–**	**(203)**
Benefits and claims paid	**(12,278)**	**–**	**–**
Benefits and claims attributable to external reinsurers	**–**	**–**	**1,680**
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in consolidated income statement	**(12,674)**	**433**	**1,477**

i Policyholder liabilities consist of insurance contract liabilities and investment contract liabilities.

27 Policyholder liabilities and unallocated surplus continued

	For the year ended 31 December 2019		
	Policyholder liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	(11,625)	(2,549)	–
Movement in reinsurance asset included in consolidated income statement	–	–	(1,356)
Benefits and claims paid	(12,750)	–	–
Benefits and claims attributable to external reinsurers	–	–	1,787
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance as shown in consolidated income statement	(24,375)	(2,549)	431

i Policyholder liabilities consist of insurance contract liabilities and investment contract liabilities.

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 2020									
	With-profits business			**Annuity business (insurance contracts)**			**Other including unit-linked**			**Total**
	Insurance contracts	**Investment contracts**	**Total**	**Non-profit annuities within With-Profits Fund**	**Shareholder-backed annuities**	**Total**	**Insurance contracts**	**Investment contracts**	**Total**	
Carrying value (£m)	**30,268**	**79,581**	**109,849**	**10,438**	**29,369**	**39,807**	**6,575**	**15,589**	**22,164**	**171,820**
Expected cash flow timing:										
0 to 5 years	**34%**	**35%**	**35%**	**34%**	**27%**	**30%**	**43%**	**32%**	**36%**	**34%**
5 to 10 years	**23%**	**26%**	**25%**	**26%**	**24%**	**24%**	**25%**	**24%**	**24%**	**25%**
10 to 15 years	**17%**	**17%**	**17%**	**17%**	**19%**	**18%**	**16%**	**18%**	**17%**	**17%**
15 to 20 years	**11%**	**10%**	**10%**	**10%**	**14%**	**13%**	**8%**	**12%**	**11%**	**11%**
20 to 25 years	**7%**	**6%**	**6%**	**6%**	**9%**	**8%**	**4%**	**7%**	**6%**	**6%**
Over 25 years	**8%**	**6%**	**7%**	**7%**	**7%**	**7%**	**4%**	**7%**	**6%**	**7%**

	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 With-Profits Fund	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%

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 pension contracts.

Liability payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

The amounts shown in the table exclude the unallocated surplus of the With-Profits Fund, as its allocation has not yet been defined.

28 Subordinated liabilities and other borrowings

	As at 31 December	
	2020 £m	2019 £m
Subordinated liabilities	**3,729**	3,767
Operational borrowings	**157**	130
Borrowings attributable to the With-Profits Fund	**4,381**	3,602
Total subordinated liabilities and other borrowings	**8,267**	7,499

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 2020		As at 31 December 2019	
	Principal amount	**Carrying value £m**	Principal amount	Carrying value £m
5.625% sterling fixed rate due 20 October 2051	**£750m**	**856**	£750m	862
6.25% sterling fixed rate due 20 October 2068	**£500m**	**608**	£500m	608
6.50% US dollar fixed rate due 20 October 2048	**$500m**	**425**	$500m	448
6.34% sterling fixed rate due 19 December 2063	**£700m**	**853**	£700m	856
5.56% sterling fixed rate due 20 July 2055	**£600m**	**680**	£600m	684
3.875% sterling fixed rate due 20 July 2049	**£300m**	**307**	£300m	309
Total subordinated liabilities		**3,729**		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 2020 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 2020, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £42m (2019: £41m) is expected to be settled within 12 months.

28.1.1 Movement in subordinated liabilities

The following table reconciles the movement in subordinated liabilities in the year:

	2020 £m	2019 £m
At 1 January	**3,767**	–
Fair value on initial recognition	**–**	3,789
Amortisation	**(23)**	(9)
Foreign exchange movements	**(15)**	(13)
At 31 December	**3,729**	3,767

28 Subordinated liabilities and other borrowings continued

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 a 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	
	2020 £m	2019 £m
Other borrowings	**157**	130
Total	**157**	130

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 2020, these remain undrawn.

28.2.2 Other borrowings attributable to the With-Profits Fund

	As at 31 December	
	2020 £m	2019 £m
Non-recourse borrowings of consolidated investment funds[i]	**4,284**	3,525
Bank loans and overdrafts	**26**	38
Other borrowings	**71**	39
Total	**4,381**	3,602

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 2020, the non-recourse borrowings of consolidated investment funds includes £1,301m (2019: £1,422m) 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.

28.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's other 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	No Stated Maturity	Total
As at 31 December 2020	**4**	**6**	**–**	**–**	**17**	**6**	**124**	**157**
As at 31 December 2019[i]	35	–	–	–	–	3	92	130

	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	No Stated Maturity	Total
As at 31 December 2020	**425**	**708**	**105**	**518**	**202**	**2,423**	**–**	**4,381**
As at 31 December 2019	289	553	208	154	469	1,929	–	3,602

i The contractual maturities of subordinated liabilities and other borrowings on an undiscounted cash flow basis, as reported in the 31 December 2019 Annual Report and Accounts, have been restated due to better information being available

29 Lease liabilities

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	
	2020 £m	2019 £m
At 1 January	**360**	316
Additions	**18**	56
Disposals	**(14)**	–
Interest expense	**14**	13
Lease repayments	**(24)**	(25)
At 31 December	**354**	360

	As at 31 December	
	2020 £m	2019 £m
Expected to be settled within one year	**22**	32
Expected to be settled after one year	**332**	328
Total lease liabilities	**354**	360

As at 31 December 2020, £34m (2019: £49m) of the lease liabilities are attributable to the With-Profits Fund.

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	
	2020 £m	2019 £m
Future minimum lease payments falling due in:		
Less than 1 year	**29**	28
1 to 5 years	**111**	127
Over 5 years	**277**	310

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 2020 is £61m (2019: £61m).

The Group entered into a lease agreement in December 2020 for 20 years on an office building due to complete in 2022, which will also be the lease commencement date. The undiscounted value of future lease payments in relation to this lease which have not been recognised in lease liabilities as at 31 December 2020 are £29m.

30 Provisions

	As at 31 December	
	2020 £m	2019 £m
Regulatory	**50**	101
Staff benefits	**103**	109
Restructuring	**66**	76
Other	**16**	40
Total provisions	**235**	326

30 Provisions continued

	For the year ended 31 December	
	2020 £m	2019 £m
At 1 January	**326**	512
Charged to consolidated income statement:		
Additions during the year	**107**	153
Unused amounts released	**(26)**	(32)
Used during the year	**(172)**	(307)
At 31 December	**235**	326

Regulatory provisions in relation to annuity sales practices

Regulatory provisions includes a provision for the review of past annuity sales of £49m as at 31 December 2020 (2019: £100m). 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, and this review is now complete. In addition, PAC has been 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. 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 the 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 £4m. An increase in the total operational cost of performing the reviews of 20% would result in the provision recognised increasing by £4m. In 2018, PAC agreed with its professional indemnity insurers that they will meet £166m of claims costs relating to the original review. Payments were received as quarterly instalments with the final payment received in early 2020.

Staff benefits

Staff benefits primarily relates to performance-related bonuses expected to be paid to staff over the next three years.

Restructuring

Included in restructuring provisions is £61m as at 31 December 2020 (2019: £76m) related to change in control costs arising from the Demerger in 2019, which were expected to be incurred within four years of the separation from Prudential plc. The remaining £9m (2019: £nil) restructuring provisions are in relation to redundancy costs.

31 Accruals, deferred income and other liabilities

	As at 31 December	
	2020 £m	2019 £m
Outstanding purchases of investment securities	**2,169**	2,907
Accruals and deferred income	**1,317**	1,447
Deferred consideration	**411**	390
Deposits received from reinsurers	**344**	231
Creditors arising from insurance operations	**186**	192
Interest payable	**69**	66
Creation of units awaiting settlement	**43**	41
Property-related creditors	**16**	18
Other	**736**	629
Total accruals, deferred income and other liabilities	**5,291**	5,921
Analysed as:		
Expected to be settled within one year	**4,243**	4,941
Expected to be settled after one year	**1,048**	980
Total accruals, deferred income and other liabilities	**5,291**	5,921

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.

32 Structured entities continued

– 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 2020 and 31 December 2019, 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	
	2020 £m	2019 £m
Statement of financial position line item:		
Equity securities and pooled investment funds	**11,549**	11,086
Debt securities	**3,180**	3,527
Total	**14,729**	14,613

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 2020 were £4,934m (2019: £3,744m) of investments in structured entities managed by the Group. Investment management fees for the year ended 31 December 2020 of £475m (2019: £600m) 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 2020 from managing these entities were £251m (2019: £188m).

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 (i.e. as prices) or indirectly (i.e. derived from prices)
Level 2 principally includes corporate bonds and other national and 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 DPF 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.

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 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 e.g., 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.

Where certain debt securities are valued using broker quotes, adjustments may be required in limited circumstances. This is generally where it is determined that the third-party valuations obtained do not reflect fair value (e.g. 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.

Certain debt securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower and allocating an internal credit rating which is unobservable. The internal credit rating implicitly incorporates ESG considerations through the analysts views of the industry and issuer. Under matrix pricing, these debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt securities, factoring in a specified liquidity premium. The selection of comparable quoted public debt securities used to determine the credit spread is based on a credit spread matrix that takes into account the internal credit rating, maturity and currency of the debt security.

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 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 2020, the Group held £40,251m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (2019: £38,904m). This included £1,366m of loans (2019: £1,462m) and corresponding borrowings of £1,301m (2019: £1,422m) 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 With-Profits Fund. 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.

33 Fair value methodology continued

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. The Group's investment properties are predominantly valued using an income capitalisation technique. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenants and location. Typically these variables used are compared to recent transactions with similar features to those being valued. The valuation of investment property inherently captures the impact of climate change if it were located in an area subject to climate change events. The key inputs of yield and rental value are proxies for a range of factors which will include climate change. It is evident from recent transactions that the most recently constructed and greener buildings are achieving the highest rents and lowest yields.

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.

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 2020 were £11,672m (2019: £11,207m), representing 7.9% of the total fair-valued financial assets net of financial liabilities (2019: 7.3%).

Internal valuations are inherently more subjective than external valuations. These internally valued assets and liabilities primarily consist of the following items:

- Debt securities of £11,149m as at 31 December 2020 (2019: £10,187m), of which £9,725m (2019: £9,246m) 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 £315m as at 31 December 2020 (2019: £548m), of which investments of £315m (2019: £357m) 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, internally derived 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 £1,777m as at 31 December 2020 (2019: £1,737m) and a corresponding liability of £409m (2019: £390m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the internally derived 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, however, during 2020, the assumed future property growth assumption has been adjusted to make allowance for the expected short-term dynamics in the residential property market, as a result of the COVID-19 pandemic.
- Liabilities of £1,407m as at 31 December 2020 (2019: £1,135m), 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 valuations

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 present 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 2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	–	–	17,167	17,167
Loans	–	–	1,443	1,443
Derivative assets	112	4,698	–	4,810
Equity securities and pooled investment funds	43,920	3,560	7,562	55,042
Debt securities	19,443	30,563	5,637	55,643
Total with-profits	63,475	38,821	31,809	134,105
Unit-linked:				
Investment property	–	–	409	409
Derivative assets	3	5	–	8
Equity securities and pooled investment funds	11,941	349	889	13,179
Debt securities	2,633	5,868	5	8,506
Total unit-linked	14,577	6,222	1,303	22,102
Annuity and other long-term business:				
Investment property	–	–	1,530	1,530
Loans	–	–	1,777	1,777
Derivative assets	–	778	–	778
Equity securities and pooled investment funds	2	–	2	4
Debt securities	3,141	10,191	6,942	20,274
Total annuity and other long-term business	3,143	10,969	10,251	24,363
Other:				
Derivative assets	–	109	–	109
Equity securities and pooled investment funds	189	–	5	194
Debt securities	801	215	–	1,016
Total other	990	324	5	1,319
Group:				
Investment property	–	–	19,106	19,106
Loans	–	–	3,220	3,220
Derivative assets	115	5,590	–	5,705
Equity securities and pooled investment funds	56,052	3,909	8,458	68,419
Debt securities	26,018	46,837	12,584	85,439
Total assets at fair value	82,185	56,336	43,368	181,889

33 Fair value methodology continued

	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

33.5 Fair value hierarchy for liabilities measured at fair value in the consolidated statement of financial position

The tables below present the Group's liabilities measured at fair value by level of the fair value hierarchy:

	As at 31 December 2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment contract liabilities without discretionary participation features	–	15,547	–	15,547
Third-party interest in consolidated funds	7,972	3,886	1,407	13,265
Subordinated liabilities and other borrowings	–	–	1,301	1,301
Derivative liabilities	37	3,423	–	3,460
Accruals, deferred income and other liabilities	–	–	409	409
Total liabilities at fair value	8,009	22,856	3,117	33,982

	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
Subordinated liabilities and other borrowings	–	–	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

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 2020		
	Transfers between levels		
	Equity securities and pooled investment funds £m	Debt securities £m	Total £m
From level 1 to level 2	–	8,200	8,200
From level 1 to level 3	7	–	7
From level 2 to level 1	–	3,930	3,930
From level 2 to level 3	84	439	523
From level 3 to level 2	–	202	202

	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

33.7 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 2020										
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	**19,136**	**(752)**	**234**	**874**	**(281)**	**(105)**	**–**	**–**	**–**	**–**	**19,106**
Loans	**3,339**	**36**	**–**	**9**	**(45)**	**–**	**(119)**	**–**	**–**	**–**	**3,220**
Equity securities and portfolio holdings in unit trusts	**8,161**	**(141)**	**78**	**1,033**	**(764)**	**–**	**–**	**–**	**91**	**–**	**8,458**
Debt securities	**11,215**	**1,038**	**4**	**1,365**	**(1,296)**	**–**	**–**	**21**	**439**	**(202)**	**12,584**
Total level 3 assets	**41,851**	**181**	**316**	**3,281**	**(2,386)**	**(105)**	**(119)**	**21**	**530**	**(202)**	**43,368**
Level 3 liabilities:											
Third-party interest in consolidated funds	**1,135**	**39**	**–**	**–**	**–**	**–**	**(486)**	**719**	**–**	**–**	**1,407**
Borrowings and subordinated liabilities	**1,422**	**–**	**–**	**–**	**–**	**–**	**(121)**	**–**	**–**	**–**	**1,301**
Other liabilities	**390**	**26**	**–**	**–**	**–**	**–**	**(7)**	**–**	**–**	**–**	**409**
Total level 3 liabilities	**2,947**	**65**	**–**	**–**	**–**	**–**	**(614)**	**719**	**–**	**–**	**3,117**

	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 Unrealised gains and losses in respect of level 3 assets and liabilities

Unrealised gains and losses recognised in the consolidated income statement in respect of assets and liabilities classified as level 3 that are held at the end of the year are analysed as follows:

	For the year ended 31 December	
	2020 £m	2019 £m
Investment property	**(769)**	(857)
Loans	**32**	147
Equity securities and pooled investment funds	**(550)**	282
Debt securities	**1,030**	711
Third-party interest in consolidated funds	**(183)**	(48)
Other financial liabilities	**26**	41
Total	**(414)**	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 2020, the Group held £19,106m (2019: £19,136m) 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. The most significant unobservable inputs in determining the fair value for £17,790m (2019: £17,389m) of these properties, are the equivalent yield and estimated rental value. As at 31 December 2020, £1,914m (2019: £2,073m) of these properties are held in the shareholder-backed funds.

The sensitivity of the fair value of these properties to these inputs, and the impact on IFRS profit after tax and shareholders' equity, is presented below:

		As at 31 December 2020		As at 31 December 2019	
Unobservable input	Sensitivity	**Change in fair value £m**	**Impact on IFRS profit after tax and shareholders' equity £m**	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity £m
Equivalent yield	Decrease by 50bps	**2,078**	**192**	2,110	197
	Increase by 50bps[i]	**(1,733)**	**(154)**	(1,315)	(161)
Estimated rental value	Decrease by 10%	**(1,476)**	**(89)**	(1,334)	(95)
	Increase by 10%	**1,417**	**90**	1,427	103

i The sensitivity as reported in the 31 December 2019 Annual Report and Accounts has been restated due to better information being available.

As at 31 December 2020, investment property also included properties under development and other properties amounting to £1,316m, (2019: £1,747m) for which the above approach for assessing 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 10% premium/discount to the valuation. As at 31 December 2020, £25m (2019: £24m) of properties under development are held in the shareholder-backed funds.

The sensitivity of the fair value of these properties to this input, and the impact on IFRS profit after tax and shareholders' equity, is presented below:

		As at 31 December 2020		As at 31 December 2019	
Unobservable input	Sensitivity	**Change in fair value £m**	**Impact on IFRS profit after tax and shareholders' equity £m**	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity £m
Premium/discount	Increase by 10%	**132**	**2**	175	2
	Decrease by 10%	**(132)**	**(2)**	(175)	(2)

33.9.2 Loans held at fair value

As at 31 December 2020, the Group held £3,220m (2019: £3,339m) of loans at fair value, which were all classified as level 3 in the fair value hierarchy. Of these loans, £1,777m (2019: £1,737m) 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.

33 Fair value methodology continued

The ERMs are valued using a discounted cash flow model. Future cash flows 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. All ERMs are held within the shareholder-backed funds. The sensitivity of the fair value of the ERMs to inputs is as follows:

(i) An increase of 50bps in the discount rate would decrease the fair value of the loans by £155m (2019: decrease of £153m) and decrease IFRS profit after tax and shareholders' equity by £127m (2019: decrease of £125m). A decrease of 50bps in the discount rate would increase the fair value by £172m (2019: increase of £171m) and increase IFRS profit after tax and shareholders' equity by £141m (2019: increase of £140m).

(ii) An increase of 10% in the current property value would increase the fair value of the loans by £50m (2019: increase of £48m) and increase IFRS profit after tax and shareholders' equity by £41m (2019: increase of £39m). A decrease of 10% in the current property value would decrease the fair value of the loans by £59m (2019: decrease of £57m) and decrease IFRS profit after tax and shareholders' equity by £48m (2019: decrease of £47m).

(iii) An increase of 100bps in the assumed future annual property growth rate would increase the fair value of the loans by £154m (2019: increase of £151m) and increase IFRS profit after tax and shareholders' equity by £126m (2019: increase of £123m). A decrease of 100bps in the assumed future annual property growth rate would decrease the fair value of the loans by £215m (2019: decrease of £213m) and decrease IFRS profit after tax and shareholders' equity by £176m (2019: decrease of £174m).

(iv) An increase of 100bps in the assumed future annual property rental yield would decrease the fair value of the loans by £94m (2019: decrease of £94m) and decrease IFRS profit after tax and shareholders' equity by £77m (2019: decrease of £77m). A decrease of 100bps in the assumed future annual property rental yield would increase the fair value of the loans by £91m (2019: increase of £91m) and increase IFRS profit after tax and shareholders' equity by £74m (2019: increase of £74m).

As at 31 December 2020, in addition to the ERMs, the Group also held other mortgage and retail loans at fair value amounting to £1,443m (2019: £1,602m) 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 £144m (2019: £160m). Other mortgages and retail loans held at fair value are within the With-Profits Fund and therefore valuation sensitivities do not impact IFRS profit after tax and shareholders' equity.

33.9.3 Other financial assets

As at 31 December 2020, the Group also held £21,042m (2019: £19,376m) 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 2020, the Group held £8,458m (2019: £8,161m) 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, £8,377m (2019: £7,993m) are valued using net asset statements. A 10% increase in the net asset value of these investments would increase their fair value by £838m (2019: increase of £799m); a decrease of 10% would have an equal, but opposite, effect. As at 31 December 2020, £896m (2019: £1,007m) of these investments are held within the shareholder-backed funds, a 10% increase/decrease in the net asset value of those investments would result in a £73m (2019: £82m) impact on IFRS profit after tax and shareholders' equity.

The remaining £81m (2019: £168m) related to equity investments held by the Group's consolidated private equity infrastructure funds and are further described below.

33.9.3.2 Infrastructure fund investments

As at 31 December 2020, £315m (2019: £357m) of other financial assets related to debt and equity investments held by the Group's consolidated private equity infrastructure funds 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 and the discount rates applied. Valuations are also benchmarked against comparable infrastructure transactions. An increase in the discount rate applied of 10% decreases the valuation of these investments by £36m (2019: decrease of £43m). A decrease in the discount rate applied of 10% increases the valuation of these asset by £41m (2019: increase of £52m).

The infrastructure funds are held within the With-Profits Fund and therefore sensitivity movements have no impact on IFRS profit after tax and shareholders' equity.

33 Fair value methodology continued

33.9.3.3 Debt securities

As at 31 December 2020, the Group held £12,584m (2019: £11,215m) 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 £234m (2019: £189m) of debt securities classified as level 3 as described above.

As at 31 December 2020, the Group held £9,298m (2019: £8,868m) 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 £1,105m (2019: decrease of £690m) and a decrease of 85bps would increase the fair value by £1,378m (2019: increase of £947m). As at 31 December 2020, £5,521m (2019: £5,887m) of private placement loans were held in the shareholder-backed funds. An increase of 85bps in the discount rate would decrease IFRS profit after tax and shareholders' equity by £597m (2019: decrease of £494m) and a decrease of 85bps would increase IFRS profit after tax and shareholders' equity by £751m (2019: increase of £639m).

Also included within debt securities classified as level 3 in the fair value hierarchy as at 31 December 2020 are income strips with a fair value of £427m (2019: £378m). 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 £47m (2019: decrease of £38m) and a decrease of 50bps would increase the fair value of the income strips by £60m (2019: increase of £47m). As at 31 December 2020, £362m (2019: £320m) of income strips were held in the shareholder-backed funds. An increase of 50bps in the discount rate would decrease IFRS profit after tax and shareholders' equity by £33m (2019: decrease of £27m) and a decrease of 50bps would increase IFRS profit after tax and shareholders' equity by £42m (2019: increase of £33m).

As at 31 December 2020, the remaining £2,625m (2019: £1,780m) 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 £263m (2019: £178m). As at 31 December 2020, £1,058m (2019: nil) of unquoted corporate bonds were held in the shareholder-backed funds. An increase/decrease of 10% would result in an increase/decrease of IFRS profit after tax and shareholders equity of £86m (2019: nil).

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 2020				
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
Assets:					
Loans	**–**	**710**	**2,193**	**2,903**	**2,811**
Liabilities:					
Subordinated liabilities and other borrowings	**–**	**7,094**	**94**	**7,188**	**6,966**

	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

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 Risk Management Framework (RMF). The RMF 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 RMF 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, or none 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 financial situation of the business, 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 its 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

Analysis of consolidated statement of financial position by component of business

		Shareholder-backed funds			
As at 31 December 2020	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangible assets	282	–	32	1,181	1,495
Deferred acquisition costs	–	–	84	14	98
Investment in joint ventures and associates accounted for using the equity method	421	–	–	35	456
Property, plant and equipment	1,725	–	40	301	2,066
Investment property	17,167	409	1,530	–	19,106
Defined benefit pension asset	41	–	–	17	58
Deferred tax assets	–	–	39	69	108
Reinsurance assets	20	103	11,638	–	11,761
Loans	3,741	–	2,290	–	6,031
Derivative assets	4,810	8	778	109	5,705
Equity securities and pooled investment funds	55,042	13,179	4	194	68,419
Deposits	14,725	1,293	1,611	–	17,629
Debt securities	55,643	8,506	20,274	1,016	85,439
Current tax assets	204	–	194	20	418
Accrued investment income and other debtors	1,864	414	493	252	3,023
Assets held for sale	120	–	–	18	138
Cash and cash equivalents	4,442	258	1,041	1,035	6,776
Total assets	160,247	24,170	40,048	4,261	228,726
Liabilities:					
Insurance contract liabilities	41,172	4,987	30,491	–	76,650
Investment contract liabilities with discretionary participation features	79,592	–	31	–	79,623
Investment contract liabilities without discretionary participation features	2	15,468	77	–	15,547
Unallocated surplus of the With-Profits Fund	15,621	–	–	–	15,621
Third-party interest in consolidated funds	9,930	3,318	9	8	13,265
Subordinated liabilities and other borrowings	4,381	7	150	3,729	8,267
Defined benefit pension liability	42	–	64	64	170
Deferred tax liabilities	861	–	55	–	916
Current tax liabilities	1	29	208	38	276
Derivative liabilities	2,075	2	1,052	331	3,460
Lease liabilities	34	–	18	302	354
Other financial liabilities	3,144	–	159	88	3,391
Provisions	9	–	81	145	235
Accruals, deferred income and other liabilities	3,308	359	1,550	74	5,291
Liabilities held for sale	75	–	–	–	75
Total liabilities	160,247	24,170	33,945	4,779	223,141
Total equity					5,585
Total equity and liabilities					228,726

34 Risk management and sensitivity analysis continued

As at 31 December 2019	With-profits £m	Shareholder-backed funds Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangible assets	248	–	39	1,152	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	507	318	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 of operations 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

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 2020, had total assets and liabilities of £4,517m (2019: £4,865m), and also assets and liabilities in respect of the DCPSF. The With-Profits Fund mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). As at 31 December 2020, the With-Profits Fund included £10,449m (2019: £10,061m) of non-profit annuity liabilities.

34 Risk management and sensitivity analysis continued

WPSF

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is sensitive to market and credit risk through the indirect effect of investment performance on declared policyholder bonuses. The investment assets of the WPSF 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 WPSF.

The shareholder result for most business in the WPSF is 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 of the DCPSF. 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 sensitive to the movement in funds under management due to investment performance, as well as persistency experience. 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.

34.1.3 Annuity and other long-term business

The Group's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with 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. 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.

Also included within this component of business are the Group's lifetime mortgage assets, whose value can vary in line with market and demographic factors. Further detail on the valuation of these assets is provided in Note 33.3.2.

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 Risk management and sensitivity analysis continued

34.1.4 Other

This includes the financial assets and liabilities of the Group's asset management, platform 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" component of business, 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 2020 £m	As at 31 December 2019 £m
Economic sensitivities			
100bp increase in interest rates	34.3.1	**(920)**	(718)
100bp decrease in interest rates	34.3.1	**1,107**	826
10% fall in equity and property markets (excluding hedges)	34.3.2	**(139)**	(139)
10% fall in equity and property markets	34.3.2	**(7)**	(9)
5bps increase in credit default/downgrade allowance	34.4	**(80)**	(82)
Non-economic sensitivities			
1% decrease in base annuitant mortality assumptions	34.5	**(37)**	(31)
5% increase in maintenance expense assumptions	34.5	**(22)**	(21)

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. For this reason the presentation of this sensitivity, excluding the impact of these hedges, gives the most appropriate representation of the Group's exposure to equity and property risk.

The credit default/downgrade sensitivity represents a 5bp 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.

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

34 Risk management and sensitivity analysis continued

- 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. Most assets the Group holds 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 business, 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.

Market risk is managed through a robust market risk framework which includes: policies, risk appetite statements and risk limits and triggers covering key market risk exposures; asset and liability management programmes; a quality of capital framework; strategic asset allocations; investment and hedging strategies; and investment constraints.

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 matching of assets of appropriate duration to the annuity liabilities is based on management of regulatory capital reporting requirements. 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.

The assets and liabilities for the with-profits and unit-linked components of business are sensitive to interest rates, but the shareholder is not directly exposed to changes in the value of these assets and liabilities. The shareholder is indirectly exposed to interest rate risk through the value of future shareholder transfers from with-profits business and charges levied on unit-linked and asset management business.

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.

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 2020			
	Decrease of 2% £m	**Decrease of 1% £m**	**Increase of 1% £m**	**Increase of 2% £m**
Carrying value of debt securities and derivatives	**7,923**	**3,534**	**(2,944)**	**(5,520)**
Policyholder liabilities	**(4,792)**	**(2,168)**	**1,809**	**3,331**
Related deferred tax effects	**(595)**	**(259)**	**215**	**416**
Net sensitivity of profit after tax and shareholders' equity	**2,536**	**1,107**	**(920)**	**(1,773)**

	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)

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 shareholders' exposure to equity and property risk for the with-profits and unit-linked business is limited as the risk is predominantly borne by the policyholder. 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.

34 Risk management and sensitivity analysis continued

Excluding any longer-term, indirect effects on profit due to the future value of shareholder transfers from 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. The majority of the sensitivity arises in respect of investment property assets held in the annuity funds.

	For the year ended 31 December			
	2020		2019	
	Decrease of 20% £m	**Decrease of 10% £m**	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	**(344)**	**(172)**	(334)	(167)
Related deferred tax effects	**65**	**33**	57	28
Net sensitivity of profit after tax and shareholders' equity	**(279)**	**(139)**	(277)	(139)

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 10% or 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. Due to the mismatch that results from a difference in the timing of fair value movements on the hedges and the emergence of the underlying shareholder transfers, the above sensitivities do not include the impact of these hedges as this gives the most appropriate representation of the Group's exposure to equity and property risk.

The impact of the sensitivities allowing for the equity hedges is shown below:

	For the year ended 31 December			
	2020		2019	
	Decrease of 20% £m	**Decrease of 10% £m**	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	**(3)**	**(9)**	(14)	(11)
Related deferred tax effects	**–**	**2**	2	2
Net sensitivity of profit after tax and shareholders' equity	**(3)**	**(7)**	(12)	(9)

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 components of business is minimal, although the shareholder is indirectly exposed to currency risk in relation to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business. 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 2020, the Group held 40% (2019: 40%) and 7% (2019: 7%) 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 2020, 94% (2019: 90%) 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 2020, 83% (2019: 88%[iv]) 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 2020, exchange losses of £178m (2019: losses of £168m) were recognised in the income statement; mainly arising on investments held by the With-Profits Fund, the majority of which are offset by changes in with-profits and unit-linked liabilities. This excludes exchange gains and losses arising on foreign currency derivatives measured at FVTPL, which are included as part of gains and losses included in investment return, which is shown in Note 4.

iv The percentage of financial liabilities held by the With-Profts Fund, as reported in the 31 December 2019 Annual Report and Accounts, have been restated due to better information being available.

34 Risk management and sensitivity analysis continued

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 substantial volumes of public and private fixed income 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 of business. However, the shareholder is indirectly exposed to credit risk from these components of business in relation to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business. 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.

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, appetite statements, limits and triggers (including relevant governance and controls); investment constraints and limits on the asset portfolios, in relation to credit rating, seniority, sector and issuer, and counterparties in particular for derivatives, reinsurance and cash; and a robust credit rating process.

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 2020	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
With-profits	**6,271**	**7,756**	**10,073**	**15,407**	**5,371**	**10,765**	**55,643**
Unit-linked	**720**	**2,333**	**1,278**	**2,704**	**933**	**538**	**8,506**
Annuity and other long-term business	**2,242**	**5,067**	**3,013**	**2,648**	**161**	**7,143**	**20,274**
Other	**220**	**706**	**42**	**3**	**7**	**38**	**1,016**
Total debt securities	**9,453**	**15,862**	**14,406**	**20,762**	**6,472**	**18,484**	**85,439**

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

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- and are non-investment grade. Debt securities with no external credit rating are classified as "Other".

34 Risk management and sensitivity analysis continued

Securities with credit ratings classified as "Other" can be further analysed as follows:

	As at 31 December	
	2020 £m	2019 £m
Internal ratings or unrated:		
AAA to BBB-	**11,748**	11,641
Below BBB-	**596**	507
Unrated	**6,140**	5,476
Total	**18,484**	17,624

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	
	2020 £m	2019 £m
With-Profits Fund	**3,441**	3,960
Shareholder-backed funds	**1,207**	1,167
Total	**4,648**	5,127

Included within Shareholder backed funds are £259m (2019: £244m) of contracts held within unit-linked funds.

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 2020, £199m (2019: £332m) related to exposure to the US markets with the remaining exposure being primarily to the UK market.

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			
	2020		2019	
	With-Profits Fund £m	**Shareholder-backed funds £m**	With-Profits Fund £m	Shareholder-backed funds £m
Italy	**41**	**–**	60	–
Spain	**16**	**57**	19	47
France	**–**	**22**	–	21
Germany	**246**	**137**	226	188
Other Eurozone	**50**	**–**	70	–
Total Eurozone	**353**	**216**	375	256
UK	**4,349**	**2,573**	2,194	3,003
USA	**1,085**	**6**	1,788	–
Other	**172**	**187**	170	157
Total	**5,959**	**2,982**	4,527	3,416

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.

34 Risk management and sensitivity analysis continued

As at 31 December 2020	Senior debt Covered £m	Senior debt Senior £m	Senior debt Total senior debt £m	Subordinated debt Tier 1 £m	Subordinated debt Tier 2 £m	Subordinated debt Total subordinated debt £m	Total £m
With-Profits Fund							
Italy	–	41	41	–	–	–	41
Spain	–	37	37	–	–	–	37
France	6	377	383	–	59	59	442
Germany	50	61	111	–	16	16	127
Netherlands	–	200	200	–	18	18	218
Other Eurozone	–	15	15	–	–	–	15
Total Eurozone	56	731	787	–	93	93	880
UK	838	681	1,519	–	258	258	1,777
USA	–	2,027	2,027	–	191	191	2,218
Canada	157	266	423	–	–	–	423
Australia	161	108	269	–	5	5	274
Norway	–	–	–	–	–	–	–
Sweden	31	47	78	–	–	–	78
Switzerland	–	146	146	–	17	17	163
Other	34	389	423	–	18	18	441
Total	1,277	4,395	5,672	–	582	582	6,254

As at 31 December 2020	Senior debt Covered £m	Senior debt Senior £m	Senior debt Total senior debt £m	Subordinated debt Tier 1 £m	Subordinated debt Tier 2 £m	Subordinated debt Total subordinated debt £m	Total £m
Shareholder-backed funds							
Italy	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
France	12	34	46	–	–	–	46
Germany	3	–	3	–	90	90	93
Netherlands	–	45	45	–	–	–	45
Other Eurozone	–	–	–	–	–	–	–
Total Eurozone	15	79	94	–	90	90	184
UK	439	190	629	–	72	72	701
USA	–	247	247	–	33	33	280
Canada	–	10	10	–	–	–	10
Australia	14	8	22	–	–	–	22
Norway	–	–	–	–	–	–	–
Sweden	–	5	5	–	–	–	5
Switzerland	–	–	–	–	36	36	36
Other	–	–	–	–	–	–	–
Total	468	539	1,007	–	231	231	1,238

34 Risk management and sensitivity analysis continued

As at 31 December 2019	Senior debt Covered £m	Senior £m	Total senior debt £m	Subordinated debt 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
UK	996	808	1,804	16	302	318	2,122
USA	–	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

As at 31 December 2019	Senior debt Covered £m	Senior £m	Total senior debt £m	Subordinated debt 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
UK	420	229	649	–	69	69	718
USA	–	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

The tables above exclude assets held by unit-linked funds and collective investment scheme 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 Risk management and sensitivity analysis continued

34.4.2 Cash, loans, receivables and reinsurance assets

The following tables provide an analysis of the quality of financial assets, other than debt securities, which are exposed to credit risk. The financial assets below are analysed 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 2020	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Unrated £m	Total £m
Accrued investment income and other debtors	78	242	409	188	70	2,036	3,023
Cash and cash equivalents	1,585	1,187	3,920	63	10	11	6,776
Loans	931	235	1,839	18	341	2,667	6,031
Reinsurance assets	–	269	–	11,251	–	241	11,761

As at 31 December 2019	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Unrated £m	Total £m
Accrued investment income and other debtors	103	266	334	207	60	1,953	2,923
Cash and cash equivalents	2,147	1,638	1,828	385	8	40	6,046
Loans	1,094	147	1,858	245	441	2,169	5,954
Reinsurance assets	–	305	–	11,379	–	274	11,958

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 above. 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.

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.

Of the total loans and accrued investment income & other debtors held as at 31 December 2020, £46m (2019: £1m) 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 accrued investment income & other debtors.

Loans that were impaired are not significant to the Group. Further information on the loans portfolio is provided in Note 19.

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 on 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 on the consolidated statement of financial position. Collateral pledged by the Group under reverse repurchase arrangements, aside from cash, is not derecognised from the consolidated 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 2020, the Group had £5,247m (2019: £6,892m) of collateral pledged under securities lending and repurchase agreements, primarily relating to the With-Profits Fund. The cash and securities collateral accepted under securities lending agreements was £4,910m (2019: £6,229m). As at 31 December 2020, 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 £14,877m (2019: £11,574m).

Collateral and pledges under derivative transactions

At 31 December 2020, the Group had pledged £1,371m (2019: £1,141m) for liabilities and held collateral of £2,875m (2019: £2,560m) 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.

34 Risk management and sensitivity analysis continued

Other collateral

At 31 December 2020, the Group had pledged collateral of £550m (2019: £488m) 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 on 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:

As at 31 December 2020	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	**5,406**	**(2,282)**	**(2,693)**	**(110)**	**321**
Reverse repurchase agreements	**16,467**	**–**	**–**	**(14,762)**	**1,705**
Total financial assets	**21,873**	**(2,282)**	**(2,693)**	**(14,872)**	**2,026**
Financial liabilities:					
Derivative liabilities	**3,179**	**(2,282)**	**(181)**	**(584)**	**132**
Securities lending and repurchase agreements	**659**	**–**	**–**	**(659)**	**–**
Total financial liabilities	**3,838**	**(2,282)**	**(181)**	**(1,243)**	**132**

As at 31 December 2019	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	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

In the tables above, the amounts of assets or liabilities included on 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 of unexpected changes in the life expectancy (longevity) of policyholders. If mortality improvement rates significantly exceed the level 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.

34 Risk management and sensitivity analysis continued

Longevity risk for both shareholder-backed business and policyholder-backed business has been predominantly managed through:

- regular reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus the best estimate assumptions;
- longevity research; and
- longevity reinsurance arrangements.

Other demographic risks such as persistency risk and non-annuitant mortality risk, as well as expense risk, are subject to regular reviews and actions, with frequency and intensity proportionate to the materiality of the risk. Further details of the sensitivity of profit and shareholders' equity to demographic risks 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 demographic risks 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 demographic and expense 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; and
- Changes in maintenance expense levels.

The risk arising from the other long-term business is not significant in the context of the Group's overall liabilities.

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; and
- 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, cash flow forecasting, appropriate fund management (to ensure that assets are not unduly concentrated in less liquid investments) and detailed cash-flow 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.

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 that are separately presented in section 34.6.2. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments and expected benefit payments) due to be paid, assuming conditions are consistent with those at the year end.

34 Risk management and sensitivity analysis continued

As at 31 December 2020	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 undiscounted value £m
Financial liabilities:									
Subordinated liabilities and other borrowings	**8,267**	**449**	**1,977**	**1,021**	**239**	**268**	**5,515**	**125**	**9,594**
Investment contracts	**95,170**	**9,618**	**33,513**	**31,792**	**22,668**	**13,966**	**17,262**	**11,177**	**139,996**
Total	**103,437**	**10,067**	**35,490**	**32,813**	**22,907**	**14,234**	**22,777**	**11,302**	**149,590**

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 undiscounted value £m
Financial liabilities:									
Subordinated liabilities and other borrowings[i]	7,499	581	1,651	297	229	213	6,219	93	9,283
Investment contracts	93,699	9,709	33,208	31,388	21,217	12,585	16,445	11,073	135,625
Total	101,198	10,290	34,859	31,685	21,446	12,798	22,664	11,166	144,908

i The contractual maturities of subordinated liabilities and other borrowings on an undiscounted cash flow basis, as reported in the 31 December 2019 Annual Report and Accounts, have been restated due to better information being available.

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.

34.6.2 Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with the maturity profile of the contractual undiscounted cash flows:

As at 31 December 2020	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 undiscounted value £m
Derivative assets	**5,705**	**1,134**	**974**	**1,051**	**1,211**	**1,272**	**3,554**	**–**	**9,196**
Derivative liabilities	**3,460**	**283**	**1,049**	**880**	**1,067**	**797**	**2,380**	**–**	**6,456**
Net derivative position	**2,245**	**851**	**(75)**	**171**	**144**	**475**	**1,174**	**–**	**2,740**

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 undiscounted value £m
Derivative assets	3,962	959	617	699	859	907	2,431	–	6,472
Derivative liabilities	2,204	296	813	572	656	491	1,112	–	3,940
Net derivative position	1,758	663	(196)	127	203	416	1,319	–	2,532

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.

34 Risk management and sensitivity analysis continued

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 entities in the Group, of which the Company 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.

Under Article 11 of the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories and Commission Delegated Regulation (EU) 2016/2251 supplementing EMIR, market participants transacting in non-cleared 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 group entity. This counterparty pairing meets the criteria to be eligible for intra-group exemptions to the margin requirements:

				As at 31 December 2020	As at 31 December 2019
				Aggregate notional of OTC derivatives contract	Aggregate notional of OTC derivatives contract
Counterparty	Legal Entity Identifier	Relationship between parties	Type of exemption	£m	£m
Prudential Lifetime Mortgages Limited	5493001GSK4HF84IOB02	Part of the same Group holding company	Full	**37**	37

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 2020 was an unrealised gain of £214m (2019: unrealised loss of £150m) and a realised loss of £36m (2019: realised loss of £100m).

PAC'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 to 2020. This arrangement is designed to protect the shareholders against extremely weak market returns. This arrangement resulted in a £26m unrealised loss for the year ended 31 December 2020 (2019: unrealised loss of £25m).

34.7.2 Other shareholder hedging arrangements

The Group's shareholder fund has purchased interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2020, these instruments resulted in an unrealised gain of £94m (2019: unrealised loss of £60m) and a realised gain of £17m (2019: nil).

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.

35 Contingencies and related obligations continued

M&G plc has acted as a guarantor for the 10 Fenchurch Avenue lease between Saxon Land B.V. and M&G Corporate Services Limited.

M&G plc has acted as a guarantor for M&G Regulated Entity Holding Company Limited to Royal London for any obligations under the transaction documents for the purchase of Ascentric. This guarantee will remain in place for a year following completion on 1 September 2020.

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, or otherwise not able to meet its obligations to treat the with-profits policyholders fairly, 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 Pensions mis-selling review covers customers who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. During the initial review some customers were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The provision continues to cover these customers.

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 have been re-engaged, to ensure they have the opportunity to take part in the review. The provision also covers this population. Currently, a provision amounting to £303m as at 31 December 2020 (2019: £420m) is being held in relation to this within insurance contract liabilities.

The key assumptions underlying the provisions are:

- average cost of redressal per customer; and
- proportion of provision (reserve rate) held for soft close 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 a change in assumptions are as follows:

		As at 31 December	
Assumption	Change in assumption	**2020 £m**	2019 £m
Average cost of redressal	increase/decrease by 10%	**+/- 10**	+/- 20
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 30**	+/- 30

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 With-profits options and guarantees

Certain policies within the With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. These options and guarantees are valued as part of the policyholder liabilities. Please refer to Note 27.1 for further details on these options and guarantees.

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. For further information on the lease liability see Note 29.

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 2020 were £1,462m (2019: £1,569m[i]).

As at 31 December 2020, the Group had undrawn commitments of £3,144m to third parties (2019: £2,770m[i]) of which £965m (2019: £757m) was committed by its 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.

i The contractual obligation to purchase or develop investment property and the further undrawn commitments to third parties, as reported in the 31 December 2019 Annual Report and Accounts, have been restated due to better information being available.

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

For the year ended 31 December 2019, the Group earned revenue of £16m and incurred expenses of £63m with entities of the Prudential plc group up to the point of demerger on 21 October 2019, at which point Prudential plc group entities ceased to be related parties.

37.2 Transactions with the Group's joint ventures and associates

The Group received dividends of £19m for the year ended 31 December 2020 (2019: £192m) and made additional capital injections of £5m in the year ended 31 December 2020 (2019: £4m) into 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 £133m as at 31 December 2020 (2019: £132m) and balances due to joint ventures or associates accounted for using the equity method of £nil as at 31 December 2020 (2019: £nil).

Furthermore, in the normal course of business a number of investments into and 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

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.

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	
	2020 £m	2019 £m
Salaries and short-term benefits	**11.7**	11.1
Post-employment benefits	**0.6**	0.6
Share-based payments	**4.0**	5.9
Total	**16.3**	17.6

Information concerning individual directors' emoluments, interests and transactions are provided in the single figure tables in the Annual Report on Remuneration on pages 118 and 125.

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 2020, estimated and unaudited Group Solvency II own funds are £15.5bn (2019: £14.9bn).

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]
Investment Funds Direct Limited	Investment services	IFPRU[ii]

i Prudential Sourcebook for Banks, Building Societies and Investment Firms.

ii Prudential Sourcebook for Investment Firms.

All Group entities that were subject to externally imposed regulatory capital requirements complied with them throughout the year.

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 2020 and 31 December 2019 is shown below:

	As at 31 December	
	2020 £bn	2019 £bn
Solvency II own funds	**15.5**	14.9
Solvency II SCR	**(10.7)**	(10.4)
Solvency II surplus	**4.8**	4.5
Solvency II coverage ratio[i]	**144%**	143%

i Solvency II coverage ratio has been calculated using unrounded figures.

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2020, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position will differ to the position disclosed in the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report.

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 1.4.5 of Supplementary Information.

38 Capital management continued

The estimated and unaudited shareholder Solvency II capital position for the Group as at 31 December 2020 and 31 December 2019 is shown below.

	As at 31 December	
	2020 £bn	2019 £bn
Shareholder Solvency II own funds	**10.6**	10.3
Shareholder Solvency II SCR	**(5.8)**	(5.8)
Solvency II surplus	**4.8**	4.5
Shareholder Solvency II coverage ratio[i]	**182%**	176%

i Shareholder Solvency II coverage ratio has been calculated using unrounded figures.

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; and
- 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 initiated prior to demerger:

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 measures linked to 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, part of the 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.

39 Share-based payments continued

In accordance with IFRS 2, the replacement awards have been accounted for as a modification of the previous scheme and the expense in relation to the scheme will continue to be recorded over the remaining vesting period.

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.

Discretionary schemes initiated post demerger:

Scheme	Description
Performance Share Plan (PSP)	The PSP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to PSP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including capital generation measures. 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 business plan.
Deferred Incentive Plan (DIP)	Under these plans, part of the participant's Annual Bonus is paid in the form of a share award that vests after three or four years. Other than the service condition, there are no other performance conditions associated with this plan.

Approved schemes:

Share scheme	Description
Save As You Earn (SAYE) plans	The Group operates SAYE plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five-year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remaining in employment for three years after the grant date of the options and satisfying the monthly savings requirement.
Share Incentive Plan (SIP): free shares	In addition, to celebrate the demerger, all eligible employees were provided with 920 M&G plc shares with a value of £2,000 at the date of grant. 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 approved SAYE and SIP schemes for employees of the Group 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

Movements in outstanding options and awards under the Group's share-based compensation are as follows:

	2020	
	Outstanding options under SAYE schemes	**Awards outstanding under incentive plans**
Outstanding as at 1 January	**12,978,387**	**36,161,940**
Granted	**19,045,436**	**50,500,051**
Exercised	**–**	**(6,535,481)**
Forfeited/Expired	**(8,350,624)**	**(3,115,129)**
Outstanding at 31 December	**23,673,199**	**77,011,381**
Options immediately exercisable at 31 December	**376,435**	**1,056**

	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	–	–

39 Share-based payments continued

The following tables 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 2020	Weighted average remaining contractual life (years) 2020	Weighted average exercise price (£) 2020	Number exercisable 2020
Between £1 and £2	**23,673,199**	**3.19**	**1.42**	**376,435**

	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 is based on the M&G plc share price at the date of grant, except for the following:

- Awards with market performance conditions based on Total Shareholder Returns (TSR awards) these include the LTIP TSR awards granted in 2019 and certain PSP awards granted in 2020; and
- SAYE options.

The determination of the fair value of these awards requires the use of various assumptions which are disclosed below:

	Awards granted in 2020		Awards granted in 2019	
	PSP TSR award	**SAYE options**	LTIP TSR award	SAYE options
Dividend yield (%)	**n/a**	**11.14%**	n/a	7.3%
Expected volatility (%)	**45%**	**33.1%**	22.5%	20.0%
Risk-free interest rate (%)	**0.49%**	**0.13%**	0.8%	0.8%
Expected option life (years)	**n/a**	**3.65**	n/a	3.68
Weighted average exercise price (£)	**n/a**	**1.29**	n/a	1.84
Weighted average share price at grant date (£)	**1.09**	**1.61**	2.18	2.44
Weighted average fair value at grant date (£)	**0.15**	**0.21**	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 historic volatility of the share price of suitable peers and a risk-free rate determined by reference to swap rates was also considered.

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 equity-settled share-based compensation as at 31 December 2020 was £51m (2019: £26m). 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 5 March 2021, M&G FA Limited, a wholly-owned subsidiary of the Group agreed to acquire a further 0.13% of the share capital of Prudential Portfolio Managers (South Africa) (Pty) Ltd (PPMSA) for a cash consideration of £0.2m. The transaction is expected to complete by mid-2021, subject to necessary regulatory, exchange control and competition approvals in South Africa and Namibia.

The transaction would result in M&G FA Limited's holding in PPMSA to increase from 49.99% to 50.12%. The Group currently accounts for the investment as an associate using the equity method. Following the transaction, the Group will control PPMSA and it will be consolidated in the Group financial statements.

Furthermore, it is intended that M&G Group Limited will provide a guarantee in respect of an existing bank facility of the transaction counterparty amounting to ZAR 220m, which will be secured against a further 7% shareholding that the seller retains in PPMSA.

There are no other post balance sheet events to report.

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 2020 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 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 Corporate 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 Capital Public Limited Company	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

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).

41 Related undertakings continued

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
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
China Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
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
Debt Investments Opportunities IV	U	26%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Eastspring Investments – Asian Local Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Smaller Companies Fund	U	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	U	79%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Customized Equity Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Dynamic Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments – Japan Smaller Companies Fund	U	60%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	U	51%	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
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
Episode Inc	LPI	94%	c/o Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands
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
Fundsdirect ISA Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Fundsdirect Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, 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
Harben Finance 2017-1 PLC	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
HCR Canary Fund	LPI	100%	30 Atlantic Street, Suite 600, Stamford, CT 06901
Holborn Bars Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
IFDL Personal Pensions 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

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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
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 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 LP	LPI	22%	10 Fenchurch Avenue, London, EC3M 5AG, 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

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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 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 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 Greenfield Partners II Subholdings (Euro) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings (Sterling) GP LLP	LPI	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 Sisu GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
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
Invesco Managed Growth Fund (UK)	U	21%	Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, UK
Investment Funds Direct Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Investment Funds Direct Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Investment Funds Direct Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
KBI ACWI Equity Fund	U	20%	KBI Global Investors (North America) Ltd, One Boston Place, 201 Washington Street Boston, MA 02108
Leadenhall Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
LF Prudential European QIS Fund	U	92%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Japanese QIS Fund	U	98%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Risk Managed Active 2	U	26%	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 3	U	27%	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 4	U	36%	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Active 5	U	32%	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Passive Fund 1	U	47%	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential Risk Managed Passive Fund 3	U	22%	17 Rochester Row, London, SW1P 1QT, UK
LF Prudential North American QIS Fund	U	95%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Pacific Markets Trust Fund	U	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Lion Credit Opportunity Fund Public Limited Company – Credit Opportunity Fund XV	U	100%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
London Green Investments II SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP1 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
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	45%	16, Boulevard Royal, L-2449, Luxembourg
M&G ACS CANADA INDEX FUND	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS CHINA EQUITY FUND	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS JAPAN EQUITY FUND	U	97%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK 200 INDEX FUND	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK ALL SHARE INDEX FUND	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED EQUITY FUND	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED MID CAP FUND	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Corporate Bond Fund	U	34%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	22%	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Dividend Fund	U	58%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global High Yield Bond	U	45%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global High Yield ESG Bond Fund	U	63%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European High Yield Credit Investment Fund	U	27%	80, route d'Esch, L-1470, Luxembourg
M&G European Property Fund SICAV-FIS	OS	39%	16 Boulevard Royal, L-2449, Luxembourg
M&G European Select Fund	U	43%	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	U	59%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Group Limited	OS	100%	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 Positive Impact Fund	U	29%	10 Fenchurch Avenue, London, EC3M 5AG, UK

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Investment Funds (4) – M&G Episode Allocation Fund	U	27%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) – M&G Global Convertibles Fund	U	66%	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 Lux Emerging Markets Bond Fund	U	44%	10 Fenchurch Avenue, London, EC3M 5AG, UK
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	34%	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%	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Platform Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Guernsey PCC Limited	OS	100%	PO Box 34, St Martin's House, St Peter Port, GY1 4AU, Guernsey
M&G Corporate 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	50%	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

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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
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 Shared Ownership LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Shared Ownership GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SIF Management Company (Ireland) Limited	OS	100%	5 George's Dock, IFSC, Dublin 1, Ireland
M&G Sustainable Multi Asset Fund	U	69%	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	98%	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	26%	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

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM Capital (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
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
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 Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Credit Opportunities SCSp	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
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 2 S.a.r.l	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Distribution Limited	OS	100%	Craigforth, Stirling, FK9 4UE, 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
Partnership Planning Services 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
Prudential Portfolio Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Property Investment Managers Limited	OS	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	63%	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
Sky Fund I LP	LPI	99%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SKY I Intermediate LP	LPI	71%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	1209 Orange Street, Wilmington, DE 19801, USA

41 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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
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	U	49%	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 Prudential Assurance Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, 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
Via Lodovisco	OS	100%	Via Alessandro Manzoni n.38, Milano, Italy
Wessex Gate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
WFH Investments LLC	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808, USA
Wrap IFA Services 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 2020

	Notes	As at 31 December 2020 £m	2019 £m
Assets			
Investments in subsidiaries	A	**10,494**	11,069
Deferred tax	B	**73**	68
Loans	C	**1,001**	1,200
Current tax assets	B	**–**	31
Accrued investment income and other debtors	D	**9**	30
Cash and cash equivalents	E	**39**	74
Total assets		**11,616**	12,472
Equity			
Share capital	F	**130**	130
Share premium	F	**370**	370
Shares held by employee benefit trust	G	**(117)**	(26)
Retained earnings		**7,247**	8,020
Equity-settled share-based payment reserve		**73**	39
Total equity		**7,703**	8,533
Liabilities			
Subordinated liabilities and other borrowings	H	**3,729**	3,767
Current tax liabilities	B	**10**	3
Provisions	I	**33**	49
Accruals, deferred income and other liabilities	J	**141**	120
Total liabilities		**3,913**	3,939
Total equity and liabilities		**11,616**	12,472

The Notes on pages 276 to 282 are an integral part of these financial statements.

The financial statements on pages 274 to 275 were approved by the Board and signed on its behalf, by the following Directors:

John Foley
Chief Executive
8 March 2021

Clare Bousfield
Chief Financial Officer
8 March 2021

Company statement of changes in equity

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Equity-settled share-based payment reserve £m	Retained earnings £m	Total equity £m
As 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)
Shares distributed by employee trusts	–	–	2	–	(2)	–
Expense recognised in respect of share-based payments	–	–	–	39	–	39
Shares acquired by employee trusts	–	–	(28)	–	–	(28)
Tax effect of items recognised directly in equity	–	–	–	–	99	99
Net (decrease)/increase in equity	–	–	(26)	39	(4,833)	(4,820)
As at 31 December 2019	130	370	(26)	39	8,020	8,533
As at 1 January 2020	**130**	**370**	**(26)**	**39**	**8,020**	**8,533**
Loss for the year	**–**	**–**	**–**	**–**	**(222)**	**(222)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(222)**	**(222)**
Transactions with equity holders:						
– Dividends paid	**–**	**–**	**–**	**–**	**(562)**	**(562)**
– Distribution in kind	**–**	**–**	**–**	**–**	**–**	**–**
Vested employee share-based payments	**–**	**–**	**–**	**(17)**	**17**	**–**
Shares distributed by employee trusts	**–**	**–**	**14**	**–**	**(14)**	**–**
Expense recognised in respect of share-based payments	**–**	**–**	**–**	**51**	**–**	**51**
Shares acquired by employee trusts	**–**	**–**	**(105)**	**–**	**–**	**(105)**
Tax effect of items recognised directly in equity	**–**	**–**	**–**	**–**	**8**	**8**
Net (decrease)/increase in equity	**–**	**–**	**(91)**	**34**	**(773)**	**(830)**
As at 31 December 2020	**130**	**370**	**(117)**	**73**	**7,247**	**7,703**

The Notes on pages 276 to 282 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 2020 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 of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The 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 2023 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 auditor’s remuneration for audit and other services is disclosed in Note 8 of the Group financial statements. The Company has two employees.

(b) Key judgements and critical accounting estimates

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 require management to apply judgement in relation to certain accounting policies. In addition, management have 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 only judgement which had a significant effect on the amounts recognised in the Company’s financial statements is as follows:

Financial statement area	Key estimate and assumptions	Accounting policy	Note
Accounting for replacement share awards	Under IFRS 2, where new equity instruments are granted as replacement equity instruments for cancelled schemes, the grant of the replacement equity instruments is 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 was required in respect of the 2019 financial statements in determining whether the new discretionary schemes offered at the point of demerger would meet the criteria of a replacement award. The Group is treating the new discretionary schemes offered in October 2019, in place of those administered by Prudential plc, as a replacement award on the basis that these have substantially the same economic value and will be subject to the same scheme rules as the original award. This is not a key judgement for the purposes of the current year financial statements.	(C) viii	M

Company accounting policies continued

The area which required management to apply significant estimates and assumptions which were material to the financial statements is 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 requires the use of various assumptions that can have a material impact on the calculation.	(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.

Investment in subsidiaries under common control transactions which are acquired as part of a group reorganisation are recorded at fair value of the consideration received, which is deemed to be the cost at the point of initial recognition. Any gains and losses arising on disposal of subsidiaries are recorded in profit or loss.

(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, i.e., 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.

Company accounting policies continued

(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.

(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, it is probable 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.

Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised. Where relevant, the Company makes use of the exemption available for financial instruments with low credit risk, for which, an assessment of a significant increase in credit risk is not required.

A. Investment in subsidiaries

	As at 31 December	
	2020 £m	2019 £m
Cost at 1 January	**12,226**	12,065
Acquisition of subsidiaries	**10,433**	68
Capital contribution into subsidiaries	**27**	93
Disposal of subsidiaries	**(10,969)**	–
Cost at 31 December	**10,560**	12,226
Impairment at 1 January	**(1,157)**	–
Impairment of subsidiaries	**(66)**	(1,157)
Impairment at 31 December	**(1,223)**	(1,157)
Investment subsidiaries at 31 December	**10,494**	11,069

(i) Acquisitions

On 23 July 2020, the Company acquired an additional 99,999 ordinary shares of £1 each in M&G Group Regulated Entity Holding Company Limited through a share for share exchange for the entire share capital of M&G Group Limited and The Prudential Assurance Company Limited.

On 31 August 2020, the Company acquired Prudential Capital Public Limited Company via an in specie dividend from Prudential Capital Holdings Limited, a direct subsidiary of the Company.

(ii) Disposals

On 23 July 2020, M&G Group Limited and The Prudential Assurance Company Limited were transferred from the Company to M&G Group Regulated Entity Holding Company Limited, a direct subsidiary of the Company, at fair value in a share for share exchange. The Company recognised a loss on disposal of £602m for the year ended 31 December 2020 in respect of the transfer of M&G Group Limited.

(iii) Impairment

In 2020, impairment was recognised in respect of the Company's investment in Prudential Financial Services Limited of £10m (2019: £73m). The recoverable amount of the investment was £10m. Additionally, £56m of impairment was recognised in respect of the Company's investment in Prudential Capital Holding Company Limited of £56m (2019: £nil), following the in specie dividend transfer of Prudential Capital Public Limited Company. The recoverable amount of the investment was £12m. There was no further impairment charge recognised in respect of the Company's other investments in subsidiaries.

M&G Group Regulated Entity Holding Company Limited is the main subsidiary of the Company and acts as the main holding entity for all of the Group's regulated businesses. The continued adverse impacts of COVID-19 on the global economy and its resulting implications on the Company's market capitalisation and potential future business performance were considered an impairment indicator by management. Therefore, an impairment assessment was undertaken in relation to the subsidiary by comparing its recoverable amount with the carrying value. The recoverable amount of the subsidiary was based on its value in use. As the subsidiary acts as a holding company with no operations, the value in use was determined as the sum of the values in use of the underlying subsidiaries in which the subsidiary has investment in. This primarily comprises of M&G Group Limited and The Prudential Assurance Company Limited. The values in use of these subsidiaries were determined based on discounted cash flow and dividend discount models respectively based on management forecasts.

In respect of the investment in M&G Group Limited, the sensitivity of the carrying value to changes in key assumptions is the same as that associated with the goodwill related to the business as disclosed in Note 13.1 of the Group financial statements.

In respect of The Prudential Assurance Company Limited, 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 cash flow forecasts, including assumptions around implied value of new business written based on the application of a new business multiplier of 5x.
- The pre-tax discount rate as at 31 December 2020 was 9% and is based on the cost of equity approach.

A simultaneous increase of 100bps in discount rate and decrease in the new business multiplier to 4x would result in an impairment of £367m being recorded.

A 25% reduction in the implied value of new business would result in an impairment of £7m being recorded.

For the purposes of the assessment, management also considered that the transfer of M&G Group Limited to M&G Group Regulated Entity Holding Company Limited as part of the group reorganisation occurred at fair value, which at the point of transfer was £602m below the carrying value, resulting in a loss on transfer of the Company. This fair value at the point of transfer formed the basis of initial recognition of M&G Group Limited by M&G Group Regulated Entity Holding Company Limited.

Based on this assessment, no impairment charge was recorded as at 31 December 2020, in respect of M&G Group Regulated Entity Holding Limited.

(iv) Direct subsidiaries

The direct subsidiaries of the Company as at 31 December 2020 are listed below:

Company name	Country of incorporation or registration	Nature of business	% held
M&G Group Regulated Entity Holding Company Limited	UK	Holding company	100%
M&G Corporate Holdings Limited	UK	Holding company	100%
Prudential Financial Services Limited	UK	Holding company	100%
Prudential Property Services Limited	UK	Service company	100%
Prudential Capital Holding Company Limited	UK	Holding company	100%
Prudential Capital Public Limited Company	UK	Service company	100%

Details of the Company's related undertakings 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 during the year:

	As at 31 December	
	2020 £m	2019 £m
As at 1 January	**68**	–
Income statement	**(3)**	(1)
Equity and other comprehensive income	**8**	69
As at 31 December	**73**	68

(i) Short-term timing differences

The deferred tax asset on short-term timing differences relates wholly to the fair value movement on the subordinated liabilities transferred from Prudential plc on 18 October 2019. The £8m movement in reserves represents a temporary difference arising on the initial fair value measurement (2019: £69m). The income statement movement of £3m reflects the associated amortisation during the period (2019: £1m). The total closing balance relates wholly to the UK.

Unrecognised deferred tax

Group investments in subsidiaries, branches and investments.

Retained earnings of overseas subsidiaries are expected to be re-invested 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.

Current tax

	As at 31 December	
	2020 £m	2019 £m
Net corporation tax asset as at 1 January	**28**	1
Income statement	**50**	25
Reserves movement for the period	**–**	32
Corporation tax paid	**(88)**	(30)
	(10)	28
Corporation tax assets (UK)	**–**	31
Corporation tax liabilities (UK)	**(10)**	(3)
Net corporation tax liability as at 31 December	**(10)**	28

	As at 31 December			
	Corporation tax assets		Corporation tax liabilities	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Corporation tax recoverable/(due) within 12 months	**–**	31	**(10)**	3
As at 31 December	**–**	31	**(10)**	3

C. Loans

As at 31 December 2020, the Company had provided loans to Prudential Capital plc of £1,001m (2019: £1,200m) which are repayable on demand. Accrued interest as at 31 December 2020 was £nil (2019: £nil).

D. Accrued investment income and other debtors

	As at 31 December	
	2020 £m	2019 £m
Amounts owed by Group undertakings	**7**	23
Other	**2**	7
Total accrued investment income and other debtors	**9**	30
Analysed as:		
No contractual maturity	**9**	23
Expected to be settled within one year	**–**	7
Total accrued investment income and other debtors	**9**	30

E. Cash and cash equivalents

	As at 31 December	
	2020 £m	2019 £m
Cash	**39**	74
Total cash and cash equivalents	**39**	74

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 2020.

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 £33m as at 31 December 2020 (2019: £49m) related to change in control costs arising from the Demerger in 2019, which were expected to be incurred within four years of the separation from Prudential plc.

J. Accruals, deferred income and other liabilities

	As at 31 December	
	2020 £m	2019 £m
Amounts owed to Group undertakings	**86**	70
Accrued interest on subordinated debt	**42**	41
Other	**13**	9
Total accruals, deferred income and other liabilities	**141**	120
Analysed as:		
No contractual maturity	**86**	70
Expected to be settled within one year	**47**	42
Expected to be settled after one year	**8**	8
Total accruals, deferred income and other liabilities	**141**	120

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 2020 and 31 December 2019 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 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 does not form part of the independent audit performed by the external auditors.

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. For more information on the purpose of our KPMs see page 30.

Key performance measure	Type	Definition
IFRS profit after tax	KPM	IFRS profit after tax demonstrates to our shareholders the financial performance of the Group during the year on an IFRS basis.
Adjusted operating profit before tax	APM, KPM	Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS 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. Adjustments are 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 Note 3.2, along with a reconciliation of adjusted operating profit before tax to IFRS profit after tax.
Savings and Asset Management net client flows	KPM	Savings and Asset Management net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by customer and clients during the period.
Assets under management and administration (AUMA)	KPM	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of customers and clients at the end of each financial period. Assets managed by the Group include those managed on behalf of our retail customers and institutional and retail clients. Assets administered by the Group includes assets which we provide investment management services for, in addition to assets we administer where the customer has elected to invest in a third-party investment manager. Assets under advice are advisory portfolios where clients receive investment recommendations such as Strategic Asset Allocation and model portfolios but retain discretion over executing the advice.
Shareholder Solvency II coverage ratio	APM, KPM	The regulatory Solvency II capital position considers the Group's overall own funds and 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 the "Solvency II capital position" section.
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.
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-operating items, including shareholder restructuring and other costs.

1.2 Adjusted operating profit before tax

1.2 (i) Adjusted operating profit/(loss) before tax by segment

	For the year ended 31 December							
	Savings and Asset Management		Heritage		Corporate Centre		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Fee-based revenues	**1,146**	1,191	**74**	96	**–**	–	**1,220**	1,287
Annuity margin	**–**	–	**438**	458	**–**	–	**438**	458
With-profits shareholder transfer net of hedging gains/(losses)	**44**	55	**207**	187	**–**	–	**251**	242
Adjusted operating income	**1,190**	1,246	**719**	741	**–**	–	**1,909**	1,987
Adjusted operating expenses	**(840)**	(817)	**(79)**	(87)	**(101)**	(59)	**(1,020)**	(963)
Other shareholder (loss)/profit	**(28)**	30	**59**	98	**(142)**	(18)	**(111)**	110
Share of profit from joint ventures and associates[i]	**10**	15	**–**	–	**–**	–	**10**	15
Adjusted operating profit/(loss) before tax	**332**	474	**699**	752	**(243)**	(77)	**788**	1,149

i Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

1.2 (ii) Adjusted operating profit/(loss) before tax by segment and source

	Savings and Asset Management			Heritage			Corporate Centre
For the year ended 31 December 2020	**Asset Management £m**	**With-profits £m**	**Other £m**	**Annuities £m**	**With-profits £m**	**Other £m**	**Other £m**
Asset Management fee-based revenues	**988**	**–**	**–**	**–**	**–**	**–**	**–**
Other fee-based revenues	**–**	**–**	**158**	**–**	**–**	**74**	**–**
Fee-based revenues	**988**	**–**	**158**	**–**	**–**	**74**	**–**
Annuity margin	**–**	**–**	**–**	**438**	**–**	**–**	**–**
With-profits shareholder transfer net of hedging gains/(losses)	**–**	**44**	**–**	**–**	**207**	**–**	**–**
Adjusted operating income	**988**	**44**	**158**	**438**	**207**	**74**	**–**
Asset Management operating expenses	**(672)**	**–**	**–**	**–**	**–**	**–**	**–**
Other operating expenses	**–**	**–**	**(168)**	**–**	**–**	**(79)**	**(101)**
Adjusted operating expenses	**(672)**	**–**	**(168)**	**–**	**–**	**(79)**	**(101)**
Other shareholder (loss)/profit	**–**	**–**	**(28)**	**–**	**–**	**59**	**(142)**
Share of profit from joint ventures and associates	**–**	**–**	**10**	**–**	**–**	**–**	**–**
Adjusted operating profit/(loss) before tax	**316**	**44**	**(28)**	**438**	**207**	**54**	**(243)**

1.2 Adjusted operating profit before tax continued

For the year ended 31 December 2019	Savings and Asset Management			Heritage			Corporate Centre
	Asset Management £m	With-profits £m	Other £m	Annuities £m	With-profits £m	Other £m	Other £m
Asset Management fee-based revenues	1,033	–	–	–	–	–	–
Other fee-based revenues	–	–	158	–	–	96	–
Fee-based revenues	1,033	–	158	–	–	96	–
Annuity margin	–	–	–	458	–	–	–
With-profit 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 profit from joint ventures and associates	–	–	15	–	–	–	–
Adjusted operating profit/(loss) before tax	381	55	38	458	187	107	(77)

Adjusted operating profit before tax arising from shareholder annuities is further analysed in the table below:

	For the year ended 31 December	
	2020 £m	2019 £m
Return on excess assets and margin release	**188**	216
Asset trading and other optimisation	**59**	110
Longevity assumption changes	**217**	126
Mismatching profits/(losses)[i]	**38**	55
Other assumption and model changes[ii]	**(52)**	32
Experience variances and model improvements	**19**	4
Other provisions and reserves	**(31)**	(85)
Annuity margin	**438**	458

i Mismatching profits of £38m for the year ended 31 December 2020 (2019: £55m) 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.

ii Other assumptions and model changes of £(52)m for the year ended 31 December 2020 (2019: £32m) include assumption changes other than those relating to longevity, including the impact of expense assumption changes and the impact of improvements to models.

Adjusted operating profit before tax arising from other Savings and Asset Management is further analysed in the table below:

	For the year ended 31 December	
	2020 £m	2019 £m
International business[i]	**20**	42
Investment income[ii]	**5**	25
Other	**(53)**	(29)
Other Savings and Asset Management	**(28)**	38

i International business includes our share of profits from our asset management associate in South Africa and profits from our European savings businesses.

ii 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	
	2020 £m	2019 £m
Adjusted operating profit before tax	**788**	1,149
Short-term fluctuations in investment returns	**678**	298
Profit on disposal of business and corporate transactions	**–**	53
Restructuring and other costs	**(73)**	(198)
IFRS profit attributable to non-controlling interests	**4**	3
IFRS profit before tax attributable to equity holders from continuing operations	**1,397**	1,305
Tax charge attributable to equity holders from continuing operations	**(255)**	(240)
IFRS profit after tax attributable to equity holders from continuing operations	**1,142**	1,065

1.3 Assets under management and administration (AUMA) and net client flows

1.3 (i) Detailed AUMA and net client flows

	For the year ended 31 December 2020					
	As at 1 January 2020 £bn	**Gross inflows £bn**	**Gross outflows £bn**	**Net client flows £bn**	**Market/ Other movements £bn**	**As at 31 December 2020 £bn**
Institutional Asset Management	**76.8**	**13.0**	**(7.9)**	**5.1**	**3.6**	**85.5**
Retail Asset Management	**74.9**	**15.0**	**(27.1)**	**(12.1)**	**1.4**	**64.2**
Retail Savings	**63.5**	**6.8**	**(6.4)**	**0.4**	**17.9**	**81.8**
of which: PruFund	**53.8**	**5.2**	**(4.8)**	**0.4**	**1.3**	**55.5**
Other	**0.7**	**–**	**–**	**–**	**0.1**	**0.8**
Total Savings and Asset Management[ii]	**215.9**	**34.8**	**(41.4)**	**(6.6)**	**23.0**	**232.3**
Shareholder annuities	**35.5**	**–**	**(1.8)**	**(1.8)**	**1.6**	**35.3**
Traditional with-profits	**84.8**	**0.3**	**(5.0)**	**(4.7)**	**4.2**	**84.3**
Other	**13.7**	**0.1**	**(0.2)**	**(0.1)**	**0.5**	**14.1**
Total Heritage	**134.0**	**0.4**	**(7.0)**	**(6.6)**	**6.3**	**133.7**
Corporate assets	**1.6**	**–**	**–**	**–**	**(0.4)**	**1.2**
Group total	**351.5**	**35.2**	**(48.4)**	**(13.2)**	**28.9**	**367.2**

	For the year ended 31 December 2019					
	As at 1 January 2019 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2019 £bn
Institutional Asset Management	70.5	10.7	(10.8)	(0.1)	6.4	76.8
Retail Asset Management[i]	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[ii]	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

i Approx. £3bn of the gross inflows and gross outflows in Retail Asset Management were in relation to the establishment of the Luxembourg SICAV fund range, in which the Spanish Traspasos regime was used to migrate non-Sterling assets from OEICS to newly created SICAVs, and due to the reregistration of assets as a result of M&A in the GFI (Global Financial Institutions) space.

ii Included in total AUMA of £232.3bn (2019: £215.9bn) is £6.5bn (2019: £6.4bn) of assets under advice.

1.3 Assets under management and administration (AUMA) and net client flows continued

1.3 (ii) AUMA by asset class

	For the year ended 31 December 2020								
	On balance sheet AUMA[i]					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
Investment property	12.4	0.4	1.5	–	14.3	1.5	12.9	14.4	28.7
Reinsurance assets	–	0.1	11.6	–	11.7	–	–	–	11.7
Loans	1.6	–	2.3	–	3.9	–	11.5	11.5	15.4
Derivatives[ii]	2.7	–	(0.3)	–	2.4	(0.1)	(0.2)	(0.3)	2.1
Equity securities and pooled investment funds	65.1	11.2	–	–	76.3	25.7	6.1	31.8	108.1
Deposits	13.4	1.0	1.2	–	15.6	–	–	–	15.6
Debt securities	43.4	2.8	20.2	1.0	67.4	35.0	52.7	87.7	155.1
of which Corporate	31.7	1.7	14.1	1.0	48.5	20.2	32.2	52.4	100.9
of which Government	9.0	1.0	5.3	–	15.3	13.7	12.2	25.9	41.2
of which ABS	2.7	0.1	0.8	–	3.6	1.1	8.3	9.4	13.0
Cash and cash equivalents	3.6	0.2	1.0	0.9	5.7	2.1	2.5	4.6	10.3
Other	1.0	0.1	0.2	–	1.3	–	–	–	1.3
Other AUMA									18.9
Total[iii]	143.2	15.8	37.7	1.9	198.6	64.2	85.5	149.7	367.2

i On balance sheet AUMA does not include consolidated funds included in the segmented statement of financial position by business type in Note 34.1.

ii Derivatives assets are shown net of derivative liabilities.

iii Included in total AUMA of £367.2bn (2019: 351.5bn) is £6.5bn (2019: £6.4bn) of assets under advice.

1.3 Assets under management and administration (AUMA) and net client flows continued

	For the year ended 31 December 2019								
	On balance sheet AUMA[i]					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
Investment property	10.7	0.5	1.6		12.8	1.8	12.4	14.2	27.0
Reinsurance assets	–	0.1	11.8	–	11.9	–	–	–	11.9
Loans	1.6	–	2.3	–	3.9	–	10.9	10.9	14.8
Derivatives[ii]	2.6	(0.1)	(0.5)	–	2.0	0.2	(1.0)	(0.8)	1.2
Equity securities and pooled investment funds	61.8	11.3	–	–	73.1	31.7	4.9	36.6	109.7
Deposits	11.9	1.1	0.9	–	13.9	1.8	3.5	5.3	19.2
Debt securities	48.2	2.8	21.3	1.4	73.7	39.0	45.9	84.9	158.6
of which Corporate	36.9	1.9	14.8	1.4	55.0	21.4	29.7	51.1	106.1
of which Government	7.6	0.8	5.7	–	14.1	16.3	6.8	23.1	37.2
Of which ABS	3.7	0.1	0.8	–	4.6	1.3	9.4	10.7	15.3
Cash and Cash equivalents	3.1	0.2	0.8	–	4.1	0.4	0.2	0.6	4.7
Other	1.1	0.1	0.2	1.0	2.4	–	–	–	2.4
Other AUMA									2.0
Total[iii]	141.0	16.0	38.4	2.4	197.8	74.9	76.8	151.7	351.5

i On balance sheet AUMA does not include consolidated funds included in the segmented statement of financial position by business type in Note 34.1.

ii Derivatives assets are shown net of derivative liabilities.

iii Included in total AUMA of £367.2bn (2019: 351.5bn) is £6.5bn (2019: £6.4bn) of assets under advice.

1.3 (iii) AUMA by geography

The below table illustrates AUMA by geography based on the country of the underlying client:

	For the year ended 31 December	
	2020 £bn	2019 £bn
UK	**306.9**	287.0
Europe	**44.6**	49.0
Asia-Pacific	**9.6**	8.3
Middle East and Africa	**5.2**	6.1
Americas	**0.9**	1.1
Total AUMA[i]	**367.2**	351.5

i Included in total AUMA of £367.2bn (2019: £351.5bn) is £6.5bn (2019: £6.4bn) of assets under advice.

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 supervisory authorities) on a solo basis under Solvency II.

The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the 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 Estimated reconciliation of IFRS shareholders' equity to Group Solvency II own funds

	As at 31 December	
	2020 £bn	2019 £bn
IFRS shareholders' equity	**5.6**	5.1
Add back unallocated surplus of the With-Profits Fund	**15.6**	16.1
Deduct goodwill and intangible assets	**(1.3)**	(1.3)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**0.3**	0.3
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.5)**	(1.5)
Impact of measuring assets and liabilities in line with Solvency II principles	**(0.1)**	(0.1)
Recognise own shares	**0.1**	–
Other	**(0.1)**	0.1
Solvency II excess of assets over liabilities	**18.6**	18.7
Subordinated debt capital	**4.0**	3.8
Ring-fenced fund restrictions	**(7.0)**	(7.6)
Deduct own shares	**(0.1)**	–
Solvency II eligible own funds	**15.5**	14.9

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.
- 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 requirement from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

1.4 Solvency II capital position continued

1.4.3 Composition of own funds

The Group's total estimated and unaudited own funds are analysed by Tier as follows:

	As at 31 December	
	2020 £bn	2019 £bn
Tier 1 (unrestricted)	**11.4**	11.1
Tier 1 (restricted)	**–**	–
Tier 2	**4.0**	3.8
Tier 3	**0.1**	–
Total own funds	**15.5**	14.9

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 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.

The Group's Tier 3 capital of £0.1bn (2019: £nil) relates to deferred tax asset balances.

1.4.4 Estimated 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 is shown below:

	As at 31 December	
	2020 £bn	2019 £bn
Shareholder Solvency II own funds	**10.6**	10.3
Shareholder Solvency II SCR	**(5.8)**	(5.8)
Solvency II surplus	**4.8**	4.5
Shareholder Solvency II coverage ratio[i]	**182%**	176%

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 1.4.5.

In accordance with the Solvency II requirements, these results include:

- A SCR which has been calculated using the Group's Internal Model.
- Transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2020, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position will differ to the position disclosed in the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation 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 2020 £bn	2019 £bn
Equity	**1.5**	1.4
Property	**0.9**	0.9
Interest rate	**0.4**	0.4
Credit	**3.5**	3.8
Currency	**0.9**	0.8
Longevity	**2.1**	1.6
Lapse	**0.2**	0.2
Operational and expense	**1.6**	1.5
Sectoral [i]	**0.5**	0.5
Total undiversified	**11.6**	11.1
Diversification, deferred tax, and other	**(5.8)**	(5.3)
Shareholder SCR	**5.8**	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 Group's Solvency II surplus and shareholder Solvency II coverage ratio

The estimated sensitivity of the Group's Solvency II surplus and 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.

	As at 31 December 2020		As at 31 December 2019	
	Surplus £bn	**Shareholder coverage ratio %**	Surplus £bn	Shareholder coverage ratio %
Base (as reported)	**4.8**	**182%**	4.5	176%
20% instantaneous fall in equity markets	**4.3**	**175%**	4.0	170%
20% instantaneous fall in property markets	**4.4**	**175%**	4.1	171%
50bp reduction in interest rates	**4.6**	**173%**	4.4	170%
100bp widening in credit spreads	**4.3**	**178%**	4.0	172%
20% credit asset downgrade[i]	**4.4**	**175%**	4.2	170%

i Average impact of one full letter downgrade across 20% of assets exposed to credit risk.

1.4.5 Estimated 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 is shown below:

	As at 31 December 2020 £bn	2019 £bn
With-Profits Fund Solvency II own funds	**11.9**	12.2
With-Profits Fund Solvency II SCR	**(4.9)**	(4.6)
With-Profits Fund Solvency II surplus	**7.0**	7.6
With-Profits Fund Solvency II coverage ratio[i]	**242%**	267%

i With-Profits Fund Solvency II coverage ratio has been calculated using unrounded figures.

1.4 Solvency II capital position continued

1.4.6 Estimated regulatory view of the Solvency II capital position

The estimated and unaudited Solvency II capital position for the Group under the "regulatory" view is shown below:

	As at 31 December	
	2020 £bn	2019 £bn
Solvency II own funds	**15.5**	14.9
Solvency II SCR	**(10.7)**	(10.4)
Solvency II surplus	**4.8**	4.5
Solvency II coverage ratio[i]	**144%**	143%

i Solvency II coverage ratio has been calculated using unrounded figures.

1.5 Capital generation

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-operating items, including shareholder restructuring and other costs as defined under adjusted operating profit before tax. It has two components:

(i) 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 regulatory capital movements from Asset Management; and other items, including head office expenses and debt interest costs.

(ii) Other operating capital generation, which includes non-market related experience variances, assumption changes, modelling changes and other movements.

Dividends and capital movements primarily represent external dividends paid to shareholders and changes to the capital structure of the Group, such as issuing or repaying debt instruments. Also included within capital movements are the Solvency II impact of the Group's share-based payment awards over and above the amount expensed in respect of those awards, and the surplus utilised or generated from transactions relating to the acquisition of business as defined by IFRS.

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 4.30% for the year ended 31 December 2020 (2019: 4.28%). For annuity business, the assumed average return on assets backing capital was 2.09% for the year ended 31 December 2020 (2019: 2.44%).

The Group's capital generation results in respect of the years ended 31 December 2020 and 31 December 2019 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 consolidated financial statements. In particular:

- The capital generated from the Prudential Vietnam Finance Company Limited 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 PruCap and its subsidiaries, and 10FA India Private Limited have been included within the Group's capital generation results from 1 January 2019. The movement in capital attributable to the discontinued corporate treasury activity of PruCap has been included within capital generated from discontinued operations.

1.5 Capital generation continued

	For the year ended 31 December							
	Savings and Asset Management		Heritage		Corporate Centre		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Underlying capital generation	**417**	414	**446**	459	**(286)**	(91)	**577**	782
Other operating capital generation	**83**	45	**564**	517	**88**	(68)	**735**	494
Operating capital generation	**500**	459	**1,010**	976	**(198)**	(159)	**1,312**	1,276
Market movements							**(118)**	538
Restructuring and other							**(73)**	(133)
Tax							**(126)**	(172)
Total capital generation							**995**	1,509

Reconciliation of movement in Group Solvency II surplus		For the year ended 31 December					
		2020			2019		
		Own funds[i] £m	**SCR[i] £m**	**Surplus £m**	Own funds[i] £m	SCR[i] £m	Surplus £m
Underlying capital generation							
Savings and Asset Management	Asset Management	**316**	**(8)**	**308**	381	(2)	379
	With-profits	**163**	**(75)**	**88**	130	(130)	–
	– of which: In-force	**151**	**(51)**	**100**	96	(35)	61
	– of which: New business	**12**	**(24)**	**(12)**	34	(95)	(61)
	Other	**26**	**(5)**	**21**	37	(2)	35
	Savings and Asset Management underlying capital generation	**505**	**(88)**	**417**	548	(134)	414
Heritage	With-profits	**100**	**5**	**105**	71	–	71
	Shareholder annuity and other	**193**	**148**	**341**	255	133	388
	Heritage underlying capital generation	**293**	**153**	**446**	326	133	459
Corporate	Interest and head office costs	**(289)**	**3**	**(286)**	(95)	4	(91)
Underlying capital generation		**509**	**68**	**577**	779	3	782
Other operating capital generation							
	Savings and Asset Management[ii]	**27**	**56**	**83**	29	16	45
	Heritage	**297**	**267**	**564**	222	295	517
	Corporate Centre[ii]	**82**	**6**	**88**	28	(96)	(68)
Operating capital generation		**915**	**397**	**1,312**	1,058	218	1,276
	Market movements	**283**	**(401)**	**(118)**	983	(445)	538
	Restructuring and other	**(73)**	**–**	**(73)**	(168)	35	(133)
	Tax	**(159)**	**33**	**(126)**	(139)	(33)	(172)
Total capital generation		**966**	**29**	**995**	1,734	(225)	1,509
Capital generation from discontinued operations		**–**	**–**	**–**	70	88	158
Total capital generation including discontinued operations		**966**	**29**	**995**	1,804	(137)	1,667
Dividends and capital movements		**(644)**	**(39)**	**(683)**	(1,213)	2	(1,211)
Total increase/(decrease) in Solvency II surplus		**322**	**(10)**	**312**	591	(135)	456

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 Other operating capital generation for Savings and Asset Management and the Corporate Centre include the impact of operating investment variances, which were previously presented within underlying capital generation. This change reflects that these items will fluctuate with market conditions. The results for the year ended 31 December 2019 have been restated in light of this change, which has no impact on operating capital generation or total capital generation.

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1.6 Financial ratios

Included in this section are details of how some of the financial ratios used to help analyse the performance of the Asset Management business are calculated.

1.6 (i) Cost/income ratio

Cost/income ratio is a measure of cost efficiency which analyses costs as a percentage of revenue.

	For the year ended 31 December	
	2020 £m	2019 £m
Total Asset Management operating expenses	**672**	652
Adjustment for revaluations[i]	**2**	(7)
Total Asset Management adjusted costs	**674**	645
Total Asset Management fee-based revenues	**988**	1,033
Less: Performance fees	**(42)**	(20)
Total Asset Management underlying fee-based revenues	**946**	1,013
Cost/income ratio (%)	**71%**	64%

i Reflects the revaluation of provisions relating to performance-based awards that are linked to underlying fund performance. M&G Group Limited hold units in the underlying funds to hedge the exposure on these awards.

1.6 (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					
	2020			2019		
	Average AUMA[i] £bn	**Revenue[ii] £m**	**Revenue margin[iii] bps**	Average AUMA[i] £bn	Revenue[ii] £m	Revenue margin bps
Retail Asset Management	**93**	**466**	**50**	102	584	57
Institutional Asset Management	**171**	**480**	**28**	165	429	26
Total Asset Management	**264**	**946**	**36**	267	1,013	38

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.

ii Fee margin is calculated by annualising underlying fee-based revenues earned, which excludes performance fees, in the period divided by average AUMA for the period. Revenue includes £227m of internal revenue (2019: £205m), of which £188m are included in Institutional Asset Management and £39m in Retail Asset Management.

iii Fee margin relates to the total margin for internal and external revenue. Retail Asset Management external revenue margin is 70bps (2019: 77bps) and Institutional Asset Management external revenue margin is 37bps (2019: 35bps). Total Asset Management internal revenue margin is 18bps (2019: 17bps).

1.7 Credit risk

The Group's exposure to credit risk primarily arises from the annuity portfolio, which holds large amounts of investments on which a certain level of defaults and downgrades are expected.

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 in Note 34.1 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.

Debt securities

Debt securities held in respect of annuities and other long-term business are analysed below by asset class:

	As at 31 December	
	2020 £m	2019 £m
Government bonds	**5,354**	5,678
Corporate bonds	**14,113**	13,909
Asset-backed securities	**807**	791
Total debt securities	**20,274**	20,378

1.7 Credit risk continued

Debt securities held in respect of annuities and other long-term business are analysed below according to external credit ratings[i] 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. Debt securities are internally rated where no external credit rating is available. The table below does not match the breakdown in 34.4.1 in the notes to the consolidated financial statements as it includes the aggregate of both internal and external ratings.

	As at 31 December	
	2020 £m	2019 £m
AAA	**2,274**	2,548
AA+ to AA-	**7,202**	7,357
A+ to A-	**6,639**	7,352
BBB+ to BBB-	**3,484**	2,647
Below BBB-	**675**	474
Total debt securities	**20,274**	20,378

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.

Asset-backed securities

The annuities and other long-term business has holdings in asset-backed securities (ABS) which are presented within debt securities on the consolidated statement of financial position. These holdings in ABS comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities. At 31 December 2020, there was £807m (2019: £791m) asset-backed securities held in the annuities and other longer-term business. The majority of these asset-backed securities are UK securities.

Exposure to sovereign debt

The exposure of annuities and other long-term business to sovereign debt is analysed as follows:

	As at 31 December	
	2020 £m	2019 £m
Spain	**57**	47
France	**22**	–
Germany	**137**	188
Total Eurozone	**216**	235
UK	**1,949**	2,075
Other	**180**	158
Total	**2,345**	2,468

This table does not include non-central sovereign debt (Quasi sovereign, Supranational and other public sector debt), therefore does not agree to Government debt balance within the debt securities by industry disclosures that follow.

Exposure to debt securities issued by banks

The exposure of annuities and other long-term business to debt securities issued by banks 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.

i 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.

1.7 Credit risk continued

As at 31 December 2020	Senior debt			Subordinated debt		
	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Total subordinated debt £m	Total £m
France	**12**	**34**	**46**	**–**	**–**	**46**
Germany	**3**	**–**	**3**	**90**	**90**	**93**
Netherlands	**–**	**45**	**45**	**–**	**–**	**45**
Total Eurozone	**15**	**79**	**94**	**90**	**90**	**184**
UK	**409**	**190**	**599**	**72**	**72**	**671**
USA	**–**	**247**	**247**	**33**	**33**	**280**
Other	**–**	**23**	**23**	**36**	**36**	**59**
Total	**424**	**539**	**963**	**231**	**231**	**1,194**

As at 31 December 2019	Senior debt			Subordinated debt		
	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Total subordinated debt £m	Total £m
France	16	16	32	–	–	32
Germany	3	–	3	83	83	86
Netherlands	–	23	23	–	–	23
Total Eurozone	19	39	58	83	83	141
UK	420	229	649	69	69	718
USA	–	230	230	30	30	260
Other	–	10	10	36	36	46
Total	439	508	947	218	218	1,165

Exposure of debt securities by sector

The exposure of annuities and other long-term business to debt securities is analysed below by sector:

	As at 31 December	
	2020 £m	2019 £m
Financial	**6,317**	5,905
Government	**5,354**	5,678
Real Estate	**3,036**	2,673
Utilities	**2,727**	2,886
Consumer	**967**	1,045
Industrial	**709**	820
Communications	**431**	428
Other	**733**	943
Total	**20,274**	20,378

Other 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.mandgplc.com

Annual General Meeting

M&G plc's Annual General Meeting (AGM) is expected to be held at our offices at 10 Fenchurch Avenue, London EC3M 5AG on 26 May 2021 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. Full details will be included in the AGM Notice.

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. Whilst government restrictions relating to the COVID-19 pandemic remain, however, inspection of documents may need to be undertaken virtually. Please email Group Secretariat at GroupSecretariat@mandg.com if you wish to view any of these documents and arrangements will be made with you.

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 opposite . 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 be 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

Lines are open from 8:30 to 17:30 (UK), Monday to Friday.

International shareholders
Tel +44 (0)121 415 0280

Term	Definition
Adjusted operating profit before tax	Adjusted operating profit before tax is one of the Group's key alternative performance measures. It is defined in the key performance measures section on page 283.
Alternative performance measure (APM)	An alternative performance measure (APM) is a financial measure of historic or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations.
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.
Asset Management cost/income ratio	The Asset Management cost/income ratio represents total operating expenses, excluding revaluation of provisions for employee performance awards divided by total fee-based revenues, excluding performance fees.
Assets under management and administration (AUMA)	Assets Under Management and Administration represents the total market value of all financial assets managed, administered or advised on behalf of customers and clients.
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 and administer.
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 UK's departure from the European Union.
Chief Operating Decision Maker	The Group Executive Committee.
Company/Parent 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, UK.
Demerger	The demerger of the Group from the Prudential Group in October 2019.
Director	A Director of the Company.
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 after tax 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, such as share options awarded to employees.
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.
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	The Company and its subsidiaries.
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.

Term	Definition
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.
Key performance measure (KPM)	The Group measures its financial performance using the following key performance measures: IFRS profit before tax, adjusted operating profit before tax, Savings and Asset Management 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 the Group's shareholder 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.
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.
M&G Group Limited (MGG)	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, UK. MGG is the holding company of the Group's asset management business, M&G Investments.
Net client flows	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 promoter score	Net promoter score is a measure of the willingness of a company's customers to recommend its products or services to others.
Non-profit business	Contracts where the policyholders are not entitled to a share of the company's profits and surplus, but are entitled to other contractual benefits. Examples include pure risk policies (such as fixed annuities) and unit-linked policies.
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.
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.
Prudential Assurance Company (PAC)	The Prudential Assurance Company Limited, a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, UK.
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, UK.
PruFund	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
Rothesay Life	Rothesay Life PLC.

Term	Definition
Scottish Amicable Insurance Fund (SAIF)	SAIF is a ring-fenced sub-fund of the With-Profits 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 interest in 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.
Solvency capital requirement (SCR)	SCR 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	A regime for the prudential regulation of insurance companies that was introduced by the EU on 1 January 2016.
Solvency II surplus	Solvency II surplus represents the own funds held by the Group less the solvency capital requirement.
Total capital generation	Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations.
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.
Transitional measures	Transitional measures on technical provisions are an adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January2016. 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.

Term	Definition
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 business	Contracts where the policyholders have a contractual right to receive, at the discretion of the company, additional benefits based the profits of the fund, as a supplement to any guaranteed benefits.
With-Profits Fund	The Prudential Assurance Company Limited'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-Profits Fund and any declared bonuses.

Contact us

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Website

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Telephone

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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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