Registered No: 00633480

M&G Group Limited

2019 Annual Report

Incorporated and registered in England and Wales.
Registered office: 10 Fenchurch Avenue, London, EC3M 5AG

Contents

Strategic Report

Principal activity

M&G Group Limited (the 'Company') is part of M&G plc, the UK and international savings and investments business. The Company is a direct subsidiary of M&G plc following the demerger of M&G plc from Prudential plc, the former parent company, on 21 October 2019.

The Company along with its direct and indirect subsidiaries form the M&G Group (the 'Group' and 'M&G').

The Group's principle activity is to provide asset management services in equities, public and private fixed income, real estate and other asset classes for its retail, institutional and internal clients. Internal clients refers to other entities that are part of the M&G plc group.

Business review

M&G is an international asset management firm, established in 1931, with decades of experience investing on behalf of individuals and institutions. M&G's aim is to help its customers manage and grow their savings, putting them to work through the active and careful allocation of capital. In doing so, M&G has a conviction-led, long-term approach to asset management applied across the full range of asset types: cash, equities, bonds, real estate and alternatives. M&G develops investment solutions that are relevant to its customers' needs by leveraging its expertise across different geographies, asset classes and investment strategies, with the aim of delivering value for clients through the generation of long-term capital growth and / or income.

Net revenue decreased by 5.0% to £1,074 million in 2019 from £1,131 million in 2018 which, coupled with an increase in costs, has resulted in a fall in operating profit to £332 million from £411 million. The reduction in revenue reflects lower average assets under management driven primarily by net outflows in 2018, as well as reduced fee margins in certain product groups. The increase in costs primarily relates to higher staff expenses and property costs. The reduction in operating profit has been largely offset by an increase in financial income, with profit before tax of £420m slightly lower than the prior year figure of £424m. Assets under Management have increased to £275 billion at 31 December 2019 from £265 billion at 31 December 2018, reflecting the impact of positive market movements which more than offset net outflows.

M&G's net assets position fell by 10.5% to £902 million (2018: £1,007 million), where the increase from total comprehensive income after tax and other reserve movements of £342 million has been more than offset by dividend payments of £449 million.

Despite the reduction, the Group maintains a strong Balance Sheet and the Board's intention is to create and maintain capital for the Group's strategic and operational objectives and to maintain comfortable headroom above regulatory requirements. The Group ensures it is able to continue as a going concern and has sufficient capital surplus to meet the regulatory requirement going forwards. The amount of distributable reserves and cash flow position are considered when making any decision to pay a dividend.

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

Strategic Report *(continued)*

Strategic direction

Following the demerger, M&G is well positioned to support and drive forward the wider M&G plc strategy. M&G is an international investment business focused on delivering great customer and client outcomes through active, high-value added solutions. The Group offers a broad range of savings and investment solutions to retail customers and institutional clients. Retail customers have access to a family of UK-domiciled mutual funds, as well as a similar stable of Luxembourg funds for international customers. To institutional clients M&G provides investment strategies covering both private and public assets through a variety of formats, from pooled funds to segregated mandates. The Group has more than 800 institutional clients and is growing the franchise from being UK-focused to having an established European footprint.

M&G sees significant opportunities for continued growth from leveraging the strength of the asset management capabilities with the wider group's businesses.

Customer

Throughout its history, M&G has maintained its purpose: to help customers prosper by putting their long-term savings to work. Our customers have always been at the heart of what we do.

The Group manages the savings of customers across the UK, Europe and the rest of the world. These include direct or intermediated investors in our open-ended investment funds, members of pension schemes or other long-term savings schemes who invest through financial institutions, and retail savers across the wider group.

Customers benefit from a conviction-led, long-term approach to asset management, applied across the full range of asset types: cash, equities, bonds, real estate, multi-asset and alternatives. M&G is constantly developing the capabilities to offer strategies that meet customer needs, whatever the market conditions.

Investment management capabilities

Over the past decade, the asset management industry has seen a fundamental shift in demand towards investment solutions as investors, intermediaries and institutions look for investment propositions that can deliver defined customer outcomes. This trend has been accelerated by the move from Defined Benefit to Defined Contribution pensions and increased pension freedoms, with customers now faced with greater pressure and responsibility to generate sufficient returns for retirement, manage investment volatility, ensure cash flow predictability and asset liquidity.

Given the breadth and depth of M&G's investment capabilities, proven investment track record and strong distribution footprint across the world, the Group is well placed to deliver on the increasing demand for bespoke investment solutions through various arrangements, including sub-advisory services, segregated mandates, open ended and closed ended vehicles.

During 2019 M&G continued to develop and diversify its investment capabilities. M&G acquired a team of Asia Pacific fund managers and researchers to increase capability in this important region, and strengthened the international asset origination teams to support the private assets business.

Strategic Report *(continued)*

Investment for growth

M&G continues to invest in technology and operational infrastructure so full advantage can be taken of the opportunities in the fast-evolving distribution and regulatory landscape in which we operate. M&G is a key element of a significant transformational programme across the wider M&G plc Group, which seeks to make the business more customer-centric, resilient and efficient, and also to create strong operations that are scalable and can support future growth.

Brexit

Reflecting the UK's decision to leave the European Union (EU) on 31 January 2020 and following the referendum result of 2016, M&G had already taken several steps to minimise potential disruption to our clients, protect their interests and provide as much certainty and clarity as possible.

These steps include the implementation of the Group's Brexit plan, designed in 2016, which involved the establishment of a Luxembourg based super management company and MiFID distribution firm. Both are now fully licensed and operational, distributing traditional and alternative funds, products and services across our network of European offices, and internationally. Today, M&G has more than 35 people based in Luxembourg, including team members from Risk, Legal and Compliance, Operations and Distribution.

The related M&G fund migration programme is also complete. Through this, the Group successfully transferred £36 billion of assets under management via 25 funds to the Group's expanded SICAV platform in Luxembourg.

A business contingency plan has also been developed. This includes the establishment of a portfolio management capability within continental Europe to provide continuation of service to M&G's clients with whom there are segregated account arrangements, leveraging off the recently established EU platform which has the required regulatory permissions to carryout portfolio management activities.

During 2019, there were a number of positive actions taken by the Financial Conduct Authority (FCA) and the European Securities and Markets Authority (ESMA) to put in place the Memorandums of Understanding that will enable EU domiciled funds to continue delegating portfolio management activities. Following these, the Group remains well positioned for the identifiable forms that Brexit may take.

The Group continues to monitor political and regulatory developments on the negotiations during the transition period and is ready to adjust or activate contingency plans, where necessary.

Market turbulence

Global markets continue to be unnerved by a series of factors, including most recently the spread of COVID 19 and its potential economic impacts. There remains significant uncertainty. M&G is monitoring the situation and has made preparations to ensure the business is able to continue to operate effectively.

Outlook

The long-term outlook for the asset management industry is positive driven by changing demographics and investor behaviour. However, the industry faces a number of challenges in the short term. Markets continue to reflect political uncertainty, although in the UK there is growing clarity on its future relationship with the rest of Europe. Active managers continue to face pressure on profitability reflecting the popularity of passives and changes in the distribution landscape. M&G is rising to this challenge through its focus on costs and by concentrating resources on areas where client demand is rising and profit margins are resilient.

Looking ahead, M&G remains focused on the provision of active high-value and innovative investment solutions for clients, both in the UK and Internationally.

Strategic Report *(continued)*

Principal risks and uncertainties

Risk management

M&G generates shareholder value by providing investment management services in return for fees. As part of M&G's business operations, the Group takes on risks, where such risks are adequately rewarded, and can be appropriately quantified and managed to protect its reputation and to safeguard its ability to meet the requirements of customers, regulators and the shareholder.

The Board of M&G ("the Board") has responsibility for managing these risks for M&G Group Limited. To assist the Board in discharging its responsibilities, a comprehensive approach to identifying, measuring, managing, monitoring and reporting risks (the Risk Management Cycle) has been implemented, supported by an embedded risk culture and strong risk governance. This is set out in the M&G plc's Risk Management Framework, key elements of which are described below. The Risk Management Framework is designed to manage risk within agreed appetite levels which are aligned to delivering our strategy for customers and shareholders.

Risk culture and governance

The responsibility for instilling an appropriate corporate risk culture lies with the Board which, together with the senior management, promotes a responsible culture of risk management by emphasising and embedding the importance of balancing risk with profitability and growth in decision-making, whilst also ensuring compliance with regulatory requirements and internal policies. Additionally, compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

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 financial reporting, including obligations for the effectiveness of M&G's internal control and for risk management systems. 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 taking and management – Business areas take and manage risks within the limits set out in risk appetite statements

2) Risk oversight – Risk and Compliance functions are structurally independent of the first line, providing risk oversight and compliance guidance and monitoring

3) Independent assurance – Internal Audit is empowered by the Audit Committee to audit the design and effectiveness of internal controls, including the risk management system

Risk categorisation and policies

The Risk Management Framework is structured around a set of defined risks, which serve as a reference point for the wider group's application of the Risk Management Cycle – in terms of risk policies, standards, risk appetite statements, limits and controls. Risk categories are set considering the Group's principal risks, emerging risks and business strategy. They are prescribed at a minimum of two levels across the risk universe. Risk policies are in place for all material risks.

Risk appetite and limits

Risk appetite and tolerance to take on risk is specified through risk appetite statements and limits that are aligned to, and reviewed with respect to, business model and strategy. Risk appetite is the amount and type of risk M&G is willing to accept in pursuit of business objectives. Its position against appetite is assessed during the annual business planning process, and monitored and managed regularly throughout the year. Prescribed indicators are used to inform whether a risk may move out of appetite and, together with limit utilisation, is a core element of risk reporting to Board and Executive Risk Committees with appropriate management actions.

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Strategic risk

M&G's key strategic risks are in relation to profit volatility, investment performance and revenue concentration. M&G has established key risk indicators ('KRIs') and associated threshold limits for each of these risks and re-evaluates these limits on an annual bases in the context of M&G's business strategy and risk appetite. A trigger of one of these limits would result in discussion by established governance forums over potential management action.

Financial risk

M&G is exposed to capital, liquidity, credit, market and pension risk.

- Capital and liquidity - M&G expects to hold sufficient capital and liquidity to ensure the continuity of its business under normal and stressed conditions. Senior management review details of regulated entities' capital adequacy on a monthly basis and performs stress and scenario testing at least annually.

- Credit and market - In addition to its Pillar 1 calculations of credit and market risk M&G has internal processes to measure these risk exposures against risk appetite. To protect the solvency of M&G, the Board is reluctant to take market risk on to the balance sheet. Therefore, M&G's appetite is to restrict the balance sheet exposure to a limited set of activities. These activities are managed in line with M&G's risk appetite statement and risk policies and standards.

- Pension - M&G has established monitoring arrangements in place to identify and report on Defined Benefit ("DB") scheme obligations.

Business environment risk

M&G is exposed to regulatory relationship, legal, and group risk.

- Regulatory relationship – It is the responsibility of all staff to ensure M&G remains regulatory compliant. M&G has in place a suitably resourced Compliance function, which assists the business to ensure ongoing compliance with new and existing regulations.

- Legal – M&G requires all of its agreements with third parties are properly documented with legal advice taken internally or, where appropriate, from one of the law firms on M&G's approved panel by an authorised individual.

- Group – As M&G is a member of M&G plc, an event occurring at M&G plc level could impact M&G. M&G includes consideration of group risk in its stress and scenario testing as part of the ICAAP (Internal Capital Adequacy Assessment Process).

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Operational risk

All areas of M&G are exposed to operational risk through their day-to-day operations. Any control absence or failure associated with processes, people, systems or any external events can result in direct or indirect financial and non-financial consequences to M&G.

In order to support the management of operational risks, the Board has established processes, proportionate to the nature, scale and complexity of its operations. These include but are not necessarily limited to:

- Regular cycle of review of risk policies and standards;
- Regular cycle of risk appetite setting and KIs monitoring and reporting;
- Risk and control self-assessments ("RCSA");
- Management, reporting and review of operational incidents, including impact assessment of relevant external incidents; and
- Operational risk scenario analysis to assess capital requirements of high impact, low likelihood operational events.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of the Company to act in the way he or she considers, in good faith, would most likely promote the success of the Group 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 Group's employees;
- need to foster the Group's business relationships with suppliers, customers and others;
- impact of the Group's operations on the community and environment;
- desirability of the Group maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the Group.

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

Strategic Report *(continued)*

Section 172(1) Statement *(continued)*

As is normal for large companies, the Group delegates authority for day-to-day management to the Chief Executive who in turn charges management with execution of the business strategy and related policies. The Board review at each regular Board meeting, financial and operational performance as well as risk, compliance, and regulatory reporting. The Board also reviews other areas over the course of the financial year including the Group's business strategy; financial reporting; key risks; stakeholder-related matters; diversity and inclusivity; environmental matters; corporate responsibility and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

The Group's key stakeholders are its ultimate beneficial owner, M&G plc, and the stakeholder groups set out in M&G plc's Annual Report. The views and impact of the Group's activities on those stakeholders are an important consideration for the directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups on certain issues, for example, interaction with regulators, the size and spread of both stakeholders and M&G plc means that other stakeholder engagement takes place at M&G plc level. M&G finds that as well as being a more efficient and effective approach, this also helps the Group achieve a greater positive impact on environmental, social and other issues than by working in isolation. For details on some of the engagement that takes place with the Group's stakeholders so as to encourage the directors to understand the issues to which they must have regard, please see M&G plc 2019 Annual Report.

During the period the Group received information to help understand the interests and views of the it's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Group's financial and operational performance, non-financial key performance indicators, risk and environmental, social and governance matters. As a result of this the Group has received an overview of engagement with stakeholders and other relevant factors which allows the Group to understand the nature of the stakeholders' concerns and to comply with section 172 to promote the success of the Group.

Principal Decisions

Set out below are some examples of how the Group have had regard to the matters set out in section 172(1)(a)-(f) when discharging the it's section 172 duty and the effect of that on decisions taken by M&G. The Group define principal decisions as both those that are material to the Group, but also those that are significant to any key stakeholders. In making the following principal decisions, the Board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal decision 1 - Annual Strategy Review and Business Plan Approval

The Board carries out a review of the Group's strategy on an annual basis. This includes approving the four-year rolling business plan. In 2019, the Board's strategic review (period 2020-2024) included a presentation from Senior Finance executives and a detailed paper submission which, in addition to covering the Group's business and financial performance, included information relating to M&G's regulatory obligations, the top business risks and other matters including workforce strategy and pension arrangements. The Board also received a supporting risk and capital assessment from the M&G plc Chief Risk and Resilience Officer, and an opinion from the Group's Group Chief Risk Officer. In making the decision to approve the business plan and future strategy of the Group, the Board also specifically considered any required investment into technology for investor benefit to ensure the enhancement of the Group's reputation and that it was well positioned for long-term success.

Strategic Report *(continued)*

Section 172(1) Statement *(continued)*

Principal decision 2 – Dividends to Parent

Each year the Board makes an assessment of the strength of the Group's consolidated balance sheet and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. In 2019, the Board decided to pay total dividends of £447m. In making these decisions the Board received detailed financial planning materials and considered a range of factors. These factors included any impact on the Group in the short to medium term as well as the long-term viability of the Group; its expected cash flow and financing requirements (including the regulatory capital position); and the ongoing need for strategic investment in M&G's business, the activities of the Group's subsidiaries, including the workforce and the expectations of the Group's parent, M&G plc.

Approved by the Board.

C J Bousfield
Director
M&G Group Limited
10 Fenchurch Avenue
London EC3M 5AG
9 March 2020

Directors' Report

The Directors present their annual report and the group financial statements for the year ended 31 December 2019.

Directors

The Directors who held office during the year were as follows:

M J Evans
J W Foley
C J Bousfield (appointed 07 February 2019)
B H M Hollond
C D Keogh
M M Ammon (resigned 17 October 2019)
G R Speirs (resigned 31 January 2019)

Financial highlights

The results for the year are shown in the Consolidated Statement of Profit and Loss and Other Comprehensive Income on page 22. This shows an operating profit of £332 million (2018: £411 million) and a profit after tax of £345 million (2018: £348 million). Revenue, principally received from management fees, has decreased in 2019 to £1,298 million (2018: £1,405 million). Interim dividends of £449 million were paid during the year (2018: £197 million). The Directors do not recommend the payment of a further dividend (2018: nil).

The Consolidated Balance Sheet is set out on page 23 and shows that cash and cash equivalents have increased to £429 million for 2019 (2018: £343 million), total assets have decreased to £1,478 million (2018: £1,899 million) with total liabilities falling to £577 million (2018: £891 million). This has decreased total equity to £902 million for 2019 (2018: £1,007 million).

Branches

The Group includes tax branches outside the UK constituency, specifically in, France, Germany, Italy, Netherlands, Republic of Ireland, Spain and Sweden. The Germany, France, Italy and Spain branches of M&G International Investments S.A. are also regulated branches and must adhere with local regulatory rules.

Financial instruments

Description of the Group and Company's exposure to risks arising from the use of financial instruments and related financial risk management objectives and policies are outlined in note 22 of the group financial statements.

Subsequent events & future developments

No significant events affecting the Group or Company have occurred since the end of the financial year.

Qualifying third party indemnities

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

Employment policies

The Group relies heavily on the quality of key talent and management in each of the regions and countries in which it operates. The success of M&G's operations is dependent on, amongst other things, the ability to attract and retain highly qualified professional people. Competition for highly qualified professional people in most countries in which the Group operates is intense. The Group's ability to attract and retain key people is dependent on a number of factors, including prevailing market conditions, culture and working environment and compensation packages offered by companies competing for the same talent.

M&G is committed to providing all employees with a safe, healthy and engaging working environment. All of our leaders are accountable for ensuring our culture promotes diversity, inclusion and authenticity. To perform at their best for clients and customers, all employees need to enjoy working for M&G and be comfortable that the Group's culture is free from any form of bullying, harassment or victimisation.

Directors' Report *(continued)*

Employment policies *(continued)*

In 2019 M&G launched new people policies with the simple aim of becoming a leading flexible employer which recognises that employees work to live. M&G supports all employees with the 'moments that matter' to them through either our market leading family leave policy or other types of paid leave that aim to support employees of all ages, family constructs or faiths. The policies include:

- Our Partnership (our code of conduct)
- Our M&G values and behaviours
- Our Diversity & Inclusion strategy, policy and colleague networks
- Transitioning at Work policy (for transgender colleagues)
- Code of Ethics
- Our 'Speak Out' and 'Raising Concerns at Work' policies

Seeking feedback from employees on the Group's performance in this area is essential. There are a number of ways in which M&G achieve this including the ongoing and valued relationships with our employee representatives, the Union and the M&G Employee Forum and through the annual One Voice colleague survey.

The Group seeks to achieve an inclusive working environment and through our Diversity and Inclusion Policy embraces difference and removes barriers to inclusivity. All employees are treated so that they have an equal opportunity, so far as is justifiable, to be selected, trained and promoted. Every reasonable effort will be made to enable disabled persons to be employed by the Group by making adjustments to roles where possible.

Both internal and external training opportunities are provided where they are appropriate to an employee's current role and/or development. Where appropriate, the Human Resources and Learning and Talent Development teams ensure that suitable arrangements can be made with regard to the venue or format of the event to enable all employees to participate.

Engagement with Stakeholders

Engagement with M&G's key stakeholder groups helps foster and maintain relationships and forms an important part the wider group's operations, and is therefore considered at an M&G plc level.

Not all stakeholder engagement is reported directly to the Board or takes place directly with the Board. However, the output of engagement across the wider group informs business level decisions and proposals, with an overview of developments and relevant feedback being reported to the M&G plc Board and/or its Committees. The purpose of this is to ensure that the M&G plc Board can understand and consider the views of relevant stakeholders when making decisions.

Customers

The customer is at the heart of everything M&G plc does. The M&G plc Board has included in its scheduled meetings regular reports from the Chief Customer and Distribution Officer and determined that its Matters Reserved would cover new forms of business or geographic regions to ensure the Board maintains oversight of who the Group's customers are.

Business partners

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

Directors' Report *(continued)*

Engagement with Stakeholders *(continued)*

Investors and shareholders

Institutional Shareholders

The M&G plc Board is kept aware of major shareholder issues and concerns through reports from a variety of sources including the CEO and CFO reports, a regular report at every Board meeting by the Director of Investor Relations and feedback from the Chair on his governance meetings with major investors. The Investor Relations Report covers key issues on investor meetings, analyst reports and engagement. The M&G plc Board also maintains continued dialogue with shareholders via its Annual General Meeting (AGM), investor roadshows and interim/full year results presentations.

Retail Shareholders

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

Regulators

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

In the year and a half prior to demerger M&G plc worked extensively with the PRA, FCA and other regulators to develop and maintain this approach which included significant engagement from the Board and members of the Senior Executive team surrounding the demerged business. This included the Chair and other M&G plc Board members meeting separately with the supervisory teams at the PRA and FCA to discuss key areas of focus. This approach is a priority and one that M&G plc will continue to take as an independent business operating globally. M&G plc looks forward to working with the regulators in the months and years to come. The M&G plc Board receives a report on regulatory matters at every Board meeting from the Director of Policy and Regulatory Affairs. All relevant regulatory correspondence is made available to the Board in a timely manner via a dedicated Reading Room.

Corporate Governance Code

Statement of Corporate Governance Arrangements

In accordance with The Companies (Miscellaneous Reporting) Regulations 2018 the Board sets out below the corporate governance arrangements which were in place within the Group during the year under review and which remain in place as at the date of this report.

Corporate Governance Code

The Group is deemed to be a material subsidiary ('Material Subsidiary') of M&G plc under M&G plc's internal policies. The Group is therefore subject to the governance processes set out in M&G plc's Material Subsidiary Corporate Governance Manual (the 'Manual'), which is based on the 2018 UK Corporate Governance Code issued by the FRC.

Application of the Corporate Governance Code

The Manual prescribes the following governance arrangements, and the paragraphs below show how the Group has applied these during the reporting year.

Directors' Report *(continued)*

Corporate Governance Code *(continued)*

Composition of the Board - comprised of an independent Non-Executive Chairman, two independent Non-Executive Directors and two executive directors who are employees of M&G plc. The operational management of the Group is delegated to the CEO.

Risk and Audit Committees – the Board has established Risk and Audit Committees, the Members of which are independent Non-Executive Directors.

Director Appointment – the Chairman is appointed with the approval of the M&G plc Nomination Committee. Non-Executive Directors are appointed with the approval of the Chairman in consultation with M&G plc. Executives are appointed by the CEO, in discussion with the M&G plc Chairman. A succession planning process is in place for all Non-Executive Director positions, overseen by the M&G Plc Nomination Committee.

Evaluation – each year a formal performance evaluation is undertaken of the Board as a whole, its Committees and the Directors. A summary of the findings are presented to the Board and an action plan agreed if required. The performance of the Chairman is evaluated by the other directors.

Company Secretary - the Group has appointed an appropriately qualified and experienced Company Secretary who is responsible for ensuring that the Manual and the principles and processes contained in it are adhered to.

Terms of Reference - the Board, Risk and Audit Committees have Terms of Reference ('ToR') which are approved by the M&G plc's Nomination Committee and the Group Risk and Audit Committees respectively. Any amendments to the ToR are required to be submitted to M&G plc for approval.

Remuneration – the M&G plc Remuneration Committee is responsible for oversight of the M&G Plc group-wide Remuneration Policy. The fees of the Independent Chairman and Independent Non-Executive Directors of the Group is a matter reserved for the M&G plc Remuneration Committee. Remuneration for the Executive Directors within the Group is also managed as required by the M&G Plc Remuneration Committee, depending on the Executive's role in M&G plc.

Other Disclosures

The Group has not voluntarily adopted the full UK Corporate Governance Code. There have been no material deviations from the Manual in the Group's practice. In addition to the Manual, the Group works within the established system of internal controls and risk management, the overall risk appetite and tolerance set for the Group, the Group Risk Framework, and all relevant policies and limits.

For details of the Group's engagement with its stakeholders, please see the s.172 statement on page 9 of this report. Being a Material Subsidiary of M&G plc, stakeholder engagement also takes place at the M&G Plc level. Details can be found in the M&G plc 2019 Annual Report.

Political contributions

There were no political contributions during the period (2018: £nil).

Going concern

The Directors have a reasonable expectation that the Group and Company have adequate resources to continue their operations for a period of at least 12 months from the date that the Group financial statements are approved. In support of this expectation, the Group and Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate are set out in the Strategic Report on pages 4 to 11. Further risk analysis associated with the Group can be found in the Group financial statements including assets and liabilities in note 22 on pages 69 to 78, cash flow details in the Consolidated Cash Flow Statement on page 26, provisions in note 20 on page 67 and contingencies in note 25 on page 81. The Directors have therefore adopted the going concern basis of accounting in preparing the Group and Company financial statements for the year ended 31 December 2019.

Directors' Report *(continued)*

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the Group and Company financial statements

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101.

Reduced Disclosure Framework.

Under company law the Directors must not approve the Group and Company 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 their profit or loss for that period. In preparing each of the Group 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, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the 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 the Company 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.

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 Group and Company financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to Auditor

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

Directors' Report *(continued)*

Auditor

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

Approved by the Board.

C J Bousfield
Director
M&G Group Limited
10 Fenchurch Avenue
London EC3M 5AG
9 March 2020

Independent Auditor's Report to the members of M&G Group Limited

Opinion

We have audited the financial statements of M&G Group Limited ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Profit and Loss Account and Other Comprehensive Income, Company Balance Sheet, Company Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's and the Parent Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's and Parent Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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 as they have concluded that the Group 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 are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic Report and Directors' Report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Brown

Thomas Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
9 March 2020

Group Financial Statements

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For year ended 31 December 2019

	Note	Group 2019 £000	2018 £000
Revenue from contracts with customers	2	**1,298,070**	1,405,202
Commission expenses	2	**(224,237)**	(274,469)
Net revenue	2	**1,073,833**	1,130,733
Operating expenses	3,4,5	**(742,166)**	(719,292)
Operating profit		**331,667**	411,441
Financial income	6	**87,857**	22,111
Financial expenses	6	**(14,521)**	(26,216)
Net financing income/(expense)		**73,336**	(4,105)
Share of profit of associates	10	**14,917**	16,351
Profit before tax		**419,920**	423,687
Tax	7	**(74,529)**	(75,966)
Profit for the year		**345,391**	347,721
Other comprehensive income			
Remeasurements of defined benefit pension scheme surplus	18	**2,909**	25,566
Income tax on items that will not be reclassified to profit or loss		**(504)**	(4,346)
Items that will not be reclassified to profit or loss		**2,405**	21,220
Foreign currency translation differences – foreign operations		**(5,805)**	33
Items that are or may be reclassified subsequently to profit or loss		**(5,805)**	33
Other comprehensive (loss)/income for the year, net of income tax		**(3,400)**	21,253
Total comprehensive income for the year		**341,991**	368,974
Profit attributable to:			
Equity holder of the company		**342,140**	345,345
Non-controlling interest		**3,251**	2,376
Profit for the year		**345,391**	347,721
Total comprehensive income attributable to:			
Equity holder of the company		**338,740**	366,598
Non-controlling interest		**3,251**	2,376
Total comprehensive income for the year		**341,991**	368,974

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	Group 2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	8	**14,584**	104,119
Intangible assets	9	**15,902**	18,233
Trade and other receivables	15	**5,155**	11,717
Investments in associates	10	**37,526**	37,479
Other financial assets	11	**145,683**	94,696
Share-based payment asset	19	**-**	573
Deferred tax assets	14	**17,324**	21,457
Pension scheme surplus	18	**171,423**	128,778
		407,597	417,052
Current assets			
Other financial assets	11	**159,379**	506,411
Held for sale financial assets	13	**87,589**	98,391
Trade and other receivables	15	**395,111**	534,750
Cash and cash equivalents	16	**429,055**	342,632
		1,071,134	1,482,184
Total assets		**1,478,731**	1,899,236
Current liabilities			
Trade and other payables	17	**421,168**	657,541
Tax payable		**23,948**	20,728
Provisions	20	**6,781**	10,478
Other financial liabilities	12	**-**	101,487
		451,897	790,234
Non-current liabilities			
Other payables	17	**83,481**	79,154
Lease liabilities		**12,213**	-
Deferred tax liabilities	14	**29,621**	22,491
		125,315	101,645
Total liabilities		**577,212**	891,879
Net assets		**901,519**	1,007,357
Equity attributable to equity holder:			
Share capital	21	**100**	100
Share premium		**88,000**	88,000
Other reserves		**22,300**	25,475
Retained earnings		**785,022**	888,966
		895,422	1,002,541
Non-controlling interest		**6,097**	4,816
Total equity		**901,519**	1,007,357

These financial statements were approved by the Board of Directors on 9 March 2020 and were signed on its behalf by:

Clare Bousfield

C J Bousfield
Director

Company registered number: 00633480

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
At 31 December 2019

	Share capital £000	Share premium £000	SBP Reserve £000	Translation Reserve £000	Pension Reserve £000	Retained Earnings £000	Non-Controlling Interest £000	Group Total Equity £000
Balance at 1 January 2019	**100**	**88,000**	**-**	**(2,077)**	**27,552**	**888,966**	**4,816**	**1,007,357**
Profit for the year	-	-	-	-	-	342,140	3,251	345,391
Remeasurement of defined benefit pension scheme surplus (note 18)	-	-	-	-	2,909	-	-	2,909
Deferred tax on defined benefit pension scheme remeasurement	-	-	-	-	(504)	-	-	(504)
Exchange movements on foreign currency translation	-	-	-	(5,805)	-	-	-	(5,805)
Other comprehensive income	-	-	-	(5,805)	2,405	-	-	(3,400)
Total comprehensive income	-	-	-	(5,805)	2,405	342,140	3,251	341,991
Share-based payments (note 19)	-	-	225	-	-	960	-	1,185
Current and deferred tax on share-based payments	-	-	-	-	-	(144)	-	(144)
Dividends paid (note 21)	-	-	-	-	-	(446,900)	(1,970)	(448,870)
Total transactions with shareholder	-	-	225	-	-	(446,084)	(1,970)	(447,829)
Balance at 31 December 2019	**100**	**88,000**	**225**	**(7,882)**	**29,957**	**785,022**	**6,097**	**901,519**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*
At 31 December 2018

	Share capital £000	Share premium £000	Fair value Reserve £000	Translation Reserve £000	Pension Reserve £000	Retained Earnings £000	Non-Controlling Interest £000	Group Total Equity £000
Balance at 1 January 2018	**100**	**-**	**10,777**	**(2,110)**	**6,332**	**733,777**	**3,364**	**752,240**
Adjusted on initial application of IFRS 9	-	-	(5,344)	-	-	5,344	-	-
Adjusted on initial application of IFRS 15	-	-	(5,433)	-	-		-	(5,433)
Adjusted balance at 1 January 2018	**100**	**-**	**-**	**(2,110)**	**6,332**	**739,121**	**3,364**	**746,807**
Profit for the year	-	-	-	-	-	345,345	2,376	347,721
Remeasurement of defined benefit pension scheme surplus (note 18)	-	-	-	-	25,566	-	-	25,566
Deferred tax on defined benefit pension scheme remeasurement	-	-	-	-	(4,346)	-	-	(4,346)
Exchange movements on foreign currency translation	-	-	-	33	-	-	-	33
Other comprehensive income	-	-	-	33	21,220	-	-	21,253
Total comprehensive income	-	-	-	33	21,220	345,345	2,376	368,974
Share-based payments (note 19)	-		-	-	-	990	-	990
Current and deferred tax on share-based payments	-		-	-	-	(490)	-	(490)
Dividends paid (note 21)	-		-	-	-	(196,000)	(924)	(196,924)
Issue of shares	-	88,000	-	-	-	-	-	88,000
Total transactions with shareholder	-	88,000	-	-	-	(195,500)	(924)	(108,424)
Balance at 31 December 2018	**100**	**88,000**	**-**	**(2,077)**	**27,552**	**888,966**	**4,816**	**1,007,357**

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For year ended 31 December 2019

	Note	Group 2019 £000	2018 £000
Cash flows from operating activities			
Profit before tax for the year		**419,920**	423,687
Adjustments for:			
Depreciation, amortisation and impairment	*8,9*	**23,840**	5,388
Deferral of intangible assets	*9*	**(371)**	(15,149)
Financial income		**(76,522)**	(8,573)
Financial expense		**14,739**	23,157
Share of profit of investments in associates	*10*	**(14,917)**	(16,351)
Loss on sale of tangible and intangible assets		**19,198**	21
Equity settled share-based payment expenses	*19*	**1,185**	990
		387,072	413,170
Decrease in trade and other receivables		**146,774**	175,526
(Increase)/decrease in employee benefit asset		**(39,736)**	3,301
Issue of loans		**96,887**	(215,979)
Decrease in trade and other payables		**(307,319)**	(18,720)
Decrease in provisions	*20*	**(3,697)**	(539)
		(107,091)	(56,411)
Tax paid		**(57,485)**	(94,971)
Net cash from operating activities		**222,496**	261,788
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**72**	123
Proceeds from sale of investments		**180,965**	399,862
Dividends received	*10*	**14,308**	15,840
Purchase of investments		**(163,041)**	(536,601)
Acquisition of property, plant and equipment	*8,9*	**(26,686)**	(102,610)
Net cash released/(used) in investing activities		**5,618**	(223,386)
Cash flows from financing activities			
Share premium		**-**	88,000
Payment of lease liabilities		**(2,721)**	-
Dividends paid		**(138,970)**	(196,924)
Net cash used in financing activities		**(141,691)**	(108,924)
Net increase / (decrease) in cash and cash equivalents		**86,423**	(70,522)
Cash and cash equivalents at 1 January	*16*	**342,632**	413,154
Cash and cash equivalents at 31 December	*16*	**429,055**	342,632

The accompanying notes form part of these financial statements.

Notes to the group financial statements

1 Accounting policies

M&G Group Limited (the "Company") is a private limited company incorporated and domiciled in the UK. The registered number is 00633480 and the registered address is 10 Fenchurch Avenue, London, EC3M 5AG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account for the Group's interest in associates.

The Group is exempt from preparing Group financial statements under Section 400 of the Companies Act 2006, since it is included in the Group financial statements of the ultimate controlling party, M&G plc, a company registered in England and Wales. The Group has chosen not to apply this exemption.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its company financial statements in accordance with FRS 101. These are presented on pages 84 to 92.

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

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.21.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial instruments classified at fair value through the profit or loss; and pension surplus. Current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.2 Changes in accounting policy

The Group has adopted the IFRS 16 Leases in these Group financial statements. This has been adopted using the modified retrospective method and as a result the comparatives have not been restated and are reported under IAS 17.

IFRS 16 *Leases*

Date of initial application

On 1 January 2019 the Group adopted IFRS 16. The new standard introduces a single model for all leases, eliminating the distinction in accounting treatment between operating and finance leases for lessees.

Effect of adopting IFRS 16

IFRS 16 applies primarily to leases of major properties occupied by the Group's businesses, where the Group acts as a lessee. Under IFRS 16, these leases have been brought onto the Group's consolidated balance sheet with a 'right of use' asset being established and a corresponding liability, representing the obligation to make lease payments. The previously recognised rental accrual charge in the income statement has been replaced with a depreciation charge for the 'right of use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.2 Changes in accounting policy (continued)

On adoption of IFRS 16, lease liabilities were measured at the present value of remaining lease payments, discounted at the Group's incremental borrowing rate. Right of use assets ("ROU") are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease at the date of transition.

The Group has used the following additional practical expedients on adoption of IFRS 16:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measurement of ROU asset on initial application;
- used hindsight when determining the lease term if the contract had an option to break the lease;
- not applied IFRS 16 to leases for which the term ends within 12 months of the transition date; and
- for all contracts existing at transition date, only applied IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4.

When measuring the lease liabilities, the Group discounted lease payments using the incremental borrowing rate as at 1 January 2019 which ranged between 0.27% and 3.57%.

The adoption of IFRS 16 resulted in a lease liability of £291m and a corresponding right of use asset of an equal amount being recognised on the consolidated balance sheet.

1.2.1 Other interpretations and amendments

In addition to the above, various new accounting pronouncements became effective on 1 January 2019. None of these pronouncements had a material impact on the Group financial statements.

1.3 Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue its operations for a period of at least 12 months from the date that the Group financial statements are approved. In support of this expectation the directors are unaware of any factors likely to have a material adverse impact on the Group in the foreseeable future.

Following the UK leaving the European Union (EU) on 31 January 2020, the Directors have implemented the Group Brexit plan formed in 2016, which included the establishment of a Luxembourg based super management company and MiFID distribution firm. Both are now fully licensed and operational, managing and distributing M&G EU domiciled funds, products and services.

The Directors continue to monitor political and regulatory developments, and to adjust or activate contingency plans, where necessary. Accordingly, they continue to adopt a going concern basis in preparing the Group financial statements.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial results of subsidiaries are included in the M&G Group financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Generally significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Application of the equity method to associates

Associates are accounted for using the equity method ("equity accounted investees") and are initially recognised at cost. The Group financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.5 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 Open Ended Investment Companies (OEICs) and Societes d'Investissement a Capital Variable (SICAVs).

The Group invests in OEICs and SICAVs, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The assessment of control over OEICs and SICAVs 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.

Where the Group initially sets up OEICs and SICAVs as part of its operations through its investment management business, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with OEICs and SICAVs. For these investment vehicles, the Group is not deemed to control the entities, but to be acting as an agent. The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of the investment vehicles.

Notes to the group financial statements *(continued)*

1 *Accounting policies (continued)*

1.5 *Structured entities (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. Where the Group is deemed to control an investment where the carrying amount is expected to be recovered through a sale transaction within one year this is considered held for sale under IFRS 5 (See note 1.19 for further details).

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 fair value through profit or loss in the consolidated balance sheet.

1.6 *Foreign currency*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated on a monthly basis using the average rate for each respective month where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control or significant influence (as the case may be) is lost, the entire accumulated amount in the foreign currency translation reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of part only of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of part only of its investment in an associate that includes a foreign operation while still retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

1.7 *Financial instruments*

(i) Recognition and initial measurement

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

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.7 Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group 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.

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Investments in associates and subsidiaries are accounted for using the equity method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

- Financial assets at fair value through profit or loss - these assets (other than derivatives designated as hedging instruments) 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 - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

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

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.7 Financial instruments (continued)

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

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

(iii) Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(iv) Impairment

The Group recognises loss allowances for expected credit losses on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime expected credit losses, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month expected credit loss.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Notes to the group financial statements *(continued)*

1 *Accounting policies (continued)*

1.7 *Financial instruments (continued)*

Write-offs

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

1.8 *Intra-group financial instruments*

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Group considers these to be insurance arrangements. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

1.9 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Prior to 1 January 2019, leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold improvements	5-10 years
Equipment and fittings	5-7 years
Land and buildings	1-5 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.10 *Intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Deferred placement fees	life of fund

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.11 Pension schemes

Pensions

The Group participates in a Group wide defined benefit pension plan ("the M&G Group Pension Scheme"), the Prudential defined benefit pension plan ("the Prudential Staff Pension Scheme") and a small unfunded defined benefit pension plan which has two members. These schemes are all closed to new members.

For those employees who are not members of the defined benefit schemes, contributions are made by the Group to a defined contribution plan.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, maturity dates approximating to the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

Where the Group is unable to identify its share of the underlying assets and liabilities of a defined benefit scheme on a consistent and reasonable basis, contributions are accounted for as if the scheme were a defined contribution scheme.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.12 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.13 Long-term incentive plan (LTIP)

Long-term incentive plans are long-term bonus schemes earned over three years, linked to the business performance. Long-term incentive plans are measured on an undiscounted basis and are expensed over the three year period. A liability is recognised for the amount expected to be paid under long term incentive plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.14 Share-based payments

All share based payments made to employees for services rendered, for which the ultimate parent company (M&G plc) has the obligation to settle, 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.

Following the demerger, all share-based payments are equity-settled with the fair value of service rendered based on the fair value of the equity instrument at the date of demerger (or the grand date for schemes beginning after demerger 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.

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.

Prior to demerger the Group, as part of the wider Prudential plc group, offered share award and option plans which included both equity-settled and cash-settled plans. Schemes are accounted for as cash-settled where the Group has the obligation to settle with the recipients. The fair value of the amount payable is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.15 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, which can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.16 Revenue

Fees

The Group's revenue is principally derived from management fees, performance fees and carried interest.

Management fee revenue 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 accounting period 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 and carried interest revenue 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.

Commission

Commissions are paid to third parties for ongoing services under distribution agreements and are charged to the profit and loss account over the period in which the service is expected to be provided. Commission payments are compliant with local regulation.

1.17 Expenses

Operating lease payments (applicable prior to 1 January 2019)

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense. During the year ended 31 December 2018, the Group received a lease incentive in respect of its new London headquarters. The lease incentive relating to the period of time that the building was uninhabitable has been capitalised along with fit out costs incurred to bring the building into use.

Financing income and expenses

Financing expenses includes net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Financing income includes interest receivable on cash invested, dividend and distribution income, and net foreign exchange gains.

Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend and distribution income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes to the group financial statements *(continued)*

1 Accounting policies (continued)

1.18 Tax

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.19 Current assets held for sale

The Group classifies assets as held for sale when the carrying amount is expected to be recovered through a sale transaction usually within one year and management are committed to the sale.

Assets held for sale are shown separately on the consolidated balance sheet 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.

1.20 Leases

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 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.

Notes to the group financial statements *(continued)*

1 *Accounting policies (continued)*

1.20 Leases (continued)

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 balance sheet. The corresponding lease liabilities are presented in 'Lease liabilities'.

The Group has elected not to recognise right of use assets and lease liabilities for short term leases of PPE that have a lease term of 12 months or less and leases of low value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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 'Financial Income'.

1.21 Accounting estimates and judgements

In the process of applying the EU IFRS accounting policies listed above, key assumptions and estimates have been made at the balance sheet date. The estimates and assumptions that could have a significant effect on the carrying amounts of assets and liabilities are:

Estimates

Trade and other payables – long term incentive plans

The Group's Long-Term Incentive Plan (LTIP) are long-term employee benefits. Long-term employee benefit liabilities include the constructive obligation to employees from past practice and are subject to the achievement of performance criteria, typically over a period of not less than three years. In particular, the long-term employee benefit liability measurement may include assumptions regarding vesting conditions and the performance of each employee's business unit and/or performance of M&G funds that each respective employee directly influences.

Pension schemes

The costs and obligations under defined benefit pension plans are determined using actuarial valuations. Actuarial valuations contain assumptions including expected returns on assets, future salary increases, mortality rates, future pension increases and discount rates. Due to the long-term nature of the defined benefit plans, such estimates are subject to significant uncertainty. Notes 1.11 and 18 provide further details on defined benefit pension plan assumptions and estimates. Further assumptions have been used to calculate the allowance for the Group's guaranteed minimum pension equalisation. The Group has a projected unit credit method using unbiased assumptions, in accordance with IAS 19 requirements for the M&G Group Pension Scheme.

Notes to the group financial statements (continued)

1 Accounting policies (continued)

1.21 Accounting estimates and judgements *(continued)*

Judgements

Current Assets Held for Sale

Seed capital investments are investments issued by the Group for the purpose of supporting new investment strategies. The Group undertakes a full assessment of individual investments to determine the correct treatment within the Group financial statements. Where there is determined to be intention to divest within 12 months of the balance sheet date, these investments are classified as held for sale under IFRS 5. Note 1.19 provides further details on Assets Held for Sale. If the conditions of IFRS 5 are not satisfied then a full IFRS 10 consolidation assessment is undertaken. If it is determined the Group has control the investment will be fully consolidated on a line by line basis into the Group financial statements. Note 1.4 provides further information on the Basis of Consolidation. If it is concluded that the Group does not control the fund then the investment will be treated as a fair value through profit or loss investment under IFRS 9. Note 1.7 provides further details on Financial Instruments.

1.22 EU IFRS not yet applied

The following new accounting pronouncements have also been issued and are not yet effective:

- Definition of a business (Amendments to IFRS 3), issued in October 2018 and effective from 1 January 2020;
- Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7), issued in September 2019 and effective from 1 January 2020;
- Definition of material (Amendments to IAS 1 and IAS 8), issued in October 2018 and effective from 1 January 2020; and
- Revised Conceptual Framework for Financial Reporting, issued in March 2018 and effective from 1 January 2020.

The Group is not expecting these pronouncements to have a significant impact on the Group financial statements.

Notes to the group financial statements (continued)

2. Revenue from contracts with customers

	2019 £000	2018 £000
Management fees	**1,287,253**	1,392,337
Performance fees	**10,817**	12,865
Revenue	**1,298,070**	1,405,202
Less: commission expenses	**(224,237)**	(274,469)
Total net revenue	**1,073,833**	1,130,733

Revenue arose primarily from management fees within Europe.

Disaggregation of revenue

The following table disaggregates management fee revenue by business division which represents the operating structure of the Group.

	2019 £000	2018 £000
Retail	**813,936**	942,914
Institutional	**442,765**	406,338
Asset Management	**1,256,701**	1,349,252
Other	**41,369**	55,950
Revenue	**1,298,070**	1,405,202

3. Auditor's remuneration

Included in profit and loss is the following:	2019 £000	2018 £000
Audit of these Group financial statements	**62**	48
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**627**	640
Audit related assurance services	**777**	651
Total auditor's remuneration	**1,466**	1,339

Amounts receivable by the Company's auditors and its associates in respect of the audit of the financial statements of the M&G Group pension scheme is £26,000 (2018: £27,000).

Notes to the group financial statements (continued)

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2019	2018
Total permanent headcount	**1,987**	1,978
Fixed-term headcount	**64**	79
Total headcount	**2,051**	2,057

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	**336,312**	286,855
Social security costs	**41,032**	35,320
Defined benefit schemes	**5,726**	6,470
Pension (credit)/debit*	**(35,200)**	4,700
Defined contribution schemes	**18,373**	15,133
Share-based payments	**4,501**	1,030
Total payroll costs	**370,744**	349,508

*Pension credit recognised as a result of a change to pension scheme rules. For further details see Note 18.

5 Directors' remuneration

Directors remuneration is disclosed in note 26.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,158,000 (2018: £1,744,000), and company pension contributions of £nil (2018: £nil) were made to a defined contribution scheme on their behalf. The highest paid director did not exercise any share options during the year, however they did receive Prudential plc or M&G plc share awards under long term incentive schemes.

	Number of directors	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	2
The number of directors who exercised share options was:	**-**	-

M&G plc also provides protection for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc and certain directors of associated companies including, and where applicable, financial exposure incurred in their capacity as a director of the Company and other companies within the Group.

A qualifying third party indemnity in favour of J W Foley in relation to his directorship of the Company has been in force from his appointment date and remains in force at the date of this report.

Notes to the group financial statements (continued)

6 Financial income and expense

Recognised in profit or loss

Financial income	2019 £000	2018 £000
Net gain on financial instruments designated at fair value through profit or loss	**21,846**	-
Net gain on disposal of Right of Use asset and related lease liability	**52,874**	-
Interest income on unimpaired financial assets	**5,150**	6,212
Distribution and dividend income on financial assets designated at fair value through profit or loss	**3,687**	4,554
Net foreign exchange gain	-	8,521
Net interest on net defined benefit pension plan assets	**4,300**	2,824
Total finance income	**87,857**	22,111

Financial expense	2019 £000	2018 £000
Net loss on financial instruments designated at fair value through profit or loss	-	23,158
Total interest expense on financial liabilities measured at amortised cost	**321**	3,058
Net foreign exchange loss	**5,863**	-
Interest expense on lease liabilities	**8,337**	-
Total finance expense	**14,521**	26,216

Notes to the group financial statements (continued)

7 Tax

Recognised in the profit and loss account	**2019**	2018
	£000	£000
Current tax expense		
Current year	**57,099**	66,015
Adjustment for prior year	**(394)**	(4,119)
Foreign tax	**7,386**	10,953
Current tax expense	**64,091**	72,849
Deferred tax expense		
Origination and reversal of temporary differences	**10,931**	5,247
Reduction in tax rates	**(132)**	547
Adjustments for prior years	**(361)**	(2,677)
Total deferred tax	**10,438**	3,117
Tax expense in profit and loss account	**74,529**	75,966

Income tax recognised in other comprehensive income	**2019**	2018
	£000	£000
Foreign exchange translation differences	**158**	(95)
Remeasurement of defined benefit pension asset	**504**	4,347
Total tax recognised in other comprehensive income	**662**	4,252

Tax recognised directly in equity	**2019**	2018
	£000	£000
Current tax recognised directly in equity	**(19)**	(483)
Deferred tax recognised directly in equity	**163**	973
Total tax recognised directly in equity	**144**	490

Reconciliation of effective tax rate

	2019	2018
	£000	£000
Profit before tax of group entities	**419,920**	423,687
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	**79,784**	80,500
Effect of tax rates in foreign jurisdictions	**1,371**	3,035
Reduction in tax rate on deferred tax balances	**(132)**	547
Non-deductible expenses	**801**	2,325
Tax exempt revenues	**(6,103)**	(3,561)
Share options	**-**	(84)
Over provided in prior years	**(754)**	(6,796)
Foreign exchange	**(438)**	-
Tax expense in profit and loss account	**74,529**	75,966

Notes to the group financial statements (continued)

7 Tax *(continued)*

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce any future current tax charge for the company accordingly.

8 Property, plant and equipment

	Leasehold improvements £000	Equipment & fittings £000	Motor Vehicles £000	Right of Use Asset £000	Total £000
Cost					
Balance at 1 January 2019	120,872	4,752	539	-	126,163
Adoption of IFRS 16	-	-	-	257,012[1]	257,012
Acquisitions	23,311	786	-	2,589	26,686
Disposals	(117,061)	-	(178)	(244,414)	(361,653)
Effect of movements in foreign exchange	(94)	(109)	-	(440)	(643)
Balance at 31 December 2019	27,028	5,429	361	14,747	47,565
Depreciation					
Balance at 1 January 2019	17,943	3,883	218	-	22,044
Depreciation charge for the year	8,110	297	50	12,840	21,297
Depreciation on disposals	-	-	(105)	(10,024)	(10,129)
Effect of movements in foreign exchange	(39)	(57)	-	(135)	(231)
Balance at 31 December 2019	26,014	4,123	163	2,681	32,981
Net book value					
At 1 January 2019	102,929	869	321	-	104,119
At 31 December 2019	**1,014**	**1,306**	**198**	**12,066**	**14,584**

[1] Balance represents £291m right of use assets adopted under IFRS, including £276m in respect of 10 Fenchurch Avenue, less £34m of lease incentives brought forward.

Upon adoption of IFRS 16 Leases, in respect of its leased property at 10 Fenchurch Avenue, London, the Group recognised a right of use asset and corresponding lease liability as at 1 January 2019. During the year the interest in the lease was transferred to a fellow M&G plc Group undertaking giving rise to a gain of £52.9m which is shown within Financial Income. Leasehold improvements in respect of the property of £97.8m, which had been capitalised in the prior year, have been transferred to the same group undertaking through intercompany account. Additionally £12.5m of leasehold improvement costs which could not be transferred were written off through profit and loss.

Notes to the group financial statements (continued)

8 Property, plant and equipment *(continued)*

	Leasehold improvements £000	Equipment & fittings £000	Motor Vehicles £000	Total £000
Cost				
Balance at 1 January 2018	18,927	4,576	507	24,010
Acquisitions	101,909	525	176	102,610
Disposals	-	(375)	(144)	(519)
Effect of movements in foreign exchange	36	26	-	62
Balance at 31 December 2018	120,872	4,752	539	126,163
Depreciation				
Balance at 1 January 2018	16,579	3,724	194	20,497
Depreciation charge for the year	1,357	501	86	1,944
Depreciation on disposals	-	(335)	(62)	(397)
Effect of movements in foreign exchange	7	(7)	-	-
Balance at 31 December 2018	17,943	3,883	218	22,044
Net book value				
At 1 January 2018	2,348	852	313	3,513
At 31 December 2018	**102,929**	**869**	**321**	**104,119**

Notes to the group financial statements (continued)

9 Intangible assets

	Computer Software £000	Deferred Acquisition Costs £000	Total £000
Cost			
Balance at 1 January 2019	882	38,349	39,231
Additions	-	371	371
Disposals	-	-	-
Effect of movements in foreign exchange	-	(159)	(159)
Balance at 31 December 2019	882	38,561	39,443
Depreciation			
Balance at 1 January 2019	882	20,116	20,998
Amortisation charge for the year	-	2,543	2,543
Depreciation on disposals	-	-	-
Effect of movements in foreign exchange	-	-	-
Balance at 31 December 2019	882	22,659	23,541
Net book value			
At 1 January 2019	-	18,233	18,233
At 31 December 2019	**-**	**15,902**	**15,902**

	Computer Software £000	Deferred Acquisition Costs £000	Total £000
Cost			
Balance at 1 January 2018	970	-	970
Reclassification from debtors	-	23,158	23,158
Acquisitions	-	15,149	15,149
Disposals	(77)	-	(77)
Effect of movements in foreign exchange	(11)	42	31
Balance at 31 December 2018	882	38,349	39,231
Depreciation			
Balance at 1 January 2018	968	-	968
Reclassification from debtors	-	16,632	16,632
Amortisation charge for the year	-	3,484	3,484
Depreciation on disposals	(77)	-	(77)
Effect of movements in foreign exchange	(9)	-	(9)
Balance at 31 December 2018	882	20,116	20,998
Net book value			
At 1 January 2018	2	-	2
At 31 December 2018	**-**	**18,233**	**18,233**

Notes to the group financial statements (continued)

9 Intangible assets *(continued)*

Amortisation charge

The amortisation charge is recognised in operating expenses in the profit and loss account.

10 Investments in subsidiaries and associates

10 (a) Subsidiaries

The Group has the following investments in subsidiary entities:

Group Subsidiaries	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
M&G Alternatives Investment Management Limited	10 Fenchurch Avenue, London, EC3M 5AG	2059989	Ordinary shares	100%	100%
M&G Financial Services Limited	10 Fenchurch Avenue, London, EC3M 5AG	923891	Ordinary shares	100%	100%
M&G Founders 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	4401042	Ordinary shares	100%	100%
M&G General Partner Inc.	Mary Street, PO BOX 908GT George Town Ky1-9002	151319	Ordinary shares	100%	100%
M&G (Guernsey) Limited	Dory Court, St Peter Port, Guernsey	21432	Ordinary shares	100%	100%
M&G IMPPP 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	4382172	Ordinary shares	100%	100%
M&G Investments (Americas) Inc	251 Little Falls Drive, Wilmington, DE, 19801	6843211	Ordinary shares	100%	100%
M&G Investments (Australia) Pty Ltd	Level 16, Grosvenor Place, 225 George Street, Sydney, Australia, NSW 2	629 169 160	Ordinary shares	100%	100%
M&G International Investments Nominees Limited	10 Fenchurch Avenue, London, EC3M 5AG	4195540	Ordinary shares	100%	100%
M&G International Investments Switzerland AG	Talstrasse 66, 8001 Zurich, Switzerland	CHE-286.542.158	Ordinary shares	100%	100%
M&G International Investments SA	34-38 Avenue de la Liberte, L-1930, Luxembourg	B 213.164	Ordinary shares	100%	100%
M&G Investment Management Limited	10 Fenchurch Avenue, London, EC3M 5AG	936683	Ordinary shares	100%	100%
M&G Investments (Hong Kong) Limited	6th Floor, Alexandra House, Hong Kong	1730458	Ordinary shares	100%	100%
M&G Investments Japan Co., LTD	3-1 Toranomon, 4 Chome Minato-ko, Tokyo, Japan	010401 124078	Common stock	100%	100%
M&G Investments (USA) Inc	251 Little Falls Drive, Wilmington, DE, 19808	7520082	Common stock	100%	-
M&G Investments (Singapore) Pte. Ltd.	10 Marina Boulevard, 31-03 Marina Bay Financial Centre, Singapore	201131425R	Ordinary shares	100%	100%
M&G FA Limited	10 Fenchurch Avenue, London, EC3M 5AG	1048359	Ordinary shares	100%	100%
M&G Management Services Limited	10 Fenchurch Avenue, London, EC3M 5AG	5286403	Ordinary shares	100%	100%
M&G Nominees Limited	10 Fenchurch Avenue, London, EC3M 5AG	3469213	Ordinary shares	100%	100%
M&G Platform Nominees Limited	10 Fenchurch Avenue, London, EC3M 5AG	09581702	Ordinary shares	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries *(continued)*

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
M&G PFI 2018 GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10954144	Ordinary shares	100%	100%
M&G PFI 2018 GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10954003	Ordinary shares	100%	100%
M&G PFI 2018 GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306178	Limited Liability Partnership Capital	100%	100%
M&G PFI Carry Partnership 2016 LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL028237	Limited Partner Capital	25%	25%
M&G PFI Partnership 2018 LP	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ	SL032282	Partner Capital	100%	100%
M&G Luxembourg S.A.	34-38, Avenue de la Liberte, L-1930, Luxembourg	B170483	Ordinary shares	100%	100%
M&G Real Estate Asia Holding Company Pte. Ltd	10 Marina Boulevard, 31-03 Marina Bay Financial Centre, Singapore	201543062C	Ordinary shares	67%	67%
M&G Real Estate Asia Pte. Ltd	10 Marina Boulevard, 31-03 Marina Bay Financial Centre, Singapore	200610218 G	Ordinary shares	67%	67%
M&G Real Estate Funds Management SARL	34-38, Avenue de la Liberte, L-1930, Luxembourg	B175545	Ordinary shares	100%	100%
M&G Real Estate Japan Co. Ltd	Shiroyama Trust Tower, Tokyo, Japan	0100-01-148048	Common stock	67%	67%
M&G Real Estate Korea Co. Ltd	15th Floor, Kyobo Building, 1 Jongno, Jongno-gu, Seoul, 110-714, Korea	110111-4931831	Common stock	67%	67%
M&G Real Estate Limited	10 Fenchurch Avenue, London, EC3M 5AG	3852763	Ordinary shares	100%	100%
M&G Real Estate UKEV (GP) LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC418419	Limited Liability Partnership Capital	100%	100%
M&G Real Estate UKEV 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	11163869	Ordinary shares	100%	100%
M&G Real Estate UKEV (GP1) LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC420581	Limited Liability Partnership Capital	100%	100%
M&G RE Espana 2016 S.L.	Plaza de Colon, Torre II, Planta 14, 28046 Madrid		Ordinary shares	100%	100%
M&G RED Employee Feeder GP Limited	7 Exchange Crescent, Edinburgh, EH3 8AN	SC369804	Ordinary shares	100%	100%
M&G RED II Employee Feeder GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC430540	Ordinary shares	100%	100%
M&G RED II GP Limited	Third Floor, La Plaiderie Chambers La Plaiderie, St Peter Port, GY1 1WG, Guernsey	55378	Ordinary shares	100%	100%
M&G RED II SLP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC430535	Ordinary shares	100%	100%
M&G RED II SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL011176	Limited Partner Capital	28%	28%
M&G RED III Employee Feeder GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC434132	Ordinary shares	100%	100%
M&G RED III GP Limited	Third Floor, La Plaiderie Chambers La Plaiderie, St Peter Port, GY1 1WG, Guernsey	55393	Ordinary shares	100%	100%
M&G RED III SLP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC434193	Ordinary shares	100%	100%
M&G RED III SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL011512	Limited Partner Capital	25%	25%
M&G RED SLP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC369803	Ordinary shares	100%	100%
M&G RPF GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	8407747	Ordinary shares	100%	100%
M&G RPF Nominee 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	8409413	Ordinary shares	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries *(continued)*

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
M&G RPF Nominee 2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	8410027	Ordinary shares	100%	100%
M&G Securities Limited	10 Fenchurch Avenue, London, EC3M 5AG	90776	Ordinary shares	100%	100%
M&G SFF (CIP GP) Sárl	51 Avenue J.F. Kennedy, L-1855, Luxembourg, Luxembourg	B220304	Ordinary shares	100%	100%
M&G SFF (GP) Sárl	51 Avenue J.F. Kennedy, L-1855, Luxembourg, Luxembourg	B219359	Ordinary shares	100%	100%
M&G SIF Management Company (Ireland) Limited	78 Sir John Rogerson's Quay, Dublin 2	511747	Ordinary shares	100%	100%
M&G UKEV (SLP) General Partner LLP	10 Fenchurch Avenue, London, EC3M 5AG 0HH	OC420257	Limited Liability Partnership Capital	100%	100%
M&G UKEV (SLP) LP	10 Fenchurch Avenue, London, EC3M 5AG	SL032565	Limited Partner Capital	50%	60%
M&G UK Property GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	8462545	Ordinary shares	100%	100%
M&G UK Property Nominee 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	8494699	Ordinary shares	100%	100%
M&G UK Property Nominee 2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	8494704	Ordinary shares	100%	100%
M&G UK Shared Ownership Limited	10 Fenchurch Avenue, London, EC3M 5AG	12199619	Ordinary shares	100%	-
M&G UKCF II GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	8214036	Ordinary shares	100%	100%
Calvin F1 GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC472933	Ordinary shares	100%	100%
Calvin F2 GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC468691	Ordinary shares	100%	100%
Canada Property (Trustee) No. 1 Limited	180 Dundas Street West, Suite 1200, Toronto ON MSG 1 Z8, Canada	1060750-9	Ordinary shares	100%	100%
Canada Property Holdings Limited	10 Fenchurch Avenue, London, EC3M 5AG	4415746	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10713853	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners GP LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC416887	Limited Liability Partnership Capital	65%	100%
Digital Infrastructure Investment Partners SLP GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10715067	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners SLP GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10715126	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306056	Limited Liability Partnership Capital	100%	100%
Embankment GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	10747140	Ordinary shares	100%	100%
Embankment Nominee 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10749686	Ordinary shares	100%	100%
Embankment Nominee 2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	10750266	Ordinary shares	100%	100%
Falan GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC463668	Ordinary shares	100%	100%
Genny GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC536481	Ordinary shares	100%	100%
Genny GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC547302	Ordinary shares	100%	100%
Genny GP 1 LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC414130	Limited Liability Partnership Capital	100%	100%
George Digital GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC576789	Ordinary shares	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
George Digital GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC577098	Ordinary shares	100%	100%
George Digital GP 1 LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306174	Limited Liability Partnership Capital	100%	100%
GGE GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC504237	Ordinary shares	100%	100%
Green GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC569021	Ordinary shares	100%	100%
Greenpark (Reading) General Partner Limited	10 Fenchurch Avenue, London, EC3M 5AG	6529374	Ordinary shares	100%	100%
Greenpark (Reading) Nominee No.1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	6562317	Ordinary shares	100%	100%
Greenpark (Reading) Nominee No.2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	6562424	Ordinary shares	100%	100%
GS R100 GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	SC620882	Ordinary shares	100%	-
Holborn Bars Nominees Limited	10 Fenchurch Avenue, London, EC3M 5AG	2334947	Ordinary shares	100%	100%
Infracapital (AIRI) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC553164	Ordinary shares	100%	100%
Infracapital (Bio) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC516021	Ordinary shares	100%	100%
Infracapital (GC) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC500778	Ordinary shares	100%	100%
Infracapital (IT PPP) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC550062	Ordinary shares	100%	100%
Infracapital (Leo) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	611979	Ordinary shares	100%	100%
Infracapital (Sense) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC553170	Ordinary shares	100%	100%
Infracapital (TLSB) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC486888	Ordinary shares	100%	100%
Infracapital ABP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC481727	Ordinary shares	100%	100%
Infracapital (Belmond) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC576332	Ordinary shares	100%	100%
Infracapital (Churchill) GP 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	11460502	Ordinary shares	100%	100%
Infracapital (Churchill) GP LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC423386	Limited Liability	100%	100%
Infracapital CI II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC387664	Ordinary shares	100%	100%
Infracapital DF II GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305002	Limited Liability Partnership Capital	100%	100%
Infracapital DF II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC389185	Ordinary shares	100%	100%
Infracapital Employee Feeder GP 1 LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305006	Limited Liability Partnership Capital	100%	100%
Infracapital SLP EF II GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305007	Limited Liability Partnership Capital	100%	100%
Infracapital Employee Feeder GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC347134	Ordinary shares	100%	100%
Infracapital F1 GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09180200	Ordinary shares	100%	100%
Infracapital F2 GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09183883	Ordinary shares	100%	100%
Infracapital F2 GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09180249	Ordinary shares	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
Infracapital (Gigaclear) GP 1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC602700	Ordinary shares	100%	100%
Infracapital (Gigaclear) GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC602698	Ordinary shares	100%	100%
Infracapital (Gigaclear) GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306478	Limited Liability Partnership Capital	100%	100%
Infracapital (Novos) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC636445	Ordinary shares	100%	-
Infracapital GP 1 LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC395042	Limited Liability Partnership Capital	100%	100%
Infracapital (Gigaclear) GP 1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC602700	Ordinary shares	100%	100%
Infracapital GP 2 LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC395043	Limited Liability Partnership Capital	100%	100%
Infracapital GP II Limited	10 Fenchurch Avenue, London, EC3M 5AG	7372931	Ordinary shares	100%	100%
Infracapital GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	5455448	Ordinary shares	100%	100%
Infracapital Greenfield DF GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306200	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners 1 SLP GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC554629	Ordinary shares	100%	100%
Infracapital Greenfield Partners 1 SLP GP2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC554631	Ordinary shares	100%	100%
Infracapital Greenfield Partners 1 SLP EF GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305944	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I Employee Feeder GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306040	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I Employee Feeder LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL030887	Limited Partner Capital	76%	76%
Infracapital Greenfield Partners I GP 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09901632	Ordinary shares	100%	100%
Infracapital Greenfield Partners I GP 2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09901644	Ordinary shares	100%	100%
IGP Realisations I GP LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC403293	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL029954	Limited Partner Capital	37%	37%
Infracapital Greenfield Partners I SLP2 GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306184	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I SLP2 LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL032352	Limited Partner Capital	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
Infracapital Greenfield Partners I Subholdings GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578139	Ordinary shares	100%	100%
Infracapital Greenfield Partners II GP S.à r.l	6 rue Eugène Ruppert, L-2453, Luxembourg	B231185	Ordinary shares	100%	-
IGP Realisation I Subholdings GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306189	Limited Liability Partnership Capital	100%	100%
Infracapital Partners II Subholdings GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578127	Ordinary shares	100%	100%
Infracapital Greenfield Partners II Subholdings GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	12338577	Ordinary shares	100%	-
Infracapital Greenfield Partners I Subholdings GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578139	Ordinary shares	100%	100%
Infracapital Greenfield Partners II Subholdings GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	12338790	Ordinary shares	100%	-
IP Realisations II Subholdings GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306188	Limited Liability Partnership Capital	100%	100%
Infracapital Partners III GP S.a.r.l	6, rue Eugene Ruppert, L-2453 Luxembourg	B217179	Ordinary shares	100%	100%
Infracapital Partners III Subholdings (Euro) GP LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC422333	Limited Liability Partnership Capital	100%	100%
Infracapital Partners III Subholdings GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	11347638	Ordinary shares	100%	100%
Infracapital Partners III Subholdings GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	11347641	Ordinary shares	100%	100%
Infracapital Partners III Subholdings (Sterling) GP LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC422334	Limited Liability Partnership Capital	100%	100%
Infracapital RF GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC557453	Ordinary shares	100%	100%
Infracapital Sisu GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC521443	Ordinary shares	100%	100%
Infracapital SLP II GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305000	Limited Liability Partnership Capital	100%	100%
Infracapital SLP II LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL008358	Limited Partner Capital	34%	34%
Infracapital SLP Limited	10 Fenchurch Avenue, London, EC3M 5AG	5455461	Ordinary shares	100%	100%
London Green Investments II SLP2 GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC648887	Ordinary shares	100%	-
London Stone Investments F3 Employee Feeder GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306260	Limited Liability Partnership Capital	100%	100%
London Stone Investments F3 I Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC583847	Ordinary shares	100%	100%
London Stone Investments F3 II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC583856	Ordinary shares	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
London Stone Investments F3 SP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306261	Limited Liability Partnership Capital	100%	100%
PPM Capital (Holdings) Limited	10 Fenchurch Avenue, London, EC3M 5AG	3852755	Ordinary shares	100%	100%
PPM Managers GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC452033	Ordinary shares	100%	100%
PPM Ventures (Asia) Limited	Gloucester Tower, 15 Queens Road, Central Hong Kong	663554	Ordinary shares	100%	100%
Pru Limited	10 Fenchurch Avenue, London, EC3M 5AG	05996709	Ordinary shares	100%	-
Prudence Limited	10 Fenchurch Avenue, London, EC3M 5AG	3804350	Ordinary shares	100%	-
Prudential / M&G UKCF GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	6570276	Ordinary shares	100%	100%
Prudential GP Limited	Craigforth, Stirling, FK9 4UE	SC206683	Ordinary shares	100%	100%
Prudential Greenfield GP LLP	10 Fenchurch Avenue, London, EC3M 5AG	OC394904	Limited Liability Partnership Capital	100%	100%
Prudential Greenfield GP1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09183905	Ordinary shares	100%	100%
Prudential Greenfield GP2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	09183929	Ordinary shares	100%	100%
Prudential Greenfield SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC304997	Limited Liability Partnership Capital	100%	100%
Prudential Property Investment Managers Limited	10 Fenchurch Avenue, London, EC3M 5AG	08732334	Ordinary shares	100%	100%
Prudential Nominees Limited	10 Fenchurch Avenue, London, EC3M 5AG	5428991	Ordinary shares	100%	-
Prudential Trustee Company Limited	10 Fenchurch Avenue, London, EC3M 5AG	1863305	Ordinary shares	100%	100%
Prudential Unit Trusts Limited	10 Fenchurch Avenue, London, EC3M 5AG	1796126	Ordinary shares	100%	100%
Prudential Loan Investments GP S.a.r.l	Rue Hildegard von Bingen 1, 1282 Luxembourg, Luxembourg	B212677	Ordinary shares	100%	100%
Prudential Credit Opportunities GP S.a.r.l	Rue Hildegard von Bingen 1, 1282 Luxembourg, Luxembourg	B210013	Ordinary shares	100%	100%
Rift GP 1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC425352	Ordinary shares	100%	100%
Rift GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC425365	Ordinary shares	100%	100%
Selly Oak Shopping Park (General Partner) Ltd	10 Fenchurch Avenue, London, EC3M 5AG	11104396	Ordinary shares	100%	100%
Selly Oak Shopping Park (Nominee 1) Limited	10 Fenchurch Avenue, London, EC3M 5AG	11105117	Ordinary shares	100%	100%
Selly Oak Shopping Park (Nominee 2) Ltd	10 Fenchurch Avenue, London, EC3M 5AG	11105380	Ordinary shares	100%	100%
Stableview Limited	10 Fenchurch Avenue, London, EC3M 5AG	5506654	Ordinary shares	100%	100%
Staple Nominees Limited	10 Fenchurch Avenue, London, EC3M 5AG	2076846	Ordinary shares	100%	100%

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
The First British Fixed Trust Company Limited	10 Fenchurch Avenue, London, EC3M 5AG	255830	Ordinary shares	100%	100%
M&G (Lux) Global Recovery Fund	49 Avenue, J.F. Kennedy, L-1855, Luxembourg	B210615	SICAV shares	52%	100%
M&G Offshore Global Macro Bond Fund Limited	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT	1-52477	Class I shares	100%	100%
M&G Offshore UK Inflation Linked Corp Bond Fund Limited	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT	1-54058	Class A Shares	100%	100%
M&G (Lux) Emerging Markets Corporate ESG Bond Fund	49, Avenue J.F. Kennedy, L – 1855 Luxembourg	B210615	SICAV Shares	55%	-
M&G (Lux) Global Enhanced Equity Premia Fund	49, Avenue J.F. Kennedy, L – 1855 Luxembourg	B210615	SICAV Shares	98%	-

Additional information concerning certain of the subsidiaries listed above are described below:

'M&G (LUX) INVESTMENT FUNDS 1' is a Luxembourg societe d'investissement capital variable ('SICAV'), with registration number B210615, and is an umbrella fund with segregated liability between sub-funds. As at 31 December 2019, three of the sub-funds of 'M&G (LUX) INVESTMENTS FUNDS 1' are Group subsidiaries.

'M&G FUNDS 1 ICAV' is an Irish Collective Asset–Management Vehicle ('ICAV') with registration number C143465, and is an umbrella fund with segregated liability between sub-funds. As at 31 December 2019, none of the thirty nine sub-funds of 'M&G FUNDS 1 ICAV' are Group subsidiaries. During the period, the Group's holding in four of the ICAV holdings listed above, were diluted to an extent that they are now classified as Financial assets at fair value through profit and loss.

Non-controlling interests are not material to the Group. There are no significant restrictions on the ability of any subsidiary with non-controlling interests to transfer funds to the Group in the form of cash dividends, or to repay loans or advances.

The Group holds less than 50% of the limited partner capital of the seven limited partnerships listed above, but holds power over these limited partnerships as other Group subsidiaries act as the partnerships general partner and manager. This power combined with the significant variability of returns (proportionate to the ownership percentage of the limited partner capital) results in these partnerships being Group subsidiaries. The limited partnerships consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the "Partnerships Act"). Certain limited partnerships have taken advantage of the exemption under the Partnerships Act regulation 7 from the requirements of regulations 4 to 6 of the Partnerships Act, on the basis that these limited partnerships are dealt with on a consolidated basis in these Group financial statements.

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (b) Associates

The Group has the following investments in associate entities:

Group Associates	Registered Office	Registered number	Class of equity held	Ownership % 2019	Ownership % 2018
Innisfree M&G PPP LLP	1st Floor, Boundary House 91-93 Charterhouse Street, London, EC1M 6HR	OC301650	Limited Liability Partnership Member	35%	35%
Prudential Portfolio Managers (South Africa) (Pty) Limited	PO Box 44813, Claremont 7735, South Africa	1993/004503/07	Ordinary shares	49.99%	49.99%
			and A class shares	75%	75%
PGF Management Company (Ireland) Limited	25-28 North Wall Quay, Dublin 1, Ireland	586964	Ordinary shares	50.0001%	50.0001%
M&G Feeder of Global Emerging Markets (GBP Class I Accumulation) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin2 Ireland	C143465	ICAV shares	-	21.38%
M&G Offshore Global High Yield Bond Limited	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT	1-37562	Class I shares	-	39.34%

The Group's share of total recognised profit or loss in the associates is disclosed below:

	2019 £'000	2018 £'000
Prudential Portfolio Managers (South Africa) (Pty) Limited	**14,654**	16,026
Profit from individually immaterial associates	**263**	325
Total share of profit of associates	**14,917**	16,351

The Group's investments in associates are disclosed below:

	2019 £'000	2018 £'000
Prudential Portfolio Managers (South Africa) (Pty) Limited	**37,034**	36,706
Carrying amount of individually immaterial associates	**492**	773
Total investments in associates	**37,526**	37,479

Prudential Portfolio Managers (South Africa) (Pty) Limited ('PPM SA'), based at Claremont in Cape Town, is the only material Group associate. PPM SA provides fund management services to predominantly African based retail and institutional investors.

The Group holds 49.99% of PPM SA voting rights. Although the Group holds 75% of 'A' class shares in PPM SA, the voting rights attached to these shares are negligible and combined with the 49.99% of ordinary shares held; the Group does not hold sufficient power through voting rights or other means to control PPM SA.

PPM SA must adhere to South African regulatory capital requirements that could potentially limit its ability to pay cash dividends. There are no other major restrictions on the ability of any associate to transfer funds to the Group in the form of cash dividends, or to repay loans or advances.

Notes to the group financial statements (continued)

10 Investments in subsidiaries and associates *(continued)*

10 (b) Associates *(continued)*

Financial information included in the PPM SA financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, is disclosed immediately below:

	2019 £'000	2018 £'000
Current assets	630,133	521,517
Non-current assets	63,634	60,276
Current liabilities	(611,991)	(503,265)
Non-current liabilities	(4,173)	-
Net Assets (100% of PPM SA)	77,603	78,528
Group's share of net assets:		
- attributable to PPM SA ordinary shares	36,757	36,433
- attributable to PPM SA A-class shares	277	274
Group's carrying amount of associate	37,034	36,707
Revenue (PPM SA)	67,944	73,349
Profit from continuing operations (PPM SA)	20,824	22,568
Total comprehensive income (PPM SA)	20,824	22,568
Group's share of PPM SA's total comprehensive income	14,654	16,026
Group's share of dividends from PPM SA	14,308	15,840

Notes to the group financial statements (continued)

11 Other financial assets

	2019 £000	2018 £000
Current		
Financial assets designated at fair value through profit or loss	**55,804**	91,063
Related party loans	**103,575**	415,348
	159,379	506,411
Non-current		
Financial assets designated at fair value through profit or loss	**145,683**	94,696
	145,683	94,696

Related party loans relate to debt investments with other group entities outside the M&G consolidated Group and are carried at cost less any provision for expected credit loss.

The Group's related party loans receivable at 31 December 2019 are set out below.

	Prudential plc £000	PGDS £000	MGPSL £000	**Total £'000**
Opening balance at 1 January 2019	402,464	12,884	-	**415,348**
Drawdowns	-	875	97,762	**98,637**
Repayments	(402,003)	(5,280)	(2,748)	**(410,031)**
Interest received	(2,341)	(90)	-	**(2,431)**
Interest charged	1,880	90	82	**2,052**
Closing balance at 31 December 2019	-	8,479	95,096	**103,575**

The Group's related party loans receivable at 31 December 2018 are set out below.

	Prudential Plc £000	PGDS £000	**Total £'000**
Opening balance at 1 January 2018	186,202	13,167	**199,369**
Drawdowns	215,900	-	**215,900**
Repayments	-	(283)	**(283)**
Interest received	(1,336)	(82)	**(1,418)**
Interest charged	1,698	82	**1,780**
Closing balance at 31 December 2018	402,464	12,884	**415,348**

Prudential Plc loan receivable

All Prudential plc loans have been repaid in full in 2019.

PGDS (UK One) Limited ("PGDS") loan receivable

This loan matures on 1 January 2020 and is interest bearing at the 1 month GBP LIBOR rate.

M&G Prudential Services Limited ("MGPSL") loan receivable

The fitout costs in respect of the 10 Fenchurch Avenue property were transferred to MGPSL in return for an intercompany loan, related to the transfer of the lease interest in the property to the same entity.

Notes to the group financial statements (continued)

12 Other financial liabilities

	2019 £000	2018 £000
Current		
Financial liabilities at fair value through profit or loss	-	753
Related party loans	-	100,734
	-	101,487

Financial liabilities at fair value through profit or loss are forward contract liabilities.

The related party loan as at 31 December 2018, payable to Prudential Capital Limited, was repaid during the year.

13 Held for sale financial assets

	2019 £000	2018 £000
Held for sale financial assets	87,589	98,391

Held for sale financial assets relate to seed investments with an expected divestment date within 12 months of the balance sheet date. The Group intends to sell these assets through the redemption or cancellation of units by the Group on the date of divestment.

Held for sale financial assets have been measured at fair value, with the cost of disposal deemed to be negligible.

Income and expenses in relation to held for sale assets are detailed below:

	2019 £000	2018 £000
Income	5,809	1,569
Expense	-	-
Total net income	5,809	1,569

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets 2019 £000	2018 £000	Liabilities 2019 £000	2018 £000
Property, plant and equipment	594	-	-	110
Employee benefits	14,850	18,905	-	-
Share-based payments	896	1,059	-	-
Pension scheme surplus	440	442	29,621	22,381
Provisions	188	419	-	-
Other	356	632	-	-
Tax assets/liabilities	17,324	21,457	29,621	22,491

Notes to the group financial statements (continued)

14 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year:

	1 Jan 2019 £000	Recognised in profit or loss £000	Recognised in OCI and equity £000	31 Dec 2019 £000
Property, plant and equipment	(110)	704	-	594
Employee benefits	18,905	(4,055)	-	14,850
Share-based payments	1,059	-	(163)	896
Pension scheme surplus	(21,939)	(6,738)	(504)	(29,181)
Provisions	419	(231)	-	188
Other	632	(118)	(158)	356
	(1,034)	(10,438)	(825)	(12,297)

Movement in deferred tax during the prior year:

	1 Jan 2018 £000	Recognised in profit or loss £000	Recognised in OCI and equity £000	31 Dec 2018 £000
Property, plant and equipment	694	(804)	-	(110)
Other financial assets	(30)	30	-	-
Employee benefits	21,534	(2,629)	-	18,905
Share-based payments	2,163	(131)	(973)	1,059
Pension scheme surplus	(18,155)	562	(4,346)	(21,939)
Provisions	423	(4)	-	419
Other	679	(142)	95	632
	7,308	(3,118)	(5,224)	(1,034)

Factors that may affect future tax charges

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred income tax assets of £970,098 (2018: £1,084,228) in respect of losses amounting to £5,706,461 (2018: £5,706,461) that can be carried forward against future taxable income.

15 Trade and other receivables

	2019 £000	2018 £000
Current		
Trade receivables due from related parties	**92,032**	76,983
Other trade receivables	**293,961**	450,372
Interest receivable	**-**	6
Prepayments	**9,118**	7,389
	395,111	534,750
Non-current		
Other trade receivables	**5,155**	11,717
	5,155	11,717

Included within trade and other receivables is £5,155,000 (2018: £11,717,000) expected to be recovered in more than 12 months.

Notes to the group financial statements (continued)

16 Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents	**429,055**	342,632
Cash and cash equivalents per cash flow statement	**429,055**	342,632

17 Trade and other payables

	2019 £000	2018 £000
Current		
Trade payables to related parties	**21,788**	23,958
Other trade payables	**116,850**	297,476
Accrued expenses and deferred income	**282,530**	336,107
	421,168	657,541
Non-current		
Accrued expenses and deferred income	-	761
Other payables	**83,481**	78,393
	83,481	79,154

Included within trade and other payables is £83,481,000 (2018: £79,154,000) expected to be settled in more than 12 months.

18 Pension schemes

The Group participates in a defined contribution and defined benefit pension schemes for the benefit of staff.,

Prudential Staff Pension Scheme 'Defined Contribution Scheme'

The Prudential Staff Pension Scheme 'Defined Contribution Scheme' is a defined contribution scheme, with charges made to the Profit and Loss Account representing the contributions payable in respect of the accounting period.

Prudential Staff Pension Scheme 'Defined Benefit Scheme'

The Prudential Staff Pension Scheme 'Defined Benefit Scheme' (PSPS) is a defined benefit pension scheme that provides benefits based on final pensionable salary. The Scheme has been closed to new members since 2003. It has assets held in separate trustee administered funds and was last subject to a full triennial actuarial valuation as at 5 April 2017 by Willis Towers Watson Limited, actuaries to the Scheme.

The Group is unable to identify its share of the underlying assets and liabilities of PSPS on a consistent and reasonable basis, and therefore accounts for its contributions as if PSPS were a defined contribution scheme.

M&G Group Pension Scheme 'Defined Benefit Scheme'

The M&G Group Pension Scheme ("the Scheme" or "M&GGPS") is a defined benefit pension scheme that provides benefits to its members based on final pensionable salary. The Scheme has been closed to new members since 2003. A surplus is recognised to the extent that the Group is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing services, which have been substantively enacted or contractually agreed.

Notes to the group financial statements (continued)

18 Pension schemes *(continued)*

The Scheme's Trustee company is The First British Fixed Trust Company Limited. The Trustee company has its own Board, which comprises seven directors. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the overall governance of the Scheme and the day to day administration of the Scheme. The Trustee's investment forum comprises three members, one employer nominated and two member nominated. The Scheme is regulated by The Pensions Regulator and information on the regulatory regime in which the Scheme operates can be found at www.thepensionsregulator.gov.uk/.

The Scheme is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Scheme are:

Funding risk – the Trustee measures and manages financial mismatch in two ways. It has set a strategic asset allocation benchmark for the Scheme. It assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities through regular funding updates. The Trustee keeps under review the mortality and other demographic assumptions which could influence the costs of the benefits. These assumptions are considered formally at the triennial valuation.

Asset risk – the Trustee measures and manages asset risk by providing a practical constraint on Scheme investments deviating greatly from the intended approach by setting diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Trustee's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Trustee has recognised the need for some access to liquidity in the short term.

The Scheme was last subject to a full triennial actuarial valuation as at 31 December 2017 by Aon Hewitt Limited, actuaries to the Scheme.

M&G unfunded pension scheme 'Defined Benefit Scheme'

The Group participates in an unfunded pension scheme which has two members. An actuarial valuation took place as at 31 December 2019 by Willis Tower Watson Limited, actuaries to the Scheme.

Changes to scheme rules

In January 2019, following consultation, the Group reached agreement that pensionable salary increases for the members of the defined benefit scheme who earn in excess of £35,000 would be capped after 30 September 2019. Pension benefits will still relate to how many years employees have been active scheme members, as they do now, as long as the employees remain working for the Group.

The pension scheme valuations for the schemes as at 31 December 2019 incorporate the effect of these changes in scheme rules, and the impact is included as a past service credit within the income statement. 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 scheme. The effect of this assumption change is reflected within actuarial gains and losses in the consolidated statement of comprehensive income.

GMP:

In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("GMPs"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. In light of this Court ruling, at 31 December 2019 and 31 December 2018, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for the UK scheme – comprising £5m for M&GGPS as at 31 December 2019 (£5m for M&GGPS as at 31 December 2018)

Notes to the group financial statements (continued)

18 Pension schemes *(continued)*

M&G Defined Benefit Schemes

Pension scheme surplus

	2019 £000	2018 £000
Defined benefit asset	**663,080**	597,800
Defined benefit liability	**(491,657)**	(469,022)
Total pension scheme surplus	**171,423**	128,778

Fair value of plan assets	2019 £000	2018 £000
At 1 January	**597,800**	616,800
Included in profit or loss		
Interest income on plan assets	**16,150**	15,300
Included in other comprehensive income		
Return on plan assets (excluding interest income)	**59,649**	(28,000)
Other		
Contributions paid by the Group	**7,045**	6,474
Employee contributions	**630**	700
Benefits paid	**(17,775)**	(13,474)
Administration fees	**(419)**	-
Balance at 31 December	**663,080**	597,800

Defined benefit obligation

	2019 £000	2018 £000
At 1 January	**(469,022)**	(510,287)
Included in profit or loss		
Current service cost	**(6,390)**	(7,900)
Past service cost	**35,200**	(4,700)
Interest cost	**(11,850)**	(12,476)
Included in other comprehensive income		
Actuarial remeasurement gain/(loss) arising from:		
- Changes in demographic assumptions	**(13,040)**	14,780
- Changes in financial assumptions	**(44,000)**	15,181
- Experience adjustments	**300**	23,606
Other		
Employee contributions	**(630)**	(700)
Benefits paid	**17,775**	13,474
Balance at 31 December	**(491,657)**	(469,022)
Net pension scheme surplus	**171,423**	128,778

The net amount included in profit or loss is a profit / loss of £33.1m (2018: (£9.8m)), and the net amount included in other comprehensive income is £2.9m (2018: £25.6m).

Notes to the group financial statements (continued)

18 Pension schemes *(continued)*

Defined benefit plan assets	**2019 £000**	2018 £000
Equity instruments	**70,700**	58,700
Corporate bonds	**118,900**	120,800
Government bonds	**252,100**	190,800
Real estate	**82,400**	78,500
Other investments	**28,680**	10,700
Cash and cash equivalents	**110,300**	138,300
Total plan assets	**663,080**	597,800

Included in the amounts above, £313,760,000 (2018: £280,600,000) relates to funds managed by the group. All plan assets with the exception of cash and cash equivalents and other investments, have quoted prices in active markets.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2019 %	2018 %
Discount rate at 31 December	**2.13**	2.80
Future salary increases	**0.00**	3.30
Retail price inflation	**2.96**	3.30
Consumer price inflation	**1.96**	2.30
Future pension increases	**2.96**	3.30

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity.

The assumed pensioner life expectancies on retirement at age 60 years old are as follows:

- Current pensioner aged 60: 28.8 years (male), 30.2 years (female).

In addition, for those retiring in 20 years' time the life expectancies are:

- 30.8 years (male), 32.0 years (female).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions:

	2019 £000	2018 £000
Discount rate – reduced by 0.2%	**24,400**	23,000
Discount rate – increased by 0.2%	**(22,900)**	(21,600)
Lower inflation – reduced by 0.2%	**(15,300)**	(19,000)

In valuing the liabilities of the pension fund at 31 December 2019 mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2019 would have increased by £23,500,000 (2018: £20,200,000) before deferred tax.

Notes to the group financial statements (continued)

18 Pension schemes *(continued)*

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Funding

The Group will pay 34.9% per annum of pensionable salaries in respect of ongoing benefit accrual. Based on salary amounts in December 2019 estimated contributions paid would be £7,045,000 over the year.

Defined contribution plans

The Group participates in a number of defined contribution pension plans. The total expense relating to these plans in the current year was £18,373,000 (2018: £15,133,000).

19 Share-based payments

a) Description of the plans

The Group operates various share-based payment schemes that award M&G plc schemes to participants upon meeting the required vesting conditions. Details of those schemes are stated below:

Discretionary schemes:

Long-term Incentive Plan (LTIP)

Long-term incentive plans are long-term bonus schemes earned over three years, linked to the business performance.

Annual Incentive Plan (AIP)

Certain senior executives participate in the AIP where awards for above-target performance are made in the form of shares which are released after three years.

Group Deferred Bonus Plan (GDBP)

Under these plans, a participant's annual bonus is paid in the form of a share award that vests after 3 years. There are no performance conditions associated with this plan.

Restricted Share Plan (RSP)

Prior to demerger, all discretionary schemes 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, for which the market-based performance condition will now be based on the performance of M&G plc.

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 the Group had the obligation to settle the awards. At the point of demerger, the schemes were converted to equity-settled as the obligation to settle the awards rests with M&G plc.

Notes to the group financial statements (continued)

19 Share-based payments *(continued)*

Approved schemes:

Save As You Earn (SAYE) plans

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remains in employment for three years after the grant date of the options and that the employee satisfying the monthly savings requirement.

Share Incentive Plan (SIP)

In addition, to celebrate the demerger, all eligible employees were provided with M&G plc shares with a value of £2,000. The awards vest subject to the employee remaining in employment for 2 years.

All approved schemes are accounted for as equity-settled as the awards would be settled in M&G plc shares.

The previous approved SAYE and SIP schemes that operated prior to demerger were cancelled with all participants treated as good leavers. This resulted in an incremental expense of £0.8m recorded at the date of demerger. Prior to demerger these schemes were accounted for as equity-settled as Prudential plc had the obligation to settle these awards.

b) Outstanding options and awards

As at 31 December 2019 movements in outstanding options and awards under the Group's share-based compensation plans.

	Outstanding options under SAYE schemes	Awards outstanding under incentive plans
	2019	**2019**
Outstanding as at 21 October	-	2,724,528
Granted	5,582,931	3,112,091
Exercised	-	(119,989)
Outstanding as at 31 December	5,582,931	5,716,630
Options immediately exercisable at 31 December	-	-

Notes to the group financial statements (continued)

19 Share-based payments *(continued)*

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

	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices (£)	Number exercisable
£1 - £2	5,582,931	3.47	1.84	-

c) Fair value of options and awards

The fair value of all awards, except for the LTIP TSR award and the SAYE options, is based on the M&G plc share price at the date of grant.

The determination of the fair value of the LTIP TSR award and the SAYE options requires the use of various assumptions which are disclosed below:

	LTIP	SAYE options
Dividends yield (%)	-	7.30%
Expected volatility (%)	22.50%	20.00%
Risk-free interest rate (%)	0.80%	0.80%
Expected option life (years)	-	3.68
Weighted average exercise price (£)	-	1.84
Weighted average share price at grant date (£)	2.18	2.44
Weighted average fair value at grant date (£)	0.21	0.33

The Group uses the Black-Scholes model to value the SAYE options whereas the TSR performance conditions are valued using a Monte-Carlo 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.

d) Share-based payment expense charged to the income statement

Total expenses recognised in the year in the Group financial statements relating to share-based compensation is as follows:

	As at 31 December 2019 £000	As at 31 December 2018 £000
Share based compensation scheme		
Equity settled share-based payment expense	1,185	990
Cash settled share-based payment expense	-	40
	1,185	1,030

Notes to the group financial statements (continued)

20 Provisions

	Dilapidation Provision £000	Other provision £000	Total £000
Balance at 1 January 2019	6,576	3,902	10,478
Provisions made during the year	730	444	1,174
Provisions used during the year	(1,577)	(3,268)	(4,845)
Provisions reversed during the year	-	-	-
Effect of movements in foreign exchange	(2)	(24)	(26)
Balance at 31 December 2019	**5,727**	**1,054**	**6,781**
Non-current	-	-	-
Current	5,727	1,054	6,781
	5,727	**1,054**	**6,781**

	Dilapidation Provision £000	Other provision £000	Total £000
Balance at 1 January 2018	5,927	5,091	11,017
Provisions made during the year	1,396	272	1,668
Provisions used during the year	-	(1,263)	(1,263)
Provisions reversed during the year	(747)	(203)	(949)
Effect of movements in foreign exchange	-	5	5
Balance at 31 December 2018	**6,576**	**3,902**	**10,478**
Non-current	-	-	-
Current	6,576	3,902	10,478
	6,576	**3,902**	**10,478**

Dilapidation provision – relates to dilapidation costs for properties leased by the Group in London, which are expected to be realised on the expiry of the lease terms.

Other provision – relates to the implementation of IT systems which are expected to be completed over a number of years and amounts to be paid to fund investors.

The provisions reflect the Group's current estimates of amounts and timings.

21 Capital and reserves

Share capital	**2019** **£000**	2018 £000
Authorised		
10,151,907 ordinary shares of 25p each	**2,538**	2,538
Allotted, called up and fully paid		
400,004 (2018: 400,004) ordinary shares of 25p each	**100**	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium

Share premium relates to a capital contribution received from the Group's parent in 2018.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Group financial statements of foreign operations.

Pension reserve

The pension reserve comprises all actuarial gains and losses arising and associated deferred tax.

Dividends

The following dividends were recognised during the period:	**2019** **£000**	2018 £000
On 400,004 ordinary shares of 25p each	**448,870**	196,924

Notes to the group financial statements (continued)

22 Financial instruments

22 (a) Fair values of financial instruments

The carrying value of trade and other receivables, trade and other payables, loans and cash is a reasonable approximation of their fair value. The table below analyses other financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

During the year, £16,553,000 was transferred from level 1 to level 3 (2018: £nil) as a result of level 3 being deemed a more appropriate classification. There were no other transfers during the year.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	2019			
	Carrying Amount £000	**Fair Value Levels Level 1 £000**	**Level 2 £000**	**Level 3 £000**
Equity securities - fund retail book, fund seeding and consolidated fund assets	**163,758**	163,758	-	-
Equity securities - other fund securities	**95,041**	95,041	-	-
Equity securities – excluding fund securities	**6,128**	-	-	6,128
Limited partnership securities	**23,105**	-	-	23,105
Derivative contracts	**1,044**	-	1,044	-
Financial assets designated as fair value through profit or loss (note 11)	**289,076**	**258,799**	**1,044**	**29,233**
Total financial assets at fair value through profit or loss	**289,076**	**258,799**	**1,044**	**29,233**
Total financial instruments carried at fair value	**289,076**	**258,799**	**1,044**	**29,233**

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

	2018			
	Carrying Amount	Fair Value Levels Level 1	Level 2	Level 3
	£000	£000	£000	£000
Equity securities - fund retail book and fund seeding	**188,043**	188,043	-	-
Equity securities - other fund securities	**84,406**	84,406	-	
Equity securities – excluding fund securities	**7,292**	-	-	7,292
Limited partnership securities	**4,005**	-	-	4,005
Debt securities	**405**	-	405	-
Financial assets designated as fair value through profit or loss (note 11)	**284,151**	**272,449**	**405**	**11,297**
Total financial assets at fair value through profit or loss	**284,151**	**272,449**	**405**	**11,297**
Derivative contracts	**(753)**	-	(753)	-
Total financial liabilities at fair value through profit or loss	**(753)**	**-**	**(753)**	**-**
Total financial instruments carried at fair value	**283,398**	**272,449**	**(348)**	**11,297**

The carrying value of equity securities at fair value through profit or loss both designated and held for trading is determined from published trading prices for fund units and shares.

Forward exchange contract derivative fair values are estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The derivative contracts are held to reduce specific market risk exposures and the Group does not apply hedge accounting.

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

22 (a) Fair values of financial instruments *(continued)*

Reconciliation of Level 3 fair value movements:	**2019**
	£000
Opening Balance	11,297
Transfer from level 1 to level 3	16,553
Additions	2,725
Disposals	(1,466)
Revaluation	124
Closing Balance	**29,233**

The fair value of the limited partnership securities is measured by determining the hypothetical share of the limited partnership profits that would be received by the Group, based on liquidating the limited partnership assets at their estimated fair value on the balance sheet date.

The increase / (decrease) effects to the Group of a 0.5% movement in the discount rate are detailed in the below table:

	Financial assets		**Liabilities**		**Equity**	
	2019	2018	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000	**£000**	£000
0.5% increase in discount rate	**2,193**	-	-	-	**2,193**	-
0.5% decrease in discount rate	**(2,311)**	-	-	-	**(2,311)**	-

The level 3 equity securities in 2019 include the Group's investment in Furnival. The net assets of Furnival's property cell are the Group's measure of fair value, the main assumption being the future level of income set against insurance claims on Furnival's pre-existing property cell insurance contracts. A deterioration or improvement in Furnival's property cell portfolio will not have a significant impact on the Group.

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

22 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents.

Trade receivables arise principally as a result of the Group's investment management business, these amounts are monitored regularly.

Credit risk also arises through financial guarantees and loan facilities provided including undrawn loan commitments.

The risk of a particular transaction or portfolio of transactions is viewed in the context of the risk of doing business with the counterparty. The assessment of the level of risk of business with the counterparty is arrived at after a fundamental financial and business analysis of the counterparty with input, where considered appropriate, from analysis provided by objective third parties.

Using the credit assessment of Counterparty Risk and an internal M&G Credit Rating, M&G quantifies counterparty risk by applying its own measures of the probability of default and rating transitions, based on regulatory capital proxies for default risk capital, to provide an estimate of the likelihood of default by counterparties of varying initial credit quality over different time frames.

With regard to the cash and cash equivalents, the Group maintains banking relationships with only major international banks. Counterparty limits with these banks are set and reviewed by the M&G Board and the exposures to these counterparties are regularly monitored.

The Group considers a financial instrument defaulted and therefore Stage 3 for expected credit loss calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As part of a qualitative assessment of whether a customer is in default, the Group monitors whether credit risk has increased significantly in the year by considering the following:

- Changes in the general economic and/or market conditions;
- Significant changes in the operating results or financial position of the borrower
- Expected delay in payment

In order to calculate expected credit losses the Group considers on an individual basis the historic default rate of each asset. Where no historic default rate is available, the Group will apply an expected credit loss to each asset that is greater than 90 days past due.

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

***22 (b) Credit risk** (continued)*

Exposure to credit risk

The maximum exposure to credit risk at the balance sheet date by class of financial instrument, including financial guarantees and undrawn loan commitments not recognised on the consolidated balance sheet was:

	2019 £000	2018 £000
Financial guarantees (note 25)	**1,968**	1,500
Third party loans – undrawn	**4,700**	29,551
Related party loans – undrawn	**9,521**	4,116
Related party loans – drawn (note 11)	**103,575**	415,348
Trade and other receivables (note 15)	**400,266**	546,467
Cash and cash equivalents (note 16)	**429,055**	342,632
	949,084	1,339,614

The ratings for the cash and cash equivalents are as follows, which are as rated by Moody's.

	2019 £000	2018 £000
P-1	**409,649**	319,747
P-2	**13,595**	15,369
Not rated	**5,811**	7,516
	429,055	342,632

The rating for trade receivables and other receivables are detailed below, which are as rated by Moody's. All other financial assets of the Group are generally not rated.

	2019 £000	2018 £000
A+	**54,348**	-
A1	**2,274**	2,698
A2	**82,992**	61,723
Aaa	**53,330**	41,515
Aa1	**186**	110
Aa2	**154,805**	354,579
Aa3	**293**	51,324
Baa1	**324**	225
Baa3	**579**	836
Not rated	**51,135**	33,456
	400,266	546,467

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

22 (b) Credit risk *(continued)*

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	2019	2018
	£000	£000
Not past due	**382,116**	538,708
Past due (0-30 days)	**11,524**	3,050
Past due (31-120 days)	**4,178**	2,725
More than 120 days	**2,448**	1,984
	400,266	546,467

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

22 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group, although solvent, does not have available financial resources to enable it to meet its obligations as they fall due, or that the Group can secure such resources only at excessive cost.

The Group is exposed to short term funding requirements from:

- Intraday cash requirement. This is the Group's main source of liquidity risk.
- The requirement to 'top-up' relevant client money accounts due to the client asset rules (CASS) leads to intra-day liquidity calls.
- The timing of cash paid to clients or received from funds.

In addition to this the Group is exposed to liquidity risk primarily on its trade and other payables and its bank overdrafts.

For loan facilities provided by the Group, undrawn related party loan commitments mature on [TBC] and third party loan commitments are expected to mature over a number of years with the latest being in 2041. All undrawn loan commitments require the borrower to submit a written drawdown notice the business day prior to the date of funding. Maximum undrawn commitment amounts are disclosed above in note 22 (b).

The Group does not enter into collateralised capital market transactions and is not, therefore, exposed to collateral liquidity risk.

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest contractual interest payments and exclude the effect of netting agreements

	2019					2018				
	Carrying Amount £000	**1 year or less £000**	**1 to < 2 Years £000**	**2 to < 5 Years £000**	**5 years and over £000**	Carrying Amount £000	1 year or less £000	1 to < 2 years £000	2 to < 5 years £000	5 years and over £000
Bank overdrafts	-	-	-	-	-	-	-	-	-	-
Trade and other payables	504,649	421,168	42,112	39,994	1,375	736,695	657,541	52,251	26,059	844
Non-derivative financial liabilities										
Derivative financial liabilities	-	-	-	-	-	753	753	-	-	-
	504,649	421,168	42,112	39,994	1,375	737,448	658,294	52,251	26,059	844

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

22 (d) Market risk

Financial risk management

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

The M&G Board is accountable for risk and is responsible for the oversight of the risk management process. The M&G Board is responsible for the risk strategy of the Group, and for determining appropriate risk appetite, tolerance and mitigation methods within which the Group must operate.

Foreign currency risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. The Group is exposed to foreign currency risk through its exposure to non-sterling income, expenses, assets and liabilities of its overseas subsidiaries as well as monetary assets and liabilities denominated in currency other than sterling.

The Group's exposure to foreign currency risk is as follows and is based on the carrying amount for monetary financial instruments of the Group, with the exception of the consolidated funds which are presented under their functional currency:

31 December 2019	**Sterling £'000**	**Euro £'000**	**US Dollar £'000**	**Other £'000**	**Total £'000**
Other financial assets (note 11)	263,782	20,005	20,305	970	305,062
Held for sale financial assets (note 13)	-	87,589	-	-	87,589
Trade receivables (note 15)	261,222	107,939	15,970	6,017	391,148
Prepayments and interest receivable (note 15)	7,807	250	1,061	-	9,118
Cash and cash equivalents (note 16)	298,204	97,133	7,911	25,807	429,055
Trade and other payables (note 17)	(375,929)	(88,654)	(27,052)	(13,014)	(504,649)
Tax payable	(19,451)	(4,497)	-	-	(23,948)
	435,635	**219,765**	**18,195**	**19,780**	**693,375**

31 December 2018	Sterling £'000	Euro £'000	US Dollar £'000	Other £'000	Total £'000
Other financial assets (note 11)	546,927	41,118	8,996	4,065	601,106
Held for sale financial assets (note 13)	-	98,391	-	-	98,391
Trade receivables (note 15)	299,412	149,956	83,626	6,079	539,073
Prepayments and interest receivable (note 15)	3,246	1,840	2,310	-	7,396
Cash and cash equivalents (note 16)	201,930	85,200	23,915	31,587	342,632
Bank overdrafts (note 16)	-	-	-	-	-
Trade and other payables (note 17)	(474,572)	(165,569)	(83,260)	(13,294)	(736,695)
Tax payable	(12,177)	(7,455)	-	(1,096)	(20,728)
Other financial liabilities (note 12)	-	(101,487)	-	-	(101,487)
	564,766	101,994	35,587	27,341	729,688

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

***22 (d) Market risk** (continued)*

Foreign currency risk (continued)

A 10 percent movement on the following currencies against the pound sterling at 31 December would have approximately increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. No allowance has been made for the impact of tax. The analysis is performed on the same basis for the comparative period.

	Equity		Profit or loss	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
€ weakening	**(19,979)**	(9,320)	**(19,979)**	(9,320)
€ strengthening	**24,418**	11,282	**24,418**	11,282
$ weakening	**(1,664)**	(3,235)	**(1,664)**	(3,235)
$ strengthening	**2,032**	3,954	**2,032**	3,954

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's cash balances.

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments is set out below:

	2019	2018
	£000	£000
Variable rate instruments		
Cash and cash equivalents	**429,055**	342,632
Related party loans	**103,575**	415,348
	532,630	757,980

A decrease of 50 basis points in interest rates at the balance sheet date would reduce profit and equity by approximately £2,411,000 (2018: £1,616,000).

An increase of 50 basis points in interest rates at the balance sheet date would increase profit and equity by approximately £2,411,000 (2018: £2,992,000).

Notes to the group financial statements (continued)

22 Financial instruments *(continued)*

22 (d) Market risk *(continued)*

Market equity, bond and property price risk

Market price risk is the risk that the Group will sustain losses through adverse movements in the equity, bond and property markets.

The Group's exposure to equity price risk arises as a result of revenue calculations being based on fund valuations. A one hundred point fall in the Financial Times London Stock All Share ('FTAS') index would reduce 2019 Group net revenue by approximately £6,000,000 (2018: £6,000,000) and also reduce the 2019 profit and equity by approximately £4,860,000 (2018: £4,845,000). An increase of one hundred points in the FTAS would have had an equal and opposite effect on the revenue, profit and equity.

The Group's exposure to the bond market arises as a result of revenue calculations being based on fund valuations. A one hundred points reduction in the basis points would reduce 2019 group net revenue by approximately £16,000,000 (2018: £16,000,000) and also reduce the 2019 profit and equity by approximately £12,960,000 (2018: £12,920,000). An increase of one hundred basis points would have had an equal and opposite effect on revenue, profit and equity.

The Group's exposure to the property market arises as a result of revenue calculations being based on property valuations. A five percent fall in the growth rate of the global property markets would reduce 2019 Group net revenue by approximately £5,000,000 (2018: £5,000,000) and also reduce the 2019 profit and equity by approximately £4,050,000 (2018: £4,037,500). An increase of five percent would have an equal and opposite effect on revenue, profit and equity.

22 (e) Capital management

M&G Group Ltd's capital requirements are calculated as the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 1 capital (regulatory capital) is the minimum amount of capital that a financial institution must hold to meet the requirements as set out in the regulatory handbook and consists of the higher of a fixed overhead requirement, or the sum of credit risk and market risk capital requirements. Pillar 2 is M&G Group Ltd's own assessment of the minimum amount of capital deemed adequate to be held against the risks it has identified. At 31 December 2019, Pillar 2 was the biting capital requirement.

M&G Group Ltd maintains a strong capital base in order to continue as a going concern in both normal and stressed conditions and to provide business confidence to counterparties. The Board and its committees regularly review capital adequacy and the allocation of capital, and capital management impacts are integral to risk-based decision-making by the Board and senior management.

A key part of capital management is the Internal Capital Adequacy Assessment Process ('ICAAP'), which is a forward-looking risk and financial assessment process. Through this process M&G Group Ltd assesses its capital and liquidity adequacy relative to its current and future risk profile under normal and stressed conditions. The process includes analysis of a number of capital and liquidity stress scenarios, reverse stress tests and wind down analysis to ensure M&G Group Ltd has adequate capital and liquidity under a range of severe but plausible conditions. At least annually, the results of the process are documented in an ICAAP report which also includes a detailed description of M&G Group Limit's risk governance and risk management framework. The results of the ICAAP process are used to support management decision-making throughout the business.

Notes to the group financial statements (continued)

23 Interests in structured entities

The Group has interests in structured entities as a result of the management of assets on behalf of its clients. Where the Group hold a direct interest in open-ended investment companies and SICAVs, the interest is accounted for either as a consolidated structured entity or as a financial asset, depending on whether the Group has control over the fund or not.

The Group's interest in structured entities is reflected in the Group's AUM. The Group is exposed to movements in AUM of structured entities through the potential loss of fee income as a result of client withdrawals. Outflows from funds are dependent on investors considerations, asset performance and market sentiment.

The reconciliation of AUM reported by the Group within unconsolidated structured entities is shown below.

	Total AUM	Total AUM outside structured entities	Total AUM within structured entities	Less: AUM within Consolidated structured entities	AUM within Unconsolidated structured entities
	£bn	£bn	£bn	£m	£bn
31 December 2019	275.1	200.2	74.9	17	74.9
31 December 2018	265.2	188.5	76.7	1	76.7

Included in the Group's consolidated net revenue amount is £576 million (2018: £658 million) earned from unconsolidated structured entities.

The table below shows the carrying values of the Group's interest in unconsolidated structured entities, recognised in the consolidated balance sheet, which are equal to the Group's maximum exposure to loss from those interests

	2019	2018
	£m	£m
Trade and other receivables	**52**	235
Trade and other payables	**70**	246
Other financial assets	**259**	272

The main risk the Group faces from its beneficial interests in unconsolidated structured entities arises from a potential decrease in the fair value of the seed capital investments. Note 22 includes further information on the group's exposure to market risk.

The Group does not ordinary provide financial support to any consolidated or unconsolidated structured entity through guarantees over the repayment of borrowings, or otherwise.

There are no contractual obligations or current intentions to provide further financial support in the future.

Notes to the group financial statements (continued)

24 Leases

The Group adopted IFRS 16 on 1 January 2019. For further details see Note 1.2.

Non-cancellable operating lease rentals are payable annually as follows:

	2019	2018
	£000	£000
Less than one year	4,949	7,426
Between one and five years	6,853	80,069
More than five years	106	321,659
	11,908	409,154

Right-of-use assets

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 8):

	Plant and equipment
	£000
NBV	
Balance at 1 January 2019	-
Adoption of IFRS 16	257,012
Additions to right-of-use assets	2,589
Depreciation charge for the year	(2,681)
Derecognition of right-of-use assets	(244,414)
Effect of movements in foreign exchange	(440)
At 31 December 2019	12,066

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	2019
	£000
Interest expense on lease liabilities	8,337

Amounts recognised in statement of cash flows

	2019
	£000
Total cash outflow for leases	2,721

Notes to the group financial statements (continued)

25 Contingencies

Subsidiaries within the Group have provided:

- a guarantee to settle all of Prudential Unit Trusts Limited's outstanding redemption and commission creditors. The maximum amount of this guarantee is £968,000 (2018: £500,000);
- a guarantee and indemnity pursuant to the reinsurance arrangements entered into between Aviva Insurance Limited ('Aviva') and Furnival Insurance Company PCC Limited ('Furnival'). This guarantees to Aviva all monies and liabilities owing to Aviva by Furnival in relation to such reinsurance arrangements. The maximum amount of this guarantee and indemnity is £1m (2018: £1m); and
- indemnities dated 2 May 2014 and 17 November 2014 respectively in favour of Capita Financial Managers Limited on its appointment as Authorised Corporate director/manager of certain funds in the place of Prudential Unit Trusts Limited. These provide that M&G shall indemnify Capita in relation to any claims which relate to acts or omissions arising prior to Capita's appointment, these indemnities expired on 5 May 2016 and 3 November 2016 respectively, except in respect of taxation matters where it may continue for a further 4 years.

26 Related parties

Identity of related parties with which the Group has transacted

As at the balance sheet date the related parties of the Group are members of the ultimate parent company (M&G plc), including associates and joint ventures and any entity controlled by those parties.

Prior to 21 October 2019 the ultimate parent company was Prudential plc, and therefore related party disclosures prior to this date relate to entities within Prudential plc at that time.

Group companies receive management fees from related entities for managing the assets, and in some instances, receive performance fees. The Group earned £171,397,000 (2018: £167,325,000) during the year from investment management fees received from related parties and incurred costs of £13,851,000 (2018: £1,162,000) by related parties in relation to cost recharges.

Prior to demerger, the Group received income from Prudential plc related parties of £5,151,000.

An amount of £92,032,000 was receivable by the Group as at 31 December 2019 (2018: £76,983,000) from related parties. Additionally an amount of £103,575,000 was receivable in the form of loans by the Group as at 31 December 2019 (2018: £415,348,000) from related parties. The Group also received interest of £540,000 (2018: £1,780,000) from these related parties loans, of which £34,000 (2018: £362) was receivable at year end.

Of the amounts receivable in the form of loans by the Group, £92,538,000 was receivable at 31 December 2019 from MGPSL, the balance primarily relates to transferred fit out costs transferred to MGPSL of £97,762,000.

Of the amount due from related parties included as a loan, £nil (2018: £402,464,000) was due from Prudential plc, the ultimate parent of the group in the prior year. The Group received interest of £1,877,215 (2018: £1,698,000) from Prudential plc, of which £nil (2018: £362) was receivable at year end.

Furthermore, during the year ending 31 December 2019, the Group loan due to Prudential Capital was repaid in full (2018: £100,734,000). Interest of £322,000 (2018: £3,059,000) was paid by the Group in respect of this loan, of which £nil (2018: £361,000) was payable at year end.

An amount of £15,414,000 was payable to related parties as at 31 December 2019 (2018: £14,785,000) in relation to cost recharges and pre-paid management fees.

During the year, the Group transferred its property lease for 10 Fenchurch Avenue to M&G Prudential Services Limited ("MGPSL"). See Note 8 and Note 24 for further details.

Notes to the group financial statements (continued)

26 Related parties (continued)

Transactions with key management personnel

The Group also considers transactions with its key management personnel as related party transactions. Key management personnel are defined as the Board of directors of M&G Group Limited. Formerly M&G FA Limited. The aggregate compensation paid or payable to key management for employee services are shown below:

	2019	2018
	£000	£000
Short-term employee benefit	**1,739**	3,846
Long term benefits	**555**	2,549
Pension	**28**	22
Compensation for loss of office	**301**	170
	2,623	6,587

27 Ultimate parent company

The Company is a subsidiary undertaking of M&G plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and copies of these are available to the public and may be obtained from the registered office at 10 Fenchurch Avenue, London, EC3M 5AG. Prior to demerger, the ultimate Parent company was Prudential plc, copies of Consolidated financial statements for Prudential plc are available to the public at the registered office 1 Angel Court London EC2R 7AG.

28 Subsequent events

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

Company Financial Statements

Profit and Loss Account and Other Comprehensive Income

For year ended 31 December 2019

	Note	Company **2019** **£000**	2018 £000
Income from shares in subsidiary undertaking	*4*	**446,900**	196,000
Interest receivable and similar income	*5*	**453**	348
Profit on ordinary activities before tax		**447,353**	196,348
Tax charge on profit on ordinary activities	*7*	**(86)**	(66)
Profit and other comprehensive income for the financial year		**447,267**	196,282

Operating income and profit on ordinary activities before tax for the year relate exclusively to continuing operations as defined by IAS 1.

The accompanying notes form part of these financial statements.

Balance Sheet
As at 31 December 2019

	Note	Company 2019 £000	2018 £000
Fixed assets			
Investment in subsidiary undertaking	7	**39,475**	39,475
Current assets			
Debtors	8	**55,302**	54,849
Cash at bank		**101**	101
Total current assets		**55,403**	54,950
Current liabilities			
Creditors – amounts falling due within one year	9	**125**	39
Net current liabilities		**125**	39
Net assets		**94,753**	94,386
Capital and reserves			
Called up share capital	10	**100**	100
Share premium		**88,000**	88,000
Profit and loss account		**6,653**	6,286
Total equity shareholder's funds		**94,753**	94,386

The Company financial statements were approved by the Board of directors on 9 March 2019 and were signed on its behalf by:

C J Bousfield
Director

Company registered number: 00633480

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
At 31 December 2019

	Note	Called up Share Capital £000	Share Premium £'000	Profit and loss Account £000	Company Total Equity £000
Balance at 1 January 2019		**100**	**88,000**	**6,286**	**94,386**
Profit for the year		-	-	447,267	447,267
Total comprehensive income		-	-	447,267	447,267
Dividends	*10*	-	-	(446,900)	(446,900)
Total transactions with owner		-	-	367	367
Balance at 31 December 2019		**100**	**88,000**	**6,653**	**94,753**

Statement of Changes in Equity
At 31 December 2018

	Note	Called up Share Capital £000	Share Premium £'000	Profit and loss Account £000	Company Total Equity £000
Balance at 1 January 2018		**100**	-	**6,004**	**6,104**
Profit for the year		-	-	196,282	196,282
Total comprehensive income		-	-	196,282	196,282
Dividends	*10*	-	-	(196,000)	(196,000)
Contribution of equity		-	88,000	-	88,000
Total transactions with owner		-	88,000	282	88,282
Balance at 31 December 2018		**100**	**88,000**	**6,286**	**94,386**

The accompanying notes form part of these financial statements.

Notes to the company financial statements

1 Accounting policies

M&G Group Limited (the "Company") is a parent holding company. These Company financial statements present information about the Company on the historical cost basis as an individual undertaking and not in respect of its group.

These Company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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

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

- a cash flow statement and related notes;
- disclosures in respect of capital management;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of the effects of new but not yet effective IFRSs.

As the Group financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next Company financial statements.

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

1.1 Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the Company financial statements are approved. In support of this expectation the directors are unaware of any factors likely to have a material adverse impact on the Company in the foreseeable future.

Following the UK leaving the European Union (EU) on 31 January 2020, the Directors have implemented the Group Brexit plan formed in 2016, which included the establishment of a Luxembourg based super management company and MiFID distribution firm. Both are now fully licensed and operational, managing and distributing M&G EU domiciled funds, products and services.

The Directors continue to monitor political and regulatory developments, and to adjust or activate contingency plans, where necessary. Accordingly, they continue to adopt a going concern basis in preparing the Company financial statements.

Notes to the company financial statements *(continued)*

1 Accounting policies *(continued)*

1.2 Financial instruments

(i) Recognition and initial measurement

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

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at amortised cost.

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

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

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

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

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

Financial liabilities and equity

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

- they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Notes to the group financial statements (continued)

1 Accounting policies *(continued)*

1.2 Financial instruments (continued)

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

(iii) Impairment

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost.

Loss allowances are measured at an amount equal to lifetime expected credit losses, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month expected credit loss.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

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

Investments in securities

Investments in subsidiaries are carried at cost less provision for any impairment.

Trade and other debtors

Trade and other receivables are recognised initially at cost, which materially equates to fair value. Subsequent to initial recognition they are measured at cost less any impairment losses.

Notes to the group financial statements (continued)

1 Accounting policies *(continued)*

1.2 Financial instruments (continued)

Trade and other creditors

Trade and other payables are recognised at cost, which materially equates to fair value. Subsequent to initial recognition they are measured at cost using the effective interest method.

1.3 Income from shares in group undertakings

Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established.

1.4 Interest payable and similar charges

Interest payable is interest on the loan from the subsidiary company. Interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.5 Tax

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

2 Expenses and auditor's remuneration

All staff were employed during the year by M&G FA Limited. Analysis of staff costs, pension commitments and share-based payments is shown in the annual report and financial statements of that company.

Amounts receivable by the Company's auditor in respect of the audit of the Company and Group financial statements is £62,000 (2018: £35,000) and is payable by M&G FA Limited, the immediate subsidiary company. Other amounts paid to the Company's auditor and its associates in respect of services to the Company, have not been disclosed as the information is disclosed on a consolidated basis in note 3 of the Group financial statements.

3 Directors' remuneration

Two of the directors (2018: two) were also directors of M&G FA Limited and received no remuneration in connection with the management of the affairs of the Company. Their remuneration is disclosed in notes 5 and 26 of the Group financial statements.

4 Income from shares in group undertakings

	2019	2018
	£000	£000
Dividend income from subsidiary	**446,900**	196,000

5 Interest receivable and similar income

	2019	2018
	£000	£000
Interest on intercompany balance with subsidiary company	**453**	348

Notes to the group financial statements (continued)

6 Tax

Recognised in the Profit and Loss Account	**2019 £000**	2018 £000
Current UK corporation tax on income for the period	**86**	66
Total tax charge on profit on ordinary activities	**86**	66

Factors affecting tax charge for period

The tax assessed in the period is lower than the standard rate of Corporation tax in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of Corporation tax enacted for the period for which the profits of the Company will be taxed.

Reconciliation of effective tax rate	**2019 £000**	2018 £000
Profit for the year	**447,353**	196,348
Tax on profit at standard UK tax rate of 19.00% (2018: 19%)	**84,997**	37,306
Effects of:		
Income not taxable	**(84,911)**	(37,240)
Tax charge for the period	**86**	66

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce any future current tax charge for the Company accordingly.

7 Fixed asset investments

The Company has the following investment in a subsidiary:

Company Subsidiary	Registered Office	Registered Number	Class of Equity Held	Ownership % 2019	Ownership % 2018
M&G FA Limited	10 Fenchurch Avenue, London, EC3M 5AG	1048359	Ordinary shares	100%	100%

For a list of the indirect subsidiary undertakings, see note 10 of the Group financial statements.

8 Debtors

	2019 £000	2018 £000
Amounts owed by Group undertaking	**55,302**	54,849
Total debtors due within one year	**55,302**	54,849

Notes to the company financial statements *(continued)*

9 Creditors – amounts falling due within one year

	2019 £000	2018 £000
Corporation tax payable	125	39
	125	39

10 Capital and reserves

Share capital

	2019 £000	2018 £000
Authorised		
10,151,907 ordinary shares of 25p each	2,538	2,538
Allotted, issued and fully paid		
400,004 (2018: 400,004) ordinary shares of 25p each	100	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares are classified in shareholders' funds. No shares are classified as liabilities.

Dividends

The following dividends were recognised during the period:	2019 £000	2018 £000
On 400,004 ordinary shares of 25p each	446,900	196,000

11 Related parties

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

12 Ultimate parent company

The Company is a subsidiary undertaking of M&G plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and copies of these are available to the public and may be obtained from the registered office at 10 Fenchurch Avenue, London, EC3M 5AG. Prior to demerger, the ultimate Parent company was Prudential plc, copies of Consolidated financial statements for Prudential plc are available to the public at the registered office 1 Angel Court London EC2R 7AG.

13 Subsequent events

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