10 August 2021

M&G plc half year 2021 results

Results show good progress on strategy and strong total capital generation

John Foley, Chief Executive, said:

"Today's results show good progress on our actions to reposition the business for sustainable growth and continued strong total capital generation.

"Institutional assets under management reached a record £89.7 billion following net client inflows of £2.2 billion, primarily from European clients.

"In Retail Asset Management, net client outflows more than halved as investment performance improved, with 63% of funds in the top two quartiles over one year.

"In July, we launched PruFund Planet, the UK's first smoothed savings proposition that offers positive societal and environmental outcomes.

"The dividend of 6.1 pence per share takes the cumulative payout since our shares were listed in October 2019 to 40.1 pence per share."

H1 financial highlights

- Adjusted operating profit before tax of £327 million, up 6% on the first half of 2020
- IFRS loss after tax of £248 million; impacted by short-term fluctuations in the fair value of the surplus assets in our annuity portfolio and derivatives used to hedge the Solvency II balance sheet caused by increasing yields and rising equity markets
- Assets under management and administration increased to £370.0 billion, with positive market movements and net client inflows to Institutional Asset Management more than offsetting net client outflows in other areas of the business
- Total capital generation of £869 million, on track for target of £2.2 billion by the end of 2022
- Shareholder Solvency II coverage ratio strengthens to 198%
- Interim dividend of 6.1 pence per share (estimated to be £155 million) in line with our policy of paying one-third of the previous year's total dividend

H1 operational highlights

- Record level of £89.7 billion in institutional public and private assets under management following net client inflows of £2.2 billion
- Improvement in fund performance in Retail Asset Management, with 63%[1] of funds in upper two performance quartiles over one year (2020: 20%)
- Retail Asset Management net client outflows reduced by 56% to £3.4 billion, with sales in Europe and Asia returning to net positive territory in May and June
- M&G Wealth formed a new software partnership to develop hybrid advice for UK savers, with the launch scheduled for later this year
- Started process to convert EUR 15 billion of European mutual fund assets to meet articles 8 and 9 of the EU's Sustainable Finance Disclosure Regulations, and in July launched PruFund Planet in the UK
- On track to achieve annual run-rate shareholder cost savings of £145 million through business transformation and modernisation by 2022

[1] As at 30 June 2021.

Outlook

- Optimistic about the recovery in Retail Asset Management in light of continued action on investment performance, net inflows into our new generation of thematic funds and improved value-for-money for customers
- Institutional Asset Management well-placed for strong growth, with £4 billion of committed client capital and a further £5.5 billion of client wins yet to be funded
- Good pipeline of new propositions, with sustainable investment offerings gaining increased traction among clients
- Strong balance sheet continues to underpin capital generation and dividend policy

Performance highlights	**For the six months ended 30 June 2021**	For the six months ended 30 June 2020	For the year ended 31 December 2020
Adjusted operating profit before tax (£m)	**327**	309	788
IFRS (loss)/profit after tax (£m)	**(248)**	826	1,142
Assets under management and administration (£bn)	**370.0**	338.7	367.2
Savings and Asset Management net client flows (£bn)	**(2.0)**	(4.1)	(6.6)
Total capital generation (£m)	**869**	(202)	995
Shareholder Solvency II coverage ratio (%)	**198**	164	182

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Notes to editors

1. The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34'), as adopted by the UK, and the Disclosure and Transparency Rules of the Financial Conduct Authority based on the consolidated financial statements of M&G plc.
2. All key performance measures relate to continuing operations.
3. The shareholder view and regulatory view of the Solvency II coverage ratio as at 30 June 2021 assumes transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.
4. Total number of M&G plc shares in issue as at 30 June 2021 was 2,599,906,866.
5. A Q&A webcast will be hosted by John Foley (CEO) and Clare Bousfield (CFO) on Tuesday 10 August at 10:30 GMT. You can register for the Q&A and view the investor presentation here (the presentation will be available from 07:00 GMT): https://mngresults.connectid.cloud/register

   Dial in: UK freephone 0800 640 6441/ All other locations +44 203 936 2999 Participant code: 095776
6. **Ordinary dividend to be paid in September 2021**

Ex-dividend date	August 19, 2021
Record date	August 20, 2021
Payment of dividend	September 29, 2021

7. **About M&G plc**
   M&G plc is a leading international savings and investments business, managing money for both individual savers and institutional investors in 28 markets. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our savings and insurance customers under the Prudential brand in the UK and Europe and for asset management in South Africa, and under the M&G Investments brand for asset management clients in the rest of the world.
8. **Additional Information**
   M&G plc, a company incorporated in the United Kingdom, is the ultimate parent company of The Prudential Assurance Company Limited. The Prudential Assurance Company Limited is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.
9. **Forward-Looking Statements**
   This announcement may contain certain 'forward-looking statements' with respect to M&G plc and its affiliates (the "M&G Group"), its plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G plc's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements. By their nature, all forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may be beyond the M&G Group's control. A number of important factors could cause M&G plc's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union); market-related conditions and risk, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, corporate liquidity risk and the future trading value of the shares of M&G plc; investment portfolio-related risks, such as the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G plc's business and results from, in particular, mortality and morbidity trends, longevity assumptions, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions, such as transformation programmes, failing to meet their objectives; the impact of operational risks, including

risk associated with third party arrangements, reliance on third party distribution channels and disruption to the availability, confidentiality or integrity of M&G plc's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which the M&G Group operates; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Any forward-looking statements contained in this document speak only as of the date on which they are made. M&G plc expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, or other applicable laws and regulations. Nothing in this announcement shall be construed as a profit forecast, or an offer to sell or the solicitation of an offer to buy any securities.

LEI: 254900TWUJUQ44TQJY84 Classification: 3.1 Additional regulated information required to be disclosed under the laws of a Member State

Management statement

Our results for the first half of 2021 show we have made good progress on our actions to reposition the business for sustainable growth, while at the same time delivering strong total capital generation.

Total assets under management and administration increased by £2.8 billion to £370.0 billion over the six months to 30 June 2021, with positive market and other movements of £8.1 billion more than offsetting Savings and Asset Management net client outflows of £2.0 billion and expected redemptions of £3.3 billion in the Heritage business.

Adjusted operating profit before tax of £327 million (30 June 2020: £309 million) reflects the stability of the earnings of the underlying business.

Total capital generation during the period was £869 million (30 June 2020: £(202) million), taking our shareholder Solvency II coverage ratio to 198% (31 December 2020: 182%). This demonstrates our continued focus on proactively and efficiently generating capital which includes our strategy of hedging the impact of market volatility on the Solvency II balance sheet.

However, this hedging strategy to protect our Solvency II balance sheet has contributed to an IFRS loss after tax of £248 million as markets recovered and yields increased in the period, reversing gains in the first half of the previous year when we recognised an IFRS profit after tax of £826 million.

We continue to invest in the modernisation of the business and remain on track with our transformation programme to achieve £145 million annual run-rate shareholder cost savings in 2022. We are also well positioned to achieve our capital generation targets by the end of 2022 and 2023.

Asset Management

Assets under management in our Institutional business reached a new high of £89.7 billion, including net client inflows of £2.2 billion. This included notable wins in Europe in line with our strategy to internationalise this business. The pipeline of new institutional business remains very strong, with £4 billion of committed client capital, and £5.5 billion of new wins not yet funded.

Performance of institutional investment strategies remains strong. Over one year, 92% of investment strategies outperformed their benchmarks, while 78% of strategies beat their benchmarks over three years.

Net client outflows in Retail Asset Management more than halved to £3.4 billion (30 June 2020: net client outflows of £7.7 billion) following an improvement in fund performance and the launch of our new generation of sustainable and thematic funds which delivered net client inflows of £0.6bn in the period. Over one year, 63% of our retail funds outperformed their respective peer groups (2020: 20%).

Net client outflows of £3.4 billion includes £0.9 billion redemption from our European Strategic Value fund in the period in relation to withdrawals by Prudential plc and redemptions of £0.9bn from the M&G Property Portfolio fund which was reopened in May 2021 following 17 months suspension. Excluding these two one-offs, Retail Asset Management net client outflows would have been £1.6 billion. Internationally, our retail funds moved into positive net client inflow for two consecutive months in May and June, the first net client inflows for more than three years.

Retail Savings

In UK Retail Savings, which includes our flagship proposition PruFund, we experienced net client outflows of £0.8 billion during the first half of this year (30 June 2020: £0.8 billion net client inflows). This reflected the continued impact of lockdown restrictions, as well as a shift by advisers to favour platform business and the ongoing consolidation among advisory firms. We acknowledge that temporary service issues experienced by our corporate pensions customers may also have had an impact on Retail Savings flows.

We anticipated the changes in adviser behaviour with the acquisition of the Ascentric platform business in May 2020 and the subsequent launch of M&G Wealth in September that year. Completion of the integration of the Ascentric business is on track.

During the first half of 2021, M&G Wealth agreed a new partnership with software house Ignition Advice to launch later this year to develop hybrid advice, a blend of human and digital practices. In July we also launched PruFund Planet, an innovative proposition which offers both smoothed market returns and positive environmental or social outcomes.

Sustainability

In May 2021 we published our first Sustainability Report, setting out our 10-point plan to embed sustainability in everything we do. This includes our commitment to phase out thermal coal from our portfolios by 2030 in developed markets and by 2040 in developing markets – in line with our pledge to achieve net zero carbon emissions across our investment portfolios by 2050 at the latest.

In Europe, we have converted, or sought regulatory approval to convert, EUR 15 billion of mutual fund assets to meet articles 8 and 9 of the EU's Sustainable Finance Disclosure Regulations. We will seek approval to convert more assets later in the year. Since inception this year, Catalyst, our team specialising in sourcing attractive sustainable and impact investment opportunities in privately held businesses, has invested £500 million of a £5 billion mandate from the With-Profits Fund and has approved a further £700 million of investments.

Customers, clients and colleagues

Our thanks to our customers and clients for their support and loyalty during these difficult times. We would like to apologise to our corporate pensions customers who have experienced significant service issues. Additional resource has been deployed to remedy the situation. We thank you for your patience.

Our colleagues have continued to work extremely hard from their homes for the last six months and our offices remain closed for the majority of colleagues. When we return, we expect to adopt a hybrid approach to work, with colleagues in the office two to three days per week.

Following Mike Evan’s resignation in April due to ill-health, our search for a new Chair is progressing well. Fiona Clutterbuck continues to act as Interim Chair while the search is completed.

Management statement (continued)

Dividend

We have declared an interim ordinary dividend of 6.1 pence per share (estimated to be £155 million) payable on 29 September 2021, in line with our policy of paying one-third of the previous year's total dividend. Following the payment of this dividend, dividend payments will have totalled 40.1 pence per share since our shares were listed in October 2019.

Outlook

M&G's strategy is to leverage our capabilities as asset manager and asset owner to meet the structural growth in demand for savings and investments, in the UK and internationally. Over time, we anticipate M&G will become a more international business, with this reflected in the composition of both revenues and assets under management.

In the near term, the improvement in Retail Asset Management performance is encouraging, with European funds leading the way. Europe presents us with the most attractive opportunities over the next few years, both in retail funds and in institutional asset management. Our 20-year investment in brand and distribution in the region gives us a powerful platform for growth.

In the UK, our continued investment to broaden the M&G Wealth business means we are well-placed to meet the growing demand for financial advice at a price point affordable to all, while we expect our innovative new propositions such as PruFund Planet to attract savers wanting sustainable investments.

We feel confident that our combination of public and private investment capabilities, complemented by our deep and strong relationships with clients and customers, puts M&G on a strong footing for future growth and success.

Overview of Group results

Adjusted operating profit before tax

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

	For the six months ended 30 June		For the year ended 31 December
£m	**2021**	2020	2020
Asset Management fee-based revenues	**473**	469	988
Other fee-based revenues	**133**	111	232
Total fee-based revenues	**606**	580	1,220
Annuity margin	**157**	139	438
With-profit shareholder transfer net of hedging	**154**	134	251
Adjusted operating income	**917**	853	1,909
Asset Management operating expenses	**(333)**	(306)	(672)
Other operating expenses	**(183)**	(181)	(348)
Adjusted operating expenses	**(516)**	(487)	(1,020)
Other shareholder loss	**(80)**	(62)	(111)
Share of profit from joint ventures and associates	**6**	5	10
Adjusted operating profit before tax	**327**	309	788
Short-term fluctuations in investment returns	**(549)**	746	678
Restructuring and other costs [(i)]	**(85)**	(22)	(73)
IFRS profit attributable to non-controlling interests	**3**	2	4
IFRS (loss)/profit before tax attributable to equity holders	**(304)**	1,035	1,397
Tax credit/(charge) attributable to equity holders	**56**	(209)	(255)
IFRS (loss)/ profit after tax attributable to equity holders	**(248)**	826	1,142

[(i)] Restructuring and other costs excluded from adjusted operating profit relate to merger and transformation costs allocated to the shareholder. These differ to restructuring costs included in the analysis of administrative and other expenses in Note 5 which include costs allocated to the policyholder. Additionally in the six months to 30 June 2021 restructuring and other costs include an impairment of £29m which is presented in impairment of property, plant and equipment in the analysis of administrative and other expenses in Note 5.

Overview of Group results (continued)

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

	For the six months ended 30 June		For the year ended 31 December
£m	**2021**	2020	2020
Asset Management	**140**	163	316
With-Profits	**46**	24	44
Other	**(25)**	(25)	(28)
Savings and Asset Management	**161**	162	332
With-Profits	**108**	110	207
Annuities	**157**	139	438
Other	**17**	49	54
Heritage	**282**	298	699
Corporate Centre	**(116)**	(151)	(243)
Adjusted operating profit before tax	**327**	309	788

Adjusted operating profit before tax increased to £327 million in the six months to 30 June 2021 (30 June 2020: £309 million). In Savings and Asset Management, Asset Management revenue has remained stable, but the associated expenses have increased as we continue building out the capability and operations of our global investment function. This led to a reduction in Asset Management adjusted operating profit of £23 million to £140 million. This has been partly offset by a £22 million increase in shareholder with-profits transfer in Savings and Asset Management, primarily attributable to PruFund. In Heritage, the annuity margin has increased by £18 million in the period. The prior period benefited from insurance reserve releases which have not been repeated in 2021 totaling £39 million, resulting in an overall reduction in Heritage adjusted operating profit of £16 million to £282 million. The cost of corporate centre reduced by £35 million to £116 million due to positive foreign exchange movements on the USD subordinated debt, with a £4 million gain compared to a loss of £30 million in the prior period.

IFRS result after tax

The IFRS result after tax attributable to equity holders decreased to a loss of £248 million compared to a £826 million profit for the six months ended 30 June 2020. This £1,074 million adverse variance is reflective of a £549 million loss in the period (30 June 2020: £746 million gain) from short-term fluctuations in the valuation of hedging instruments and surplus assets in the annuity portfolio, a £63 million increase in restructuring and other costs and a £265 million decrease in the equity holders tax charge.

Market conditions have led to losses from short-term fluctuations in investment returns in the current period as financial markets recover and the sizeable gains in previous periods are reversed. These losses primarily comprise a £182 million loss (30 June 2020: £201 million gain) from fair value movements on surplus assets in the annuity portfolio and a £124 million loss (30 June 2020: £134 million gain) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates, both due to rising yields in the period. In addition there was a £156 million loss (30 June 2020: £308 million gain) as stock markets recovered in the period on the equity hedges used to protect the value of future shareholder transfers from the With-Profits Fund on PAC's Solvency II balance sheet. While these hedges protect the Solvency II balance sheet there is no corresponding item to protect on the IFRS balance sheet, and therefore when the fair value of the derivatives fall as interest rates increase and equity markets improve, there are no offsetting fair value gains on an IFRS basis.

Restructuring and other costs of £85 million (30 June 2020: £22 million) relate to merger and transformation costs. In the half year to 30 June 2021, restructuring and other costs also includes £29m associated with changes to our office space in respect of our future ways of working, and costs in relation to the integration of Ascentric.

The equity holders' effective tax rate for the six months ended 30 June 2021 was 18.4% compared to 20.2% for the six months ended 30 June 2020. Excluding non-recurring items, the equity holders' effective tax rate was 17.1% (30 June 2020: 18.2%). The equity holders' effective tax rate of 18.4% was lower than the UK statutory rate of 19% (30 June 2020: 19%). This reflects a detrimental position (lower tax benefit on the pre-tax loss position) primarily due to the adverse impact of non-deductible expenses, partially offset by beneficial impacts arising from the utilisation of tax capital losses on which no deferred tax was previously recognised, together with the revaluation of equity holder deferred tax assets following the change to the UK statutory rate of corporation tax (increase from 19% to 25% with effect from 1 April 2023) that was enacted in the period. The majority of the UK deferred tax balances are measured at the policyholder rate of tax, which was not impacted by the changes to the UK statutory rate of corporation tax.

Overview of Group results (continued)

Capital generation

The following table shows an analysis of total capital generation:

£m	For the six months ended 30 June 2021	2020	For the year ended 31 December 2020
Savings and Asset Management underlying capital generation	**176**	186	417
Heritage underlying capital generation	**182**	209	446
Corporate Centre underlying capital generation	**(142)**	(132)	(286)
Underlying capital generation	**216**	263	577
Other operating capital generation	**93**	276	735
Operating capital generation	**309**	539	1,312
Market movements	**600**	(614)	(118)
Restructuring and other costs	**(113)**	(20)	(73)
Tax	**73**	(107)	(126)
Total capital generation	**869**	(202)	995

Total capital generation was £869 million for the six months ended 30 June 2021 (30 June 2020: £(202) million), reflecting positive market movements compared to the substantial negative market movements experienced in the first half of 2020.

Underlying capital generation fell to £216 million (30 June 2020: £263 million). This was primarily due to a lower expected return on surplus assets in the annuity portfolio in the period given the falls in yields over 2020.

The decrease in operating capital generation in the first half of 2021 to £309 million (30 June 2020: £539 million) mainly reflects a reduction in the overall benefit from management actions from £235 million in 2020 to £162 million in 2021 and a benefit of £48 million in 2020 which was not repeated in relation to longevity assumption changes that represented a change to the proportion of the annuitant population assumed to be married.

Market movements in 2021 have resulted in a positive impact of £600 million (30 June 2020: £(614) million) as a result of improved equity market conditions and increased yields; offset by a loss on surplus assets in the annuity portfolio. Market movements are net of a negative impact of £169 million from equity hedges and £126 million from interest rate swaps that both protect against volatility in the Solvency II capital position.

Restructuring and other costs of £113 million reflect the impact on the capital position of merger and transformation, integration of Ascentric and changes to our office space in respect of our future ways of working.

Capital position

The Group's Solvency II surplus increased to £5.4 billion as at 30 June 2021 (31 December 2020: £4.8 billion), equivalent to a shareholder Solvency II coverage ratio of 198% (31 December 2020: 182%), driven by total capital generation of £869 million offset by reductions of £310 million from dividends paid to shareholders, and increases of £17 million from other capital movements.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 301%. This is higher than the 242% reported at 31 December 2020, reflecting the expected surplus from in-force business, management actions including hedging and managing credit risk, and market movements in the period. The merger of the SAIF with-profits sub-fund into PAC's in April 2021 resulted in a one-off reduction in surplus of £203 million.

The regulatory Solvency II coverage ratio of the Group as at 30 June 2021 was 159% (31 December 2020: 144%). This view of solvency combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund.

Financing and liquidity

The following table shows key financing and liquidity information:

£m	As at 30 June 2021	As at 31 December 2020
Parent company cash and liquid assets	**1,684**	1,040
Nominal value of debt	**3,212**	3,216
Leverage ratio[1]	**30%**	30%

The key metric we use to manage our debt is the leverage ratio, defined as nominal value of debt as a percentage of the Group's shareholder Solvency II own funds. Our leverage ratio remained stable at 30% (31 December 2020: 30%).

[1]Calculated as £3,212m nominal value of debt divided by £10.8 billion Group shareholder Solvency II own funds for the six months ended 30 June 2021 (£3,216 million nominal value of debt divided by £10.6 billion Group shareholder Solvency II own funds for the year ended 31 December 2020).

Overview of Group results (continued)

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

£m	**For the six months ended 30 June 2021**	For the year ended 31 December 2020
Opening cash and liquid assets at 1 January	**1,040**	1,274
Cash remittances from subsidiaries	**1,116**	737
Corporate costs	**(54)**	(45)
Interest paid on core structural borrowings	**(93)**	(189)
Cash dividends paid to equity holders	**(310)**	(562)
Capital injection to subsidiaries	**(15)**	—
Acquisition of subsidiaries	**—**	(86)
Acquisition of shares	**—**	(105)
Other shareholder income	**—**	16
Closing cash and liquid assets at end of period [(i)]	**1,684**	1,040

[(i)] Closing cash and liquid assets at 30 June 2021 included a £1,630 million (31 December 2020: £1,001 million) inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function.

Movements in cash and liquid assets held by the parent company for the six months ended 30 June 2021 represent the remittances and payments that will arise in the normal course of business. Total cash and liquid assets have increased with cash remittances of £1,116 million (31 December 2020: £737 million) received from our subsidiaries more than covering the cash dividend payments to equity holders of £310 million (31 December 2020: £562 million) and interest paid on structural borrowings of £93 million (31 December 2020: £189 million). The remittance received from PAC in the six months to 30 June 2021 was higher than the prior period, driven by PAC's higher solvency ratio at 31 December 2020 and in line with our active capital management policy.

Savings and Asset Management

The performance of the Savings and Asset Management segment has continued to be impacted by economic uncertainty and changing customer behaviours following the COVID-19 pandemic. Our Institutional Asset Management business continues to perform strongly with net client inflows reflecting our consistent investment performance and range of innovative investment solutions.

Assets under management and administration and net client flows

£bn	Net client flows: **For the six months to 30 June 2021**	Net client flows: For the six months to 30 June 2020	Net client flows: For the year ended 31 December 2020	AUMA: **As at 30 June 2021**	AUMA: As at 31 December 2020
Retail Savings	**(0.8)**	0.8	0.4	**84.8**	81.8
of which: PruFund	**(0.7)**	0.6	0.4	**57.3**	55.5
Retail Asset Management	**(3.4)**	(7.7)	(12.1)	**62.8**	64.2
Institutional Asset Management	**2.2**	2.8	5.1	**89.7**	85.5
Other	**—**	—	—	**0.7**	0.8
Total Savings and Asset Management (i)	**(2.0)**	(4.1)	(6.6)	**238.0**	232.3

(i) Included in total Savings and Asset Management AUMA of £238.0 billion (31 December 2020: £232.3 billion) is £6.8 billion assets under advice (31 December 2020: £6.5 billion).

Retail Savings AUMA increased to £84.8 billion with positive market movements offsetting net client outflows. Our Retail Savings business saw net outflows of £0.8bn in the period as COVID-19 restrictions continued to impact new business sales given the limited extent to which advisors were able to interact face to face with customers and with advisors shifting to favour platform services. Additionally the mechanics of the smoothing in PruFund products mean that while adverse market shocks can be softened, benefits from the recent rise in equity markets are not seen as immediately as is the case with traditional funds. The advice market has also seen increased competition as a result of ongoing consolidation which has impacted the number of advisors we interact with. The trends underscore the importance of completing the integration of the Ascentric platform and broadening the proposition offered by M&G Wealth.

Continued improvements in investment performance, the expansion of our sustainable fund ranges and recent pricing initiatives have underpinned the increase in inflows into our Retail Asset Management business since late 2020 with positive sales momentum evident in our larger European markets. However, the re-opening of the M&G Property Portfolio Fund on 10 May 2021 resulted in net client outflows of £0.9 billion and there was a further £0.9 billion of one-off outflows from our European Strategic Value fund in the period in relation to withdrawals by Prudential plc. Excluding these two one-offs in the period, net client outflows would have been £1.6 billion, a significant reduction on the £7.7 billion net client outflows in the prior period. Retail Asset Management AUMA decreased 2% to £62.8 billion with positive market movements partly offsetting the net client outflows in the period.

Institutional Asset Management AUMA increased 5% to £89.7 billion with net client inflows of £2.2 billion and positive market and other movements in the period. Strong investment performance across our Institutional business has resulted in some large wins in the period in our Public Debt, Asset Backed Securities and Real Estate offerings, with a strong pipeline for the remainder of the year. Institutional business was also impacted by a one-off withdrawal from Prudential plc of almost £0.2 billion from our European Investment Grade Bond Fund in the period.

Savings and Asset Management (continued)

Adjusted operating profit before tax

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

£m	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
Asset Management fee-based revenues	**473**	469	988
Other fee-based revenues	**92**	72	158
Total fee-based revenues	**565**	541	1,146
With-profits shareholder transfer net of hedging	**46**	24	44
Adjusted operating income	**611**	565	1,190
Asset Management operating expenses	**(333)**	(306)	(672)
Other operating expenses	**(99)**	(76)	(168)
Adjusted operating expenses	**(432)**	(382)	(840)
Other shareholder loss	**(24)**	(26)	(28)
Share of profit from joint ventures and associates	**6**	5	10
Adjusted operating profit before tax	**161**	162	332

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

£m	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
Asset Management	**140**	163	316
With-Profits	**46**	24	44
Other	**(25)**	(25)	(28)
Adjusted operating profit before tax	**161**	162	332

Adjusted operating profit before tax from our Savings and Asset Management activities has remained stable at £161 million in the six months to 30 June 2021 (30 June 2020: £162 million) driven by an increase in the with-profits shareholder transfer and favourable market returns on seed capital investments offset by an increase in Asset Management operating expenses.

The reduction in AUMA combined with the downward pressure on retail margins, resulted in lower Retail Asset Management fee-based revenues of £213 million during the period (30 June 2020: £230 million). The lower pricing structure applied to our UK OEICs in February 2021 contributed to an £18m reduction along with a £12 million reduction following the lower administration fees on our SICAVs applied in November 2020. In contrast, revenue earned by Institutional Asset Management increased to £260 million (30 June 2020: £239 million) due to strong inflows in 2020. Asset Management operating expenses increased by £27 million compared to the six months ending 30 June 2020 driven by costs relating to further development of our capabilities and operations across the global investment function.

The Asset Management average fee margin of 33 basis points (bps) was 3 bps lower at 30 June 2021 compared to 30 June 2020. This reduction largely reflects the new sustainable pricing structure implemented in Retail Asset Management resulting in a decrease of 8 bps from 50 bps at 30 June 2020 to 42 bps at 30 June 2021. Average revenue margins in the Institutional Asset Management business remained stable at 28 bps.

The cost/income ratio for Asset Management business was 71% (30 June 2020: 66%), with the increase driven by additional costs as we build out our global investment function.

The with-profits shareholder transfer, driven by PruFund, increased to £53 million (30 June 2020: £28 million) as a result of improved market conditions and increased outflows in our Retirement Account product over the first half of the year. In addition, there were fair value losses of £7 million (30 June 2020: £4 million loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers.

Other shareholder loss in the six months to 30 June 2021 is in line with prior period with the loss being largely made up of a PruFund expense overrun due to recent lower sales volumes which do not allow us to fully absorb the operational fixed costs, and an expected £5m loss from Ascentric.

Savings and Asset Management (continued)

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the six months ended 30 June 2021	2020	For the year ended 31 December 2020
Asset Management underlying capital generation	**144**	155	308
With-profits underlying capital generation	**26**	18	88
of which: in-force	**50**	39	100
of which: new business	**(24)**	(21)	(12)
Other underlying	**6**	13	21
Underlying capital generation	**176**	186	417
Other operating capital generation	**(4)**	18	83
Operating capital generation	**172**	204	500

Underlying capital generation for the six months ended 30 June 2021 decreased to £176 million (30 June 2020: £186 million). The contribution from Asset Management business fell to £144 million (30 June 2020: £155 million) primarily due to the decrease in adjusted operating profit in the period offset by a £5 million reduction in capital requirements.

The contribution from in-force with-profits business increased to £50 million (30 June 2020: £39 million) due to the gap between expected return and risk-free rates widening as yields fell during 2020. New business strain remained relatively stable at £24 million (30 June 2020: £21 million). The fall in other underlying capital generation to £6 million (30 June 2020: £13 million) primarily relates to the adjusted operating loss of £5 million from Ascentric.

Other operating capital generation of £(4) million (30 June 2020: £18 million) includes the PruFund expense overrun.

Heritage

Our Heritage business has delivered a stable financial performance over the first half of 2021 and continues to provide a solid foundation to our results.

AUMA reduction of £3.6 billion in the Heritage business to £130.1 billion at 30 June 2021 (31 December 2020: £133.7 billion) was driven by net client outflows of £3.3 billion, in line with expectations (30 June 2020: £3.3 billion) and adverse market movements of £0.3 billion.

Adjusted operating profit before tax

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

	For the six months ended 30 June		For the year ended 31 December
£m	**2021**	2020	2020
Fee-based revenues	**41**	39	74
Annuity margin	**157**	139	438
With-profits shareholder transfer net of hedging	**108**	110	207
Adjusted operating income	**306**	288	719
Adjusted operating expenses	**(36)**	(30)	(79)
Other shareholder profit	**12**	40	59
Adjusted operating profit before tax	**282**	298	699

Income for the Heritage business increased to £306m in the period (30 June 2020: £288m) driven by an increase of £18m in the annuity margin. The shareholder transfer for traditional with-profit business has remained in line with the prior year period.

Adjusted operating expenses and other shareholder profit in the period to 30 June 2020 benefited primarily from insurance reserve releases in relation to a number of legacy remediation programmes and other one off items, not repeated in 2021. Excluding these items adjusted operating expenses and other shareholder profit remained flat.

The following table provides further analysis of the annuity margin:

	For the six months ended 30 June		For the year ended 31 December
£m	**2021**	2020	2020
Return on excess assets and margin release	**87**	94	188
Asset trading and portfolio management actions	**4**	40	59
Longevity assumption changes	**—**	23	217
Mismatching (losses)/profits	**(15)**	28	38
Other assumption and model changes	**33**	(15)	(52)
Experience variances and model improvements	**26**	11	19
Other provisions and reserves	**22**	(42)	(31)
Annuity margin	**157**	139	438

Recurring sources of earnings from the annuity book, primarily the return on assets held to back capital requirements and the release of the margins in respect of credit risk, mortality and expenses, decreased by 7% to £87 million (30 June 2020: £94 million). This was mainly due to a switch from debt securities held in the surplus assets of the annuity portfolio to cash to pay remittances to the holding company.

During the six months to 30 June 2020, we earned £40 million from the optimisation of assets in the annuity portfolio which were not repeated in 2021. Mismatching losses of £15 million (30 June 2020: £28m gain) were driven by the increase in yields in the period.

In the first half of 2020 there was a £23 million benefit from longevity assumption changes that represented a change to the proportion of the annuitant population assumed to be married. There were no longevity assumption changes in the first half of 2021 although we continue to monitor the impacts of COVID-19 on our longevity assumptions. Other assumption changes relate to a £33 million benefit in the period from updating the future expense assumptions to reflect the expected impact of the Part VII transfer to Rothesay Life PLC. Other includes a £31 million benefit from the release of the annuity sales practices review provision in the period compared to a £44 million increase in the provision in the prior period.

Credit quality of fixed income assets in the annuity portfolio remained strong over the first half of 2021. Over 96% of the debt securities held by the shareholder annuity portfolio are investment grade and only 18% are BBB. In addition 82% of the shareholder annuity portfolio is held in debt securities either categorised as Risk Free or Secured (including cash). Downgrades experienced in the period have been relatively light, with less than 2% of bonds in the shareholder annuity portfolio subject to a downgrade.

Heritage (continued)

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the six months ended 30 June 2021	2020	For the year ended 31 December 2020
With-profits underlying capital generation	**68**	40	105
Shareholder annuity and other underlying capital generation	**114**	169	341
Underlying capital generation	**182**	209	446
Model improvements	**19**	(18)	(19)
Assumption changes	**(1)**	46	185
Management actions and other (including experience variances)	**80**	234	398
Other operating capital generation	**98**	262	564
Operating capital generation	**280**	471	1,010

Traditional with-profits business generated underlying capital of £68 million during the six months to 30 June 2021 (30 June 2020: £40 million) increasing as a result of a widening of the gap between expected return and risk-free rates as yields fell during 2020, partly offset by a reduction in the value of equity hedges as equity markets improved. There also continued to be significant, though reduced, capital generation from the shareholder annuity and other business, contributing £114 million (30 June 2020: £169 million). The underlying capital generation for annuity business has fallen because the expected return on surplus assets in the annuity portfolio is lower due to falls in yields over 2020.

Other operating capital generation decreased to £98 million (30 June 2020: £262 million), partly reflecting that assumption changes of £46 million in the first half of 2020, primarily in relation to longevity assumption changes as discussed in the adjusted operating profit section, were not repeated in 2021.

Management actions and other generated capital of £80 million, including asset trading of £118 million and the impact of £44 million from the release of provisions of the annuity sales practice review provision. This was partially offset by £77 million strain in anticipation of a change to the Solvency II regulations in respect of equity release mortgages. In the first half of 2020 there was significant benefit of £220 million from a series of management actions taken to strengthen the solvency position in response to adverse market conditions.

Risk management statement

Principal risks and uncertainties

The principal risks we are currently facing and to which we will continue to be exposed to remain broadly unchanged from those detailed in the 2020 Annual Report and Accounts, namely: business environment and market forces; sustainability; investment performance and risk; financial risks (market, credit, corporate liquidity and longevity); operational risks (including resilience, third party suppliers and technology); change; people; regulatory compliance; and reputational.

There remains considerable uncertainty due to COVID-19, with the threat of new variants and the upcoming winter season potentially leading to a rise in cases and new restrictions. However, continued progress in vaccination programmes in major economies, coupled with an increase in economic activity, has resulted in improved market conditions and increased solvency levels, which remain comfortably inside M&G plc's risk appetite. However, the pending removal of state support for businesses and individuals could dampen the recovery. Major central banks continue to provide significant liquidity through quantitative easing type activity. While this continues to underpin asset prices there is an increased uncertainty around the risk of significant inflation. In the longer term the wind down of central bank balance sheets will need to be managed carefully to avoid unwanted market volatility.

COVID-19

Whilst COVID-19 continues to impact daily life, there remains a heightened level of operational risk, in particular security risks due to new working practices and the potential for increased levels of cyber-attacks. We are maintaining our monitoring of the control environment and enhanced incident management processes to increase the visibility of security threats ensuring that appropriate priority is given and experts are engaged to respond to malicious actions which may impact the availability of systems or services, or the confidentiality or integrity of IT systems or digital data.

The COVID-19 incident response group we established in 2020 is continuing to focus on the "return to office" plan for the business over the course of 2021 as the restrictions lift. There have been no material changes in the control environment relating to the COVID-19 incident over 2021, although we constantly monitor the impact that the pandemic has on customers and employees including well-being issues. We have put the safety and well-being of our customers and staff at the forefront of our response to the pandemic, and will continue to do so.

Sustainability

In May 2021 we published our first sustainability report as an independent company which included our approach to sustainability and ESG risk management. This set out the strategic importance of sustainability to our business. Recognising the impact of sustainability on our risk profile, an ESG Risk Management framework has been developed to manage the risk that we fail to address and embed sustainability within our business and operating model. Our ESG Risk policy will outline the requirements to ensure ESG risk and control integration across M&G plc.

Our stakeholders increasingly expect that we consider a range of sustainability issues, arising across a broad spectrum of themes. We use an ESG lens to identify, assess and manage risk, enabling us and others to benchmark our success. ESG Risk is pervasive across the business, and can be thought about through a financial, strategic or reputational risk lens.

We have conducted detailed work with analytics providers on scenario analysis to evaluate how various climate scenarios could affect the future value, income, or credit ratings of our investments. These climate scenario models build awareness and understanding, highlighting physical and transition risks present across our holdings. This will better equip us to enact mitigation and adaptation planning in our portfolios, while steering our sizeable assets towards net zero by 2050. ESG and climate change risk have also been built into our Own Risk and Solvency Assessment (ORSA) with detail on climate change scenario analysis undertaken.

Statement of Directors' responsibilities

The Directors (as listed below) are responsible for preparing the Interim financial report in accordance with applicable law and regulations.

Accordingly, the Directors confirm that to the best of their knowledge:

– the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK;

– the Interim financial report includes a fair review of the information required by:

   a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

   b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2020 that could do so.

By order of the Board:

John Foley	Clare Bousfield
Chief Executive	Chief Financial Officer
9 August 2021	9 August 2021

M&G plc Board of Directors

Interim Chair

Fiona Clutterbuck

Executive Directors

John Foley

Clare Bousfield

Non-Executive Directors

Clive Adamson

Clare Chapman

Clare Thompson

Massimo Tosato

Independent review report to M&G plc

Conclusion

We have been engaged by M&G plc ('the Company') to review the condensed consolidated set of interim financial statements ('the interim financial statements') in the Company's interim financial report for the six months ended 30 June 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements in the Company's interim financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The Company's interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 1.1, the latest annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the interim financial statements included in the Company's interim financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

Our responsibility is to express to the Company a conclusion on the interim financial statements in the Company's interim financial report based on our review.

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

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Stuart Crisp
for and on behalf of KPMG LLP
Chartered Accountants

15 Canada Square

E14 5GL

09 August 2021

Condensed consolidated income statement

For the six months ended 30 June 2021

	Note	For the six months ended 30 June 2021 £m	For the six months ended 30 June 2020 £m	For the year ended 31 December 2020 £m
Gross premiums earned		**2,390**	3,459	5,796
Outward reinsurance premiums		**(466)**	(440)	(927)
Earned premiums, net of reinsurance		**1,924**	3,019	4,869
Investment return		**6,766**	(2,116)	9,255
Fee income	4	**490**	540	1,031
Other income		**27**	31	61
Total revenue, net of reinsurance		**9,207**	1,474	15,216
Benefits and claims	10	**(6,820)**	(1,373)	(12,674)
Outward reinsurers' share of benefit and claims	10	**217**	790	1,477
Movement in unallocated surplus of the With-Profits Fund	10	**(565)**	1,200	433
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**(7,168)**	617	(10,764)
Administrative and other expenses	5	**(1,384)**	(1,209)	(2,734)
Movements in third party interest in consolidated funds		**(534)**	(103)	109
Finance costs	5	**(80)**	(79)	(167)
Total charges, net of reinsurance		**(9,166)**	(774)	(13,556)
Share of profit/(loss) from joint ventures and associates		**33**	(35)	(55)
Profit before tax [i]		**74**	665	1,605
Tax (charge)/credit attributable to policyholders' returns	6	**(378)**	370	(208)
(Loss)/profit before tax attributable to equity holders		**(304)**	1,035	1,397
Total tax (charge)/credit	6	**(322)**	161	(463)
Less tax charge/(credit) attributable to policyholders' returns		**378**	(370)	208
Tax credit/(charge) attributable to equity holders	6	**56**	(209)	(255)
(Loss)/profit for the period		**(248)**	826	1,142
Attributable to equity holders of M&G plc		**(251)**	824	1,138
Attributable to non-controlling interests		**3**	2	4
(Loss)/profit for the period		**(248)**	826	1,142
Earnings per share:				
Basic (loss)/earnings (pence per share)	7	**(9.8)**	31.8	44.4
Diluted (loss)/earnings (pence per share)	7	**(9.8)**	31.8	44.0

[i] This measure is the profit before tax measure under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IFRS. Consequently, profit before tax is not representative of pre-tax profits attributable to equity holders. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the With-Profits Fund after adjusting for taxes borne by policyholders.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2021

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
(Loss)/profit for the period	**(248)**	826	1,142
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	**(6)**	5	3
	(6)	5	3
Items that will not be reclassified to profit or loss:			
Gain/(loss) on remeasurement of defined benefit pension scheme	**67**	(41)	(117)
Tax on remeasurement of defined benefit pension scheme	**(18)**	9	23
	49	(32)	(94)
Transferred to unallocated surplus of the With-Profits Fund, net of related tax	**(5)**	9	13
Other comprehensive income on items that will not be reclassified to profit or loss	**44**	(23)	(81)
Other comprehensive income for the period, net of related tax	**38**	(18)	(78)
Total comprehensive income for the period	**(210)**	808	1,064
Attributable to equity holders of M&G plc	**(213)**	806	1,060
Attributable to non-controlling interests	**3**	2	4
Total comprehensive income for the period	**(210)**	808	1,064

Condensed consolidated statement of financial position

As at 30 June 2021

	Note	As at 30 June 2021 £m	As at 31 December 2020 £m
Assets			
Goodwill and intangible assets		**1,487**	1,495
Deferred acquisition costs		**97**	98
Investment in joint ventures and associates accounted for using the equity method		**468**	456
Property, plant and equipment		**2,321**	2,066
Investment property		**19,097**	19,106
Defined benefit pension asset	9	**42**	58
Deferred tax assets	6	**138**	108
Reinsurance assets	10	**1,569**	11,761
Loans		**5,930**	6,031
Derivative assets		**3,519**	5,705
Equity securities and pooled investment funds		**72,995**	68,419
Deposits		**19,916**	17,629
Debt securities		**84,273**	85,439
Current tax assets	6	**373**	418
Accrued investment income and other debtors		**3,112**	3,023
Assets held for sale	2	**9,783**	138
Cash and cash equivalents		**6,067**	6,776
Total assets		**231,187**	228,726
Equity			
Share capital		**130**	130
Share premium reserve		**370**	370
Shares held by employee benefit trust		**(95)**	(117)
Treasury shares		**(1)**	(1)
Retained earnings		**16,354**	16,853
Other reserves		**(11,668)**	(11,658)
Equity attributable to equity holders of M&G plc		**5,090**	5,577
Non-controlling interests		**6**	8
Total equity		**5,096**	5,585
Liabilities			
Insurance contract liabilities	10	**64,609**	76,650
Investment contract liabilities with discretionary participation features	10	**81,820**	79,623
Investment contract liabilities without discretionary participation features	10	**15,198**	15,547
Unallocated surplus of the With-Profits Fund	10	**16,150**	15,621
Third party interest in consolidated funds		**13,386**	13,265
Subordinated liabilities and other borrowings	11	**8,487**	8,267
Defined benefit pension liability	9	**124**	170
Deferred tax liabilities	6	**1,072**	916
Current tax liabilities	6	**300**	276
Derivative liabilities		**2,947**	3,460
Lease liabilities		**427**	354
Other financial liabilities		**2,775**	3,391
Provisions		**144**	235
Accruals, deferred income and other liabilities		**9,022**	5,291
Liabilities held for sale	2	**9,630**	75
Total liabilities		**226,091**	223,141
Total equity and liabilities		**231,187**	228,726

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2021

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2021	130	370	(117)	(1)	16,853	(11,658)	5,577	8	5,585
(Loss)/profit for the period	—	—	—	—	(251)	—	(251)	3	(248)
Other comprehensive income for the period	—	—	—	—	44	(6)	38	—	38
Total comprehensive income for the period	—	—	—	—	(207)	(6)	(213)	3	(210)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(5)	(5)
Dividends paid to equity holders	—	—	—	—	(310)	—	(310)	—	(310)
Shares distributed by employee trusts	—	—	22	—	(22)	—	—	—	—
Vested employee share-based payments	—	—	—	—	20	(20)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	17	17	—	17
Tax effect of items recognised directly in equity	—	—	—	—	20	(1)	19	—	19
Net increase/(decrease) in equity	—	—	22	—	(499)	(10)	(487)	(2)	(489)
As at 30 June 2021	130	370	(95)	(1)	16,354	(11,668)	5,090	6	5,096

For the six months ended 30 June 2020

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2020	130	370	(26)	(1)	16,342	(11,690)	5,125	6	5,131
Profit for the period	—	—	—	—	824	—	824	2	826
Other comprehensive income for the period	—	—	—	—	(23)	5	(18)	—	(18)
Total comprehensive income for the period	—	—	—	—	801	5	806	2	808
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(1)	(1)
Dividends paid to equity holders	—	—	—	—	(410)	—	(410)	—	(410)
Shares distributed by employee trusts	—	—	12	—	(12)	—	—	—	—
Vested employee share-based payments	—	—	—	—	13	(13)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	23	23	—	23
Shares acquired by employee trusts	—	—	(23)	—	—	—	(23)	—	(23)
Tax effect of items recognised directly in equity	—	—	—	—	10	(2)	8	—	8
Net (decrease)/increase in equity	—	—	(11)	—	402	13	404	1	405
At 30 June 2020	130	370	(37)	(1)	16,744	(11,677)	5,529	7	5,536

Condensed consolidated statement of changes in equity (continued)

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2020	130	370	(26)	(1)	16,342	(11,690)	5,125	6	5,131
Profit for the year	—	—	—	—	1,138	—	1,138	4	1,142
Other comprehensive income for the year	—	—	—	—	(81)	3	(78)	—	(78)
Total comprehensive income for the year	—	—	—	—	1,057	3	1,060	4	1,064
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(2)	(2)
Dividends paid to equity holders	—	—	—	—	(562)	—	(562)	—	(562)
Shares distributed by employee trusts	—	—	14	—	(14)	—	—	—	—
Vested employee share-based payments	—	—	—	—	17	(17)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	51	51	—	51
Shares acquired by employee trusts	—	—	(105)	—	—	—	(105)	—	(105)
Tax effect of items recognised directly in equity	—	—	—	—	13	(5)	8	—	8
Net (decrease)/increase in equity	—	—	(91)	—	511	32	452	2	454
At 31 December 2020	130	370	(117)	(1)	16,853	(11,658)	5,577	8	5,585

Condensed consolidated statement of cash flows

For the six months ended 30 June 2021

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
Cash flows from operating activities:			
Profit before tax	**74**	665	1,605
Non-cash and other movements in operating assets and liabilities included in profit before tax:			
Investments	**(4,430)**	6,932	399
Other non-investment and non-cash assets	**546**	(540)	(133)
Policyholder liabilities (including unallocated surplus)	**(36)**	(7,347)	(895)
Other liabilities (including operational borrowings)	**3,588**	1,133	1,902
Interest income, interest expense and dividend income	**(2,117)**	(2,316)	(3,884)
Other non-cash items	**147**	63	229
Operating cash items:			
Interest receipts and payments	**1,213**	1,253	2,282
Dividend receipts	**1,092**	1,140	1,704
Tax paid [i]	**(128)**	(509)	(633)
Net cash flows from operating activities [ii]	**(51)**	474	2,576
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(452)**	(220)	(821)
Proceeds from disposal of property, plant and equipment	**44**	2	—
Net investment in subsidiaries [iii]	**190**	(26)	(136)
Net cash flows from investing activities	**(218)**	(244)	(957)
Cash flows from financing activities:			
Interest paid	**(93)**	(95)	(189)
Lease repayments	**(22)**	(7)	(24)
Shares purchased by employee benefit trust	**—**	(23)	(105)
Dividends paid	**(310)**	(410)	(562)
Net cash flows from financing activities	**(425)**	(535)	(880)
Net decrease in cash and cash equivalents	**(694)**	(305)	739
Cash and cash equivalents at 1 January	**6,776**	6,046	6,046
Effect of exchange rate changes on cash and cash equivalents	**(15)**	9	(9)
Cash and cash equivalents at end of period	**6,067**	5,750	6,776

[i] Tax paid for the six months ended 30 June 2021 includes £76m (30 June 2020: £244m, year ended 31 December 2020: £264m) paid on profit taxable at policyholder rather than shareholder rates.

[ii] Cash flows in respect of other borrowings of the With-Profits Fund, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

[iii] Net investment in subsidiaries represents the cash impact of further investment/disinvestment by the Group's consolidated infrastructure capital private equity vehicles. For the year ended 31 December 2020 it also included the total cash consideration in respect of the acquisition of Wrap IFA Services Limited and all of its subsidiaries of £86m, of which £49m represented a repayment of loan to Royal London.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The condensed consolidated financial statements for the half year ended 30 June 2021 comprise the condensed consolidated financial statements of M&G plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The condensed consolidated financial statements are unaudited but have been reviewed by the auditors, KPMG LLP.

The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34'), as adopted by the United Kingdom, and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. The accounting policies applied in the condensed consolidated financial statements are consistent with those set out in the 2020 consolidated financial statements, except for the new standards, interpretations and amendments that became effective in the current period, as stated below.

The condensed consolidated financial statements do not include all the information and disclosures required in the Group's 2020 consolidated financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the Group's 2020 consolidated financial statements prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('EU'), with interpretations issued by the IFRS Interpretations Committee ('IFRICs').

The condensed consolidated financial statements are stated in million pounds Sterling, the Group's presentation currency.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group's 2020 annual report and accounts for the year ended 31 December 2020 were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

In preparing the condensed consolidated financial statements the Group has adopted the following standards, interpretations and amendments effective during the period:

- Amendments to IFRS 4, IFRS 7, IFRS 16 and IAS 39: Phase 2 of Interest rate benchmark reform
- Amendment to IFRS 4: Deferral of IFRS 9

The Phase 2 amendments allow a practical expedient where any changes in the fair value of financial instruments as a direct consequence from the Interbank offered rate ('IBOR') reform are managed by updating the effective interest rate, therefore removing the recognition of gains or losses in the income statement as a result of the reform. This is also applicable for leases accounted for under IFRS 16, where a revised discount rate is applied to reflect the change in interest rates. These amendments also allow relief from applying specific hedge accounting and financial instrument de-recognition requirements which would result from the IBOR reform. Applying the practical expedient means the Group would not be required to discontinue any hedging relationships as a result of changes in reference rates due to the IBOR reform. The Group intend to use the practical expedients when they become applicable. The Group has reviewed the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority ('FCA')) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate ('SONIA'). It is anticipated that LIBOR will no longer exist from 31 December 2021 with banks no longer required to submit LIBOR, as confirmed by the FCA in March 2021. Of the Group's non derivative financial assets as at 30 June 2021, £1.6bn reference LIBOR. The notional amount of derivatives which are required to transition is £8.7bn as at 30 June 2021. The Group is currently undertaking a project to transition all of these instruments to an alternative benchmark, the vast majority of which will transition in the second half of 2021. There has been no significant impact on the condensed consolidated financial statements of the transition to alternative benchmarks in the six months ended 30 June 2021.

The above interpretations and amendments to standards are not considered to have a material effect on these condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group continues to defer the adoption of IFRS 9 to coincide with the adoption of IFRS 17, and the relevant disclosures required by amendments to IFRS 4 to avail this exemption are presented below. These are provided to enable users to compare results with those entities that have adopted IFRS 9. As required by the amendment, the table shows the fair value of the Group's directly held financial assets as at 30 June 2021, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principle and interest (SPPI) as defined by IFRS 9.

	Financial assets that pass the SPPI test [i]		All other financial assets, net of derivative liabilities	
	Fair value as at 30 June 2021	Movement in fair value during the period	Fair value as at 30 June 2021	Movement in fair value during the period
Financial assets on the consolidated statement of financial position	**£m**	**£m**	**£m**	**£m**
Loans	**2,605**	**(22)**	**3,407**	**(57)**
Derivative assets - net of derivative liabilities	**—**	**—**	**572**	**183**
Equity securities and pooled investment funds	**—**	**—**	**72,995**	**6,370**
Deposits	**19,916**	**—**	**—**	**—**
Debt securities	**—**	**—**	**84,273**	**(2,699)**
Accrued investment income and other debtors	**2,851**	**—**	**—**	**—**
Cash and cash equivalents	**6,213**	**—**	**—**	**—**
Total financial assets, net of derivative liabilities	**31,585**	**(22)**	**161,247**	**3,797**

[i] Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in all other financial assets.

1 Basis of preparation and significant accounting policies (continued)

1.1 Basis of preparation (continued)

	Financial assets that pass the SPPI test (i)		All other financial assets, net of derivative liabilities	
	Fair value as at 31 December 2020	Movement in fair value during the period	Fair value as at 31 December 2020	Movement in fair value during the period
Financial assets on the consolidated statement of financial position	£m	£m	£m	£m
Loans	2,647	(14)	3,475	33
Derivative assets - net of derivative liabilities	—	—	2,245	1,527
Equity securities and pooled investment funds	—	—	68,419	(533)
Deposits	17,629	—	—	—
Debt securities	—	—	85,439	4,092
Accrued investment income and other debtors	3,023	—	—	—
Cash and cash equivalents	6,776	—	—	—
Total financial assets, net of derivative liabilities	30,075	(14)	159,578	5,119

Going concern

The Directors have reasonable expectation that the Group as a whole has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the condensed consolidated financial statements.

To satisfy themselves of the appropriateness of the use of the going concern assumptions in relation to the condensed consolidated financial statements, the Directors have considered the liquidity projections of the Group, including the impact of applying specific liquidity stresses. The Directors also considered the ability of the Group to access external funding sources and the management actions that could be used to manage liquidity.

In addition, the Directors also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and certain stressed scenarios based on the Group's solvency risk appetite.

The results of the assessment demonstrated the ability of the Group to meet all obligations and future business requirements for the foreseeable future. In addition, the assessment demonstrated that the Group was able to remain above its regulatory solvency requirements in a stressed scenario.

For this reason, the Directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

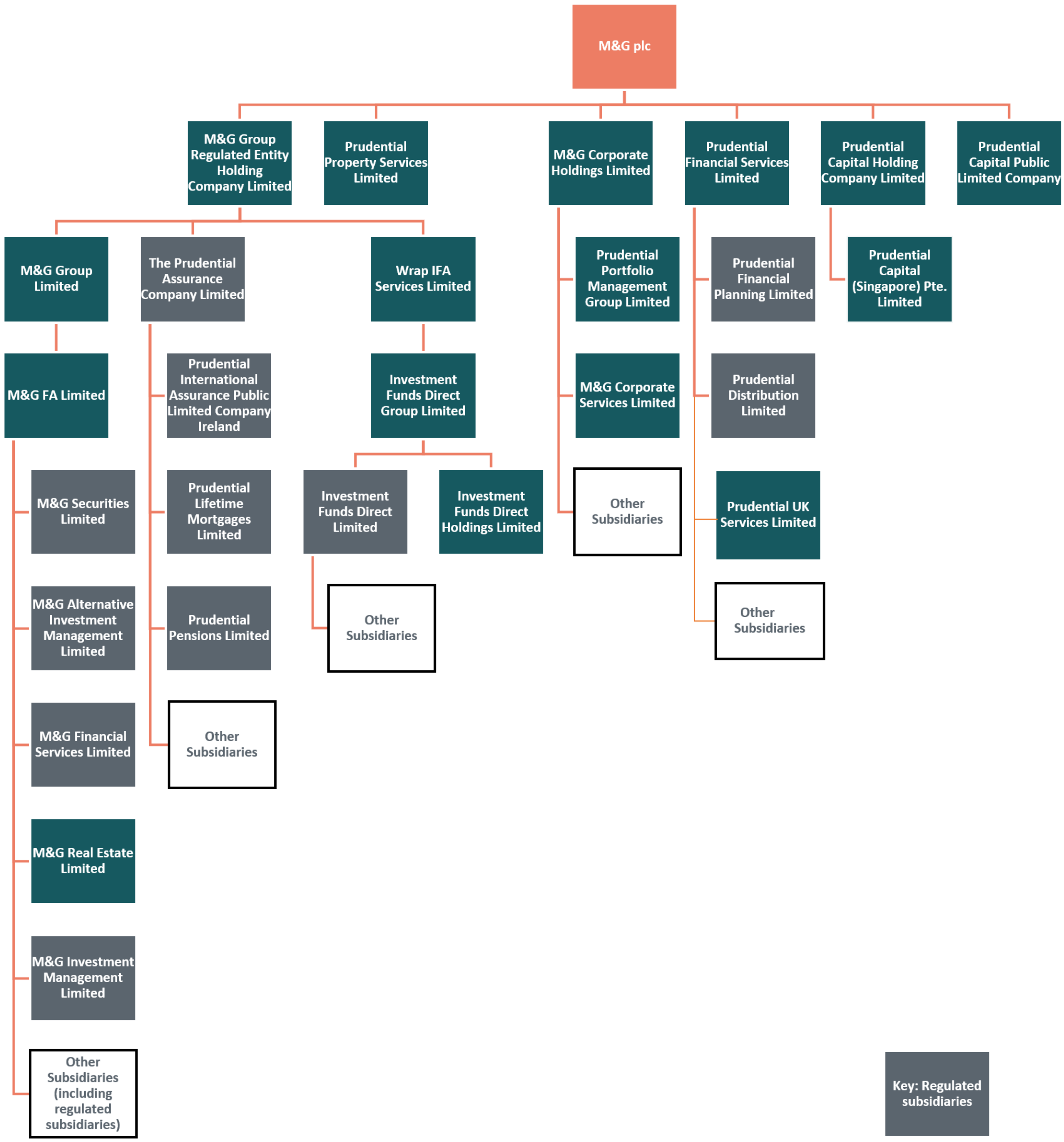
Presentation of risk and capital management disclosures

We have provided additional disclosures relating to the nature and extent of certain financial risks and capital management in the Supplementary Information section of this report.

2 Group structure and products

2.1 Group composition

The following diagram is an extract of the Group structure at 30 June 2021 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.



2 Group structure and products (continued)

2.2 Corporate transactions

2.2.1 Proposed sale of annuity portfolio to Rothesay Life PLC

On 14 March 2018, Prudential plc announced the reinsurance of £12,149m (as at 31 December 2017) of PAC's shareholder-backed annuity portfolio to Rothesay Life PLC by way of a collateralised reinsurance arrangement followed by an insurance business transfer scheme (the 'Scheme') under Part VII of Financial Services and Markets Act 2000. The terms of the reinsurance arrangement transferred substantially all of the economic risk and capital requirements associated with the annuity portfolio to Rothesay Life PLC, subject to a residual counterparty credit risk attaching to reinsurance receivables.

On 17 May 2019, the independent expert who was appointed to report to the High Court concluded that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. PAC and Rothesay Life PLC have successfully appealed that decision in the Court of Appeal. The associated process has now been clarified and there will be a further sanction hearing in the High Court scheduled for November with the expectation that the Part VII transfer will complete later in 2021.

The annuity portfolio has been classified as held for sale in these condensed consolidated financial statements. The total amount of assets and liabilities now classified as held for sale in relation to this arrangement are £9,578m of reinsurance assets, £9,578m of insurance contract liabilities, other assets of £52m and other liabilities of £52m.

2.2.2 Assets and liabilities held for sale

	As at 30 June 2021 £m	As at 31 December 2020 £m
Assets:		
Reinsurance assets	**9,578**	—
Other assets (including cash and cash equivalents) [(i)]	**205**	138
Assets held for sale	**9,783**	138
Liabilities:		
Insurance contract liabilities	**9,578**	—
Other liabilities [(i)]	**52**	75
Liabilities held for sale	**9,630**	75

(i) Other Assets held for sale as at 30 June 2021 include £25m (31 December 2020 : £18m) of seed capital classified as held for sale as it is expected to be divested within 12 months and £125m of investment property classified as held for sale (31 December 2020: £24m). Additionally £3m (31 December 2020: £96m) of assets held for sale and £nil (31 December 2020: £75m) of liabilities of operations held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

2.3 Insurance and investment products

A full description of the main contract types written by the Group's insurance entities can be found in the Annual Report and Accounts 2020. On 1 April 2021 Scottish Amicable Insurance Fund (SAIF), a ring fenced with-profits sub-fund, merged with PAC's main With-Profits Sub-Fund (WPSF) and the assets and liabilities of SAIF were combined with those of the WPSF. SAIF is a closed fund solely for the benefit of SAIF policyholders. Shareholders will continue to have no entitlement to profit transfers and will continue to receive asset management fees.

3 Segmental analysis

The Group's operating segments are defined and presented in accordance with IFRS 8: Operating Segments on the basis of the Group's management reporting structure and its financial management information. The Group's primary reporting format is by customer type, with supplementary information being given by product type. The Chief Operating Decision Maker for the Group is the Group Executive Committee.

3.1 Operating and reportable segments

Savings and Asset Management

The Group's Savings and Asset Management business provides a range of retirement, savings and investment management solutions to its retail and institutional customers and clients. The Group's retirement and savings products are distributed to retail customers through the wrap platform, intermediaries and advisors, and include the Retirement Account (a combined individual pension and income drawdown product), individual pensions, ISAs, collective investments and a range of on-shore and off-shore bonds.

All of the Group's products that give access to the PruFund investment proposition are included in the Savings and Asset Management segment. The PruFund investment proposition gives retail customers access to savings contracts with smoothed investment returns and a wide choice of investment profiles. Unlike the conventional and accumulating with-profits contracts in the Group's Heritage business, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate.

3 Segmental analysis (continued)

3.1 Operating and reportable segments (continued)

The Group's investment management capability is offered to both retail customers and institutional clients. The Group's retail customers invest through either UK domiciled Open Ended Investment Companies (OEICs) or Luxembourg domiciled Sociétés d'Investissement à Capital Variable (SICAVs) and have access to a broad range of actively managed investment products, including Equities, Fixed Income, Multi-Asset and Real Estate. The Group serves these customers through its many business-to-business relationships both in the UK and overseas, which include independent financial advisers, high-street banks and wealth managers. The Group's institutional investors, include pension funds, insurance companies and banks from around the world, who invest through segregated mandates and pooled funds into a diverse range of Fixed Income and Real Estate investment products and services.

The Savings and Asset Management segment also earns investment management revenues from the significant proportion of Heritage assets it manages.

Heritage

The Group's Heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new customers but may accept further contributions from existing policyholders[2]. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

The life products in Heritage are primarily whole of life assurance, endowment assurances, term assurance contracts, lifetime mortgages, income protection, and critical illness products. Investment products include unit-linked contracts and the Prudential bond offering, which mainly consists of single-premium-invested whole of life policies, where the customer has the option of taking ad-hoc withdrawals, regular income or the option of fully surrendering their bond.

Some of the Group's Heritage products written through conventional and accumulating with-profits contracts, in the PAC With-Profits Sub-Fund, provide returns to policyholders through 'regular' and 'final' bonuses that reflect a smoothed investment return.

The Heritage segment includes the closed SAIF business which participates in profits on a 100:0 basis with no shareholder profit transfers. Shareholders are entitled to asset management fees. This business is now included in PAC's main With-Profits Sub-Fund following the merger of the SAIF with-profits sub-fund on 1 April 2021 discussed in Note 2.3.

The Heritage business also includes the Defined Charge Participating Sub-Fund (DCPSF), which consists of two types of business:

i. the Defined Charge Participating business, primarily business reinsured from Prudential International Assurance plc; and
ii. the with-profits annuities transferred from Equitable Life Assurance Society on 31 December 2007.

Corporate Centre

Corporate Centre is the Group's other reportable segment which includes central corporate costs and debt costs.

3.2 Adjusted operating profit before tax methodology

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS GAAP measures and is key to decision making and the internal performance management of operating segments.

Adjusted operating profit before tax includes IFRS profit from continuing operations only.

For the Group's fee based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Costs associated with fundamental one-off Group-wide restructuring and transformation are not included in adjusted operating profit before tax.

For the Group's business written in the With-Profits Fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers, and can be separated into two types:

1. Cash flow hedges[3]: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers.
2. Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

The realised gains or losses on the cash flow hedges are allocated to adjusted operating profit before tax in line with emergence of the corresponding shareholder transfer within IFRS profit. Any short-term temporary movements in the fair value of these instruments, not relating to the current year's shareholder transfer are excluded from adjusted operating profit before tax. As the capital hedges do not explicitly hedge future IFRS profit before tax, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

For the Group's shareholder annuity products written by the Heritage segment, adjusted operating profit before tax excludes the impact of short-term components of credit risk provisioning, the impact of credit risk experience variances over the period, and total fair value movements on surplus assets backing the shareholder annuity capital, that are not reflective of the longer-term performance of the business.

[2] The Group accepts new members to existing Corporate Pension schemes and writes a small number of new annuity policies with customers who have a pension issued by PAC.
[3] These cash flow hedges do not constitute hedge accounting arrangements under IAS 39.

3 Segmental analysis (continued)

3.2 Adjusted operating profit before tax methodology (continued).

Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax. Adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations.

The key adjusting items between IFRS profit before tax and adjusted operating profit before tax are:

Short-term fluctuations in investment returns

The adjustment for short-term fluctuations in investment returns represents:

i. Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer, including both cash flow and capital hedges.

ii. Total fair value movements on other capital hedges, which are held solely to optimise the Solvency II capital position.

iii. Total fair value movements on surplus assets backing the shareholder annuity capital, and the impact of short-term credit risk provisioning and experience variances over the period which are not reflective of the longer-term performance of the business, specifically:

- The impact of credit risk provisioning for short-term adverse credit risk experience;
- The impact of credit risk provisioning for actual upgrade and downgrade experience during the year. This is calculated by reference to current interest rates;
- Credit experience variance relative to assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring;
- The impact of market movements on bond portfolio weightings and the subsequent impact on credit provisions.

Items relating to investment returns which are included in adjusted operating profit before tax are:

- The net impact of movements in the value of policyholder liabilities and fair value of the assets backing these liabilities, excluding the items included in short-term fluctuations above. The fair value movements of the assets backing the liabilities are closely correlated with the related change in liabilities;
- The unwind of the credit risk premium, which is the opening value of the assets multiplied by the credit risk premium assumption, with an adjustment for claims paid over the year. The credit risk premium assumption is the difference between the total long-term credit allowance and a best estimate credit allowance (both of which allow for the combination of defaults and downgrades);
- Actual income received in the year, such as coupon payments, redemption payments and rental income, on surplus assets backing the shareholder annuity capital, less an allowance for expenses;
- The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing;
- The impact of changes in the long-term component of credit provisioning.

Profit/(loss) on disposal of businesses and corporate transactions

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long term operating performance of the Group, including profits or losses arising on corporate transactions and profits or losses on discontinued operations.

Restructuring costs

Restructuring costs primarily reflect the shareholder allocation of costs associated with the merger and transformation. These costs represent fundamental one-off Group-wide restructuring and transformation and are therefore excluded from IFRS adjusted operating profit.

3 Segmental analysis (continued)

3.3 Analysis of Group adjusted operating profit before tax by segment

	For the six months ended 30 June 2021			
	Savings and Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenues [(i)]	565	41	—	606
Annuity margin	—	157	—	157
With-profits shareholder transfer net of hedging gains/(losses) [(ii)]	46	108	—	154
Adjusted operating income	611	306	—	917
Adjusted operating expenses	(432)	(36)	(48)	(516)
Other shareholder (loss)/profit	(24)	12	(68)	(80)
Share of profit from joint ventures and associates [(iii)]	6	—	—	6
Adjusted operating profit/(loss) before tax	161	282	(116)	327
Short-term fluctuations in investment returns	(66)	(483)	—	(549)
Restructuring and other costs [(iv)]	(44)	(10)	(31)	(85)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	51	(211)	(147)	(307)
IFRS profit attributable to non controlling interests	3	—	—	3
IFRS profit/(loss) before tax attributable to equity holders	54	(211)	(147)	(304)

[(i)] Included in fee based revenues for the six months ended 30 June 2021 is £55m (30 June 2020: £46m, 31 December 2020: £114m) revenues that the Savings and Asset Management segment has earned from the Heritage segment, and other presentational differences. These amounts are excluded from the analysis of fee income by segment in Note 4.

[(ii)] The with-profits shareholder transfer is paid to the shareholder net of tax. The shareholder transfer amount is grossed up for tax purposes in determining adjusted operating profit.

[(iii)] Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

[(iv)] Restructuring and other costs excluded from adjusted operating profit relate to merger and transformation costs allocated to the shareholder. These differ to Restructuring costs included in the analysis of administrative and other expenses in Note 5 which include costs allocated to the policyholder. Additionally in the six months to 30 June 2021 restructuring and other costs include an impairment of £29m which is presented in impairment of property, plant and equipment in the analysis of administrative and other expenses in Note 5.

	For the six months ended 30 June 2020			
	Savings and Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenues [(i)]	541	39	—	580
Annuity margin	—	139	—	139
With-profits shareholder transfer net of hedging gains/(losses) [(ii)]	24	110	—	134
Adjusted operating income	565	288	—	853
Adjusted operating expenses	(382)	(30)	(75)	(487)
Other shareholder (loss)/profit	(26)	40	(76)	(62)
Share of profit from joint ventures and associates [(iii)]	5	—	—	5
Adjusted operating profit/(loss) before tax	162	298	(151)	309
Short-term fluctuations in investment returns	74	672	—	746
Restructuring and other costs [(iv)]	(17)	(4)	(1)	(22)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	219	966	(152)	1,033
IFRS profit attributable to non controlling interests	2	—	—	2
IFRS profit/(loss) before tax attributable to equity holders	221	966	(152)	1,035

3 Segmental analysis (continued)

3.3 Analysis of Group adjusted operating profit before tax by segment (continued)

	For the year ended 31 December 2020			
	Savings and Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenues [i]	1,146	74	—	1,220
Annuity margin	—	438	—	438
With-profits shareholder transfer net of hedging gains/(losses) [ii]	44	207	—	251
Adjusted operating income	1,190	719	—	1,909
Adjusted operating expenses	(840)	(79)	(101)	(1,020)
Other shareholder (loss)/profit	(28)	59	(142)	(111)
Share of profit from joint ventures and associates [iii]	10	—	—	10
Adjusted operating profit/(loss) before tax	332	699	(243)	788
Short-term fluctuations in investment returns	58	620	—	678
Restructuring and other costs [iv]	(51)	(22)	—	(73)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	339	1,297	(243)	1,393
IFRS profit attributable to non controlling interests	4	—	—	4
IFRS profit/(loss) before tax attributable to equity holders	343	1,297	(243)	1,397

The Group has a widely diversified customer base. There are no customers whose revenue represents greater than 10% of fee-based revenue.

Each reportable segment reports adjusted operating income as its measure of revenue. Fee based revenues represent asset management charges, transactional charges and annual management charges on unit-linked business. The annuity margin reflects the margin earned on annuity business and includes net earned premiums, claims and benefits paid, net investment return for assets backing the liabilities, net investment income for surplus assets backing the annuity capital, actuarial reserving changes, investment management expenses and administrative expenses. The with-profits shareholder transfer reflects the statutory transfer gross of attributable tax net of hedging gains or losses on cash flow hedges held to match those transfers.

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other shareholder (loss)/profit includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio. Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (Pty) Limited, which was accounted for under the equity method during the period.

4 Fee income

The following table disaggregates management fee revenue by segment:

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
Savings and Asset Management:			
Management fees	**435**	501	910
Rebates	**(15)**	(17)	(34)
Total management fees, less rebates	**420**	484	876
Performance fees	**5**	4	42
Investment contracts without discretionary participation features	**17**	16	32
Platform fees	**17**	—	11
Other fees and commissions	**24**	28	55
Total Savings and Asset Management fee income	**483**	532	1,016
Heritage:			
Investment contracts without discretionary participation features	**7**	8	15
Total Heritage fee income	**7**	8	15
Total fee income	**490**	540	1,031

5 Administrative and other expenses

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
Staff and employment costs	**388**	358	650
Acquisition costs incurred:			
Insurance contracts	**63**	74	145
Other contracts	**16**	14	27
Acquisition costs deferred:			
Insurance contracts	**(5)**	(7)	(11)
Other contracts	**(1)**	(1)	(2)
Amortisation of deferred acquisition costs:			
Insurance contracts	**4**	3	7
Other contracts	**2**	2	9
Impairment of deferred acquisition costs	**—**	3	3
Depreciation of property, plant and equipment	**55**	52	109
Impairment of property, plant and equipment (i)	**77**	5	98
Amortisation of intangible assets	**12**	8	19
Impairment of goodwill and intangible assets	**—**	5	16
Restructuring costs	**77**	65	148
Interest expense	**55**	93	153
Commission expense	**98**	117	224
Investment management fees	**97**	119	191
Property-related costs	**87**	98	215
Other expenses	**359**	201	733
Total administrative and other expenses	**1,384**	1,209	2,734

(i) Includes impairment recognised in respect of our future ways of working of £29m (30 June 2020: £nil, 31 December 2020: £nil) included in 'restructuring and other costs' within the Segmental Analysis in Note 3, and of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £48m (30 June 2020: £5m, 31 December 2020: £95m).

In addition to the interest expense shown above of £55m (30 June 2020: £93m, 31 December 2020: £153m), the interest expense incurred in respect of subordinated liabilities for the six months ended 30 June 2021 was £80m (30 June 2020: £79m, year ended 31 December 2020: £167m). This is shown as finance costs in the condensed consolidated income statement. Total finance costs incurred for the six months ended 30 June 2021 were £135m (30 June 2020: £172m, year ended 31 December 2020: £320m).

6 Tax

6.1 Tax charged/(credited) to the condensed consolidated income statement

6.1.1 Income statement tax charge/(credit)

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
Total current tax	**190**	300	598
Total deferred tax	**132**	(461)	(135)
Total tax charge/(credit)	**322**	(161)	463

6.1.2 Allocation of profit before tax and tax charge between equity holders and policyholders

The loss before tax reflected in the condensed consolidated income statement for the 6 months ended 30 June 2021 of £304m (30 June 2020:£1,035m profit) comprises the pre-tax result attributable to equity holders and pre-tax result attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of with-profits fund. This is the formal measure of profit or loss before tax under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, this measure of profit or loss before all taxes is not representative of pre-tax profits attributable to equity holders.

The tax charge attributable to policyholder returns is removed from the Group's total profit or loss before tax in arriving at the Group's profit or loss before tax attributable to equity holders. As the net of tax profits attributable to policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge attributable to policyholders included in the total tax charge.

	For the six months ended 30 June						For the year ended 31 December		
	2021			2020			2020		
	Equity holders	**Policyholders**	**Total**	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
(Loss)/profit before tax	**(304)**	**378**	**74**	1,035	(370)	665	1,397	208	1,605
Tax credit/(charge)	**56**	**(378)**	**(322)**	(209)	370	161	(255)	(208)	(463)
(Loss)/profit for the period	**(248)**	**—**	**(248)**	826	—	826	1,142	—	1,142

6.1.3 Equity holders effective tax rate

The equity holders tax benefit for the six months ended 30 June 2021 was £56m (30 June 2020: tax charge of £209m) representing an effective tax rate of 18.4% (30 June 2020: 20.2%). The equity holders' effective tax rate of 18.4% was lower than the UK statutory rate of 19% (30 June 2020: 19%), which reflects a detrimental position (lower tax benefit on the pre-tax loss position) primarily due to the adverse impact of non-deductible expenses, partially offset by beneficial impacts arising from the utilisation of tax losses on which no deferred tax was previously recognised, together with the remeasurement of equity holder deferred tax assets following the change to the UK statutory rate of corporation tax (increase from 19% to 25% with effect from 1 April 2023) that was enacted in the period. The majority of the UK deferred tax balances are measured at the policyholder rate of tax, which was not impacted by the changes to the UK statutory rate of corporation tax.

6.2 Current tax assets and liabilities

	Current tax assets		Current tax liabilities	
	For the six months ended 30 June	For the year ended 31 December	**For the six months ended 30 June**	For the year ended 31 December
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Corporation tax	**346**	389	**(237)**	(222)
Other taxes	**27**	29	**(63)**	(54)
Total	**373**	418	**(300)**	(276)

PAC is the lead litigant in a combined group action against HM Revenue and Customs ('HMRC') concerning the correct historical tax treatment applying to dividends received from overseas portfolio investments of its with-profits fund.

In February 2018 the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court released in July 2018 upheld the main point in dispute in PAC's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle. The Supreme Court issued its order giving effect to its decision in October 2019 stating any remaining issues of computation be remitted back to the High Court. PAC and HMRC are working through the mechanics of implementing the Supreme Court decisions. This work, to date, has led to a reduction in the estimate for policyholder tax credit recoverable during 2019 and 2021 and the estimate of interest receivable. As at 30 June 2021, PAC has recognised a total policyholder tax credit of £114m (30 Dec 2020: £122m) in respect of its claim against HMRC. Of this amount, £40m has been paid by HMRC leaving a tax recoverable balance of £74m recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. It is now expected the issue will be finalised in the second half of 2021 at which point PAC should receive full and final payment.

6 Tax (continued)

6.3 Deferred tax assets and liabilities

	For the six months ended 30 June 2021 £m	For the year ended 31 December 2020 £m
Unrealised gains on investments	**(1,037)**	(876)
Life tax transitional adjustments	**(51)**	(68)
Other short term timing differences	**129**	104
Deferred acquisition costs	**40**	45
Defined benefit pensions	**(38)**	(17)
Capital allowances	**(4)**	(21)
Tax losses carried forward	**11**	10
Share based payments and deferred compensation	**16**	15
Net deferred tax liability	**(934)**	(808)
Assets	**138**	108
Liabilities	**(1,072)**	(916)
Net deferred tax liability	**(934)**	(808)

7 Earnings per share

Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares and shares held by the employee benefit trust. Diluted earnings per share is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue.

The following table shows details of basic and diluted earnings per share:

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
(Loss)/profit attributable to equity holders of M&G plc	**(251)**	824	1,138

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	millions	millions	millions
Weighted average number of ordinary shares outstanding	**2,552**	2,589	2,563
Dilutive effect of share options and awards	**—**	4	24
Weighted average number of diluted ordinary shares outstanding	**2,552**	2,593	2,587

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	Pence per share	Pence per share	Pence per share
Basic (loss)/earnings per share	**(9.8)**	31.8	44.4
Diluted (loss)/earnings per share	**(9.8)**	31.8	44.0

8 Dividends

	For the six months ended 30 June 2021		For the six months ended 30 June 2020		For the year ended 31 December 2020	
	Pence per share	**£m**	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim dividend - Ordinary	**6.1**	**155**	6.0	152	6.0	152
Second interim dividend - Ordinary	—	—	—	—	12.2	310
Total	**6.1**	**155**	6.0	152	18.2	462
Dividends paid in reporting period:						
Prior year's Second interim dividend - Ordinary	**12.2**	**310**	11.9	310	11.9	310
Prior year's interim dividend - Special dividends	—	—	3.9	100	3.9	100
First interim dividend - Ordinary	—	—	—	—	6.0	152
Total		**310**		410		562

Subsequent to 30 June 2021, the Board has declared a first interim dividend for 2021 of 6.1 pence per ordinary share, an estimated £155m in total. The dividend is expected to be paid on 29 September 2021 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid.

9 Defined benefit pension schemes

The Group operates three defined benefit pension schemes. The largest defined benefit scheme as at 30 June 2021 is the Prudential Staff Pension Scheme (PSPS), which accounts for 81% (31 December 2020: 81%) of the present value of the defined benefit pension obligation.

The Group also operates two smaller defined benefit pension schemes that were originally established by the M&G (M&GGPS) and Scottish Amicable (SASPS) businesses.

Under IAS 19: Employee Benefits and IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, the Group can only recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, PSPS's net economic pension surplus is restricted up to the present value of the Group's economic benefit, which is calculated as the difference between the estimated future cost of service for active members and the estimated future ongoing contributions. In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from the schemes (if any) would be recognised in full. As at 30 June 2021 the SASPS and M&GGPS schemes are in deficit based on the IAS 19 valuation.

The IAS 19 surplus for M&GGPS is lower than the economic surplus position, as the pension scheme has investments in insurance policies issued by Prudential Pensions Limited, a subsidiary of the Group, through which it invests in certain pooled funds. Under IAS 19, insurance policies issued by a related party do not qualify as plan assets. SASPS's net economic pension deficit is funded 40% by the With-Profits Fund and 60% by the Group's shareholders.

The pension assets and liabilities for the defined benefit pension schemes are as follows:

	As at 30 June 2021			
	PSPS	**SASPS**	**M&GGPS**	**Total**
	£m	**£m**	**£m**	**£m**
Fair value of plan assets	**7,364**	**914**	**713**	**8,991**
Present value of defined benefit obligation	**(6,466)**	**(972)**	**(544)**	**(7,982)**
Effect of restriction on surplus	**(856)**	**—**	**—**	**(856)**
Net economic pension surplus/(deficit) [(i)]	**42**	**(58)**	**169**	**153**
Eliminate group issued insurance policies	**—**	**—**	**(235)**	**(235)**
Net total pension surplus/(deficit)	**42**	**(58)**	**(66)**	**(82)**

	As at 30 June 2021			
	PSPS	**SASPS**	**M&GGPS**	**Total**
	£m	**£m**	**£m**	**£m**
Attributable to:				
Shareholder-backed business	**13**	**(35)**	**(66)**	**(88)**
With-Profits Fund	**29**	**(23)**	**—**	**6**
Net total pension surplus/(deficit)	**42**	**(58)**	**(66)**	**(82)**

[(i)] The economic basis reflects the position of the defined benefit schemes from the perspective of the pension schemes, adjusted for the effect of IFRIC 14 for the derecognition of PSPS's unrecognisable surplus and before adjusting for any non-qualifying assets.

9 Defined benefit pension schemes (continued)

	As at 31 December 2020			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	7,884	967	742	9,593
Present value of defined benefit obligation	(7,109)	(1,073)	(605)	(8,787)
Effect of restriction on surplus	(717)	—	—	(717)
Net economic pension surplus/(deficit) [i]	58	(106)	137	89
Eliminate group issued insurance policies	—	—	(201)	(201)
Net total pension surplus/(deficit)	58	(106)	(64)	(112)

	As at 31 December 2020			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Attributable to:				
Shareholder-backed business	17	(64)	(64)	(111)
With-Profits Fund	41	(42)	—	(1)
Net total pension surplus/(deficit)	58	(106)	(64)	(112)

10 Policyholder liabilities and unallocated surplus

10.1 Determination of insurance and investment contract liabilities for different components of business

A description relating to the determination of the policyholder liabilities and the key assumptions for each component of business is set out below:

10.1.1 With-profits business

The With-Profits Fund mainly contains with-profits contracts but also contains some non-profit business (annuities, unit-linked, and term assurances). The liabilities of the With-Profits Fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 Life Assurance. The basis is consistent with the rules for the determination of reserves on the realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances. Non-profit business written in the With-Profits Fund is valued consistently with equivalent business written in shareholder-backed funds, and profit on this business which has accrued to policyholders is included as part of the with-profits contract liability. No policyholder liability is held in respect of future enhancements to with-profits liabilities from non-profit business.

The with-profits contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4. The realistic basis requires the value of with-profits policyholder liabilities to be calculated as the sum of:

i. A with-profits benefits reserve (WPBR)
ii. Future policy-related liabilities (FPRL)

The WPBR is primarily based on the retrospective calculation of accumulated asset shares with adjustments to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the With-Profits Fund assets attributable to their policies. For certain classes of business, the WPBR is instead calculated using a prospective bonus reserve valuation, valuing future claims and expenses using the expected future bonus rates.

The FPRL is comprised of other components of the liability including a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using stochastic modelling techniques.

Assumptions used for the realistic, market-consistent valuation of with-profits business typically do not contain margins, whereas those used for the valuation of other classes of business (for example, annuities) contain margins of prudence within the assumptions. The main assumptions used in the prospective elements of the with-profits policyholder liabilities are listed below:

- Assumptions relating to persistency and the take-up options offered under certain with-profits contracts are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business;
- Management actions under which the fund is managed in different scenarios;
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure, and are allocated between entities and product groups in accordance with each operation's internal cost allocation model;
- Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve;
- The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis.

At 30 June 2021, there are no significant external reinsurance arrangements in place in respect of the With-Profits Fund's liabilities.

10 Policyholder liabilities and unallocated surplus (continued)

10.1 Determination of insurance and investment contract liabilities for different components of business (continued)

Unallocated surplus

The unallocated surplus of the With-Profits Fund represents the excess of the fund's assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess/(shortfall) of income over expenditure of the With-Profits Fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to/(from) the unallocated surplus each year through a charge/(credit) to the consolidated income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

With-profits options and guarantees

Certain policies written in the Group's With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion.

Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions products, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, guarantees apply at the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter.

The main types of options and guarantees offered for with-profits contracts are as follows:

- For conventional with-profits contracts, including endowment assurance contracts and whole of-life assurance contracts, payouts are guaranteed at the sum assured together with any declared regular bonus;
- Conventional with-profits deferred annuity contracts have a basic annuity per annum to which bonuses are added. At maturity, the cash claim value will reflect the current cost of providing the deferred annuity. Regular bonuses when added to with-profits contracts usually increase the guaranteed amount;
- For unitised with-profits contracts and cash accumulation contracts the guaranteed payout is the initial investment (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses declared. If benefits are taken at a date other than when the guarantee applies, a market value reduction may be applied to reflect the difference between the accumulated value of the units and the market value of the underlying assets;
- For certain unitised with-profits contracts and cash accumulation contracts, policyholders have the option to defer their retirement date when they reach maturity, and the terminal bonus granted at that point is guaranteed;
- For with-profits annuity contracts, there is a guaranteed minimum annuity payment below which benefit payments cannot fall over the lifetime of the policies;
- Certain pensions products have guaranteed annuity options at retirement, where the policyholder has the option to take the benefit in the form of an annuity at a guaranteed conversion rate.

10.1.2 Unit-linked business

For unit-linked contracts, the attaching liability reflects the unit value obligation and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, a provision for expense and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile. To calculate the non-unit reserves for unit-linked insurance contracts, assumptions are set for maintenance expenses, the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability, and the deferred acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Deferred acquisition costs and deferred income are recognised consistent with the level of service provision.

Certain parts of the unit-linked business are reinsured externally, either by way of fund reinsurance or by reinsuring specific risk benefits. Where this is the case, the reinsurance liability in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the reinsurance asset.

10.1.3 Annuities and other long-term business

The majority of the policyholder liabilities in the 'annuities and other long-term business' component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used.

On 14 March 2018, part of the annuity liability was reinsured externally to Rothesay Life PLC, with effect from 31 December 2017. In addition, some of the longevity risk in respect of the remaining annuity business is reinsured externally. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities. As discussed in Note 2.2.1 the assets and liabilities in respect of the proposed sale of annuities to Rothesay Life PLC are classified as held for sale at 30 June 2021.

The key assumptions used to calculate the policyholder liability in respect of annuity business are as follows:

Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Group's portfolio.

10 Policyholder liabilities and unallocated surplus (continued)

10.1 Determination of insurance and investment contract liabilities for different components of business (continued)

No changes have been made to mortality assumptions in the six months ended 30 June 2021. When we set our assumptions during 2020 we adopted a stronger than default calibration of the CMI 2018 model to allow for higher mortality improvements observed during 2019. The mortality improvement assumptions used are summarised in the table below.

Period ended	Model version	Long-term improvement rate (i)	Smoothing parameter (S_k) (ii)
30 June 2021	CMI 2018	For males: 2.25% pa For females: 2.00% pa	For males: 7.75 For females: 8.25
31 December 2020	CMI 2018	For males: 2.25% pa For females: 2.00% pa	For males: 7.75 For females: 8.25

(i) As at 30 June 2021 and 31 December 2020, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence.

(ii) The smoothing parameter controls the amount of smoothing by calendar year when determining the level of initial mortality improvements.

Increased mortality rates have continued to be observed due to the COVID-19 pandemic, particularly in relation to the annuitant population which has a higher than average age than the non-annuitant population. However, the longer term implications for mortality rates amongst the annuitant population are unknown at this stage. No change has been made to the annuitant mortality assumptions directly as a result of COVID-19, this is an area the Group continues to monitor.

The mortality assumptions for in-force vested annuities also cover annuities in deferment.

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term allowance.

The credit risk allowance for the Group's shareholder-backed annuity business as at 30 June 2021 was 46 bps per annum (31 December 2020: 46 bps) corresponding to a net of reinsurance reserve of £795m (31 December 2020: £862m). For the annuity business written in the With-Profits Fund, this amount was 41 bps (31 December 2020: 43 bps) corresponding to a net of reinsurance reserve of £346m (31 December 2020: £406m). The decrease in net of reinsurance reserve is primarily due to the increase in yields since 31 December 2020.

Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment expenditure and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for prudence is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.

Sensitivity

The sensitivity of IFRS profit after tax to changes in the above assumptions, as at 31 December 2020 is shown in Note 34.2 of the Annual Report and Accounts 2020. There have been no changes in the Group's non-economic assumptions, including the longevity assumptions, since 31 December 2020. Economic assumptions, including tax have been updated to reflect prevailing market conditions at 30 June 2021. There have been no fundamental changes to the Group's methodology or estimation techniques which would change the nature of the risk profile and the degree of sensitivity to reasonably possible changes in these assumptions previously disclosed.

10 Policyholder liabilities and unallocated surplus (continued)

10.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund

The following tables show the movement in policyholder liabilities and unallocated surplus of the With-Profits Fund by business component. The analysis includes the impact of premiums, claims and investment movements on policyholder liabilities. The impact does not represent premiums, claims, and investment movements as reported in the condensed consolidated income statement. For example, the premiums shown below exclude any deductions for fees/charges, as the table only shows the impact on the insurance and investment contract liabilities and unallocated surplus of the With-Profits Fund. Claims (surrenders, maturities and deaths) represent the liability released rather than the claim amount paid to the policyholder.

	With-profits sub-funds [i]	Shareholder-backed funds and subsidiaries		Total	Reinsurance assets	Net total
		Unit-linked liabilities	Annuity and other long-term business			
	£m	£m	£m	£m	£m	£m
At 1 January 2020	136,814	20,994	30,443	188,251	(11,958)	176,293
Comprising:						
Insurance contract liabilities	42,717	5,396	30,367	78,480		
Investment contract liabilities with DPF	78,022	—	26	78,048		
Investment contract liabilities without DPF	3	15,598	50	15,651		
Unallocated surplus of the With-Profits Fund	16,072	—	—	16,072		
Net flows:						
Premiums	5,500	1,632	161	7,293		
Surrenders	(5,730)	(2,214)	(81)	(8,025)		
Maturities/deaths	(4,114)	(603)	(2,077)	(6,794)		
Net flows	(4,344)	(1,185)	(1,997)	(7,526)		
Shareholders' transfers post-tax	(250)	—	—	(250)		
Switches	(81)	81	—	—		
Investment related items and other movements [ii]	4,220	509	2,153	6,882		
Foreign exchange differences	28	56	—	84		
At 31 December 2020 / 1 January 2021	**136,387**	**20,455**	**30,599**	**187,441**	**(11,761)**	**175,680**
Comprising:						
Insurance contract liabilities	**41,172**	**4,987**	**30,491**	**76,650**		
Investment contract liabilities with DPF	**79,592**	**—**	**31**	**79,623**		
Investment contract liabilities without DPF	**2**	**15,468**	**77**	**15,547**		
Unallocated surplus of the With-Profits Fund	**15,621**	**—**	**—**	**15,621**		
Net flows:						
Premiums	**2,241**	**1,075**	**88**	**3,404**		
Surrenders	**(3,336)**	**(1,674)**	**(34)**	**(5,044)**		
Maturities/deaths	**(2,106)**	**(298)**	**(1,029)**	**(3,433)**		
Net flows	**(3,201)**	**(897)**	**(975)**	**(5,073)**		
Reclassification of reinsured UK annuity contracts as held for sale	**—**	**—**	**(9,578)**	**(9,578)**		
Shareholders' transfers post-tax	**(145)**	**—**	**—**	**(145)**		
Switches	**(14)**	**14**	**—**	**—**		
Investment related items and other movements [ii]	**5,358**	**586**	**(509)**	**5,435**		
Foreign exchange differences	**(303)**	**—**	**—**	**(303)**		
At 30 June 2021	**138,082**	**20,158**	**19,537**	**177,777**	**(1,569)**	**176,208**
Comprising:						
Insurance contract liabilities	**40,144**	**5,069**	**19,396**	**64,609**		
Investment contract liabilities with DPF	**81,786**	**—**	**34**	**81,820**		
Investment contract liabilities without DPF	**2**	**15,089**	**107**	**15,198**		
Unallocated surplus of the With-Profits Fund	**16,150**	**—**	**—**	**16,150**		

[i] Includes the PAC With-Profits Sub-Fund (WPSF), the Defined Charge Participating Sub-Fund and the Scottish Amicable Insurance Fund including the non-profit business written within these funds. On 1 April 2021 the closed Scottish Amicable Insurance Fund (SAIF) with-profits sub-fund merged with PAC's main WPSF and the assets and liabilities of SAIF combined with those of the WPSF.

[ii] Investment related items and other movements include the impact of assumption changes. For the shareholder-backed business, assumption changes, including credit downgrade/default provisioning and annuitant mortality, decreased policyholder liabilities by £13m for the six months ended 30 June 2021 (31 December 2020: £238m decrease). For the With-Profits Fund, the impact of assumption changes for the six months ended 30 June 2021 was an increase in policyholder liabilities of £11m (year ended 31 December 2020: £339m decrease), which was offset by a corresponding decrease in unallocated surplus of the With-Profits Fund.

10 Policyholder liabilities and unallocated surplus (continued)

10.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund (continued)

Further analysis of the movement in the Group's insurance contract liabilities, reinsurance asset, investment contract liabilities and unallocated surplus of the With-Profits Fund is provided below. The movement in these items is predominantly allocated to the 'benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance' line in the condensed consolidated income statement, although certain movements such as premiums received and claims paid on investment contracts without discretionary participating features, are not charged to the condensed consolidated income statement.

	Insurance contract liabilities £m	Investment contract liabilities [ii] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance assets [iii] £m
At 1 January 2020	**78,480**	**93,699**	**16,072**	**(11,958)**
Movement charged to the condensed consolidated income statement	(1,884)	2,280	(433)	203
Other movements including amounts included in other comprehensive income [i]	19	(865)	(11)	(4)
Foreign exchange differences	35	56	(7)	(2)
At 31 December 2020 / 1 January 2021	**76,650**	**95,170**	**15,621**	**(11,761)**
Movement charged to the condensed consolidated income statement	**(2,408)**	**2,569**	**565**	**610**
Other movements including amounts included in other comprehensive income [i]	**(9,580)**	**(722)**	**(40)**	**9,578**
Foreign exchange differences	**(53)**	**1**	**4**	**4**
At 30 June 2021	**64,609**	**97,018**	**16,150**	**(1,569)**

[i] Other movements including amounts included in other comprehensive income include premiums received and claims paid on investment contracts without discretionary participating features, which are recognised directly on the condensed consolidated statement of financial position in accordance with IAS 39; changes in the unallocated surplus of the With-Profits Fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income and balance sheet reallocations. The balance sheet reallocations for the six months ended 30 June 2021 include the reallocation of the UK annuity business to held for sale as discussed in Note 2.

[ii] This comprises investment contracts with discretionary participation features of £81,820m as at 30 June 2021 (31 December 2020: £79,623m) and investment contracts without discretionary participation features of £15,198m as at 30 June 2021 (31 December 2020: £15,547m).

[iii] Includes reinsurers' share of claims outstanding of £149m as at 30 June 2021 (31 December 2020: £149m).

The below tables show the 'Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance' as shown in the condensed consolidated income statement. 'Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance' comprises the movement charged to the condensed consolidated income statement presented in the table above, and the benefits and claims paid over the period, net of amounts attributable to reinsurers.

	For the six months ended 30 June 2021		
	Policyholder liabilities [i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance assets £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in the condensed consolidated income statement	**(161)**	**(565)**	**—**
Movement in reinsurance asset included in consolidated income statement	**—**	**—**	**(610)**
Benefits and claims paid	**(6,659)**	**—**	**—**
Benefits and claims attributable to external reinsurers	**—**	**—**	**827**
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in condensed consolidated income statement	**(6,820)**	**(565)**	**217**

[i] Policyholder liabilities includes insurance contract liabilities and investment contract liabilities.

	For the six months ended 30 June 2020		
	Policyholder liabilities [i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance assets £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in the condensed consolidated income statement	4,895	1,200	—
Movement in reinsurance asset included in consolidated income statement	—	—	(33)
Benefits and claims paid	(6,268)	—	—
Benefits and claims attributable to external reinsurers	—	—	823
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in condensed consolidated income statement	(1,373)	1,200	790

10 Policyholder liabilities and unallocated surplus (continued)

10.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund (continued)

	For the year ended 31 December 2020		
	Policyholder liabilities [i]	Unallocated surplus of the With-Profits Fund	Reinsurance assets
	£m	£m	£m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in the condensed consolidated income statement	(396)	433	—
Movement in reinsurance asset included in consolidated income statement	—	—	(203)
Benefits and claims paid	(12,278)	—	—
Benefits and claims attributable to external reinsurers	—	—	1,680
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance as shown in condensed consolidated income statement	(12,674)	433	1,477

11 Subordinated liabilities and other borrowings

	As at 30 June	As at 31 December
	2021	2020
	£m	£m
Subordinated liabilities	**3,711**	3,729
Operational borrowings	**133**	157
Borrowings attributable to With-Profits Fund	**4,643**	4,381
Total subordinated liabilities and other borrowings	**8,487**	8,267

Subordinated liabilities

The Group's subordinated liabilities consist of subordinated notes which were transferred from Prudential plc on 18 October 2019 and were recorded at fair value on initial recognition. The transfer of the subordinated liabilities was achieved by substituting the Company in place of Prudential plc as issuer of the debt, as permitted under the terms and conditions of each applicable instrument. All costs related to the transaction were borne by Prudential plc.

	As at 30 June 2021		As at 31 December 2020	
	Principal amount	**Carrying amount**	Principal amount	Carrying amount
		£m		£m
5.625% Sterling fixed rate due on 20 October 2061	**£750m**	**852**	£750m	856
6.25% Sterling fixed rate due 20 October 2068	**£500m**	**607**	£500m	608
6.5% US Dollar fixed rate due on 20 October 2048	**$500m**	**418**	$500m	425
6.34% Sterling fixed rate due on 19 December 2063	**£700m**	**851**	£700m	853
5.56% Sterling fixed rate due on 20 July 2055	**£600m**	**678**	£600m	680
3.875% Sterling fixed rate due on 20 July 2049	**£300m**	**305**	£300m	307
Total subordinated liabilities		**3,711**		3,729

Subordinated notes issued by the Company rank below its senior obligations and ahead of its preference shares and ordinary share capital.

11 Subordinated liabilities and other borrowings (continued)

A description of the key features of each of the Group's subordinated notes is as follows:

	5.625% Sterling fixed rate	6.25% Sterling fixed rate	6.50% US Dollar fixed rate	6.34% Sterling fixed rate	5.56% Sterling fixed rate	3.875% Sterling fixed rate
Principal amount	£750m	£500m	$500m	£700m	£600m	£300m
Issue date [(i)]	1 October 2018	1 October 2018	1 October 2018	16 December 2013 (amended 10 June 2019)	9 June 2015 (amended 10 June 2019)	8 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date thereafter)	20 October 2048 (and each semi-annual interest payment date thereafter)	20 October 2028 (and each semi-annual interest payment date thereafter)	19 December 2043 (and each semi-annual interest payment date thereafter)	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment date thereafter)
Solvency II own funds	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2

[(i)] The subordinated notes were issued by Prudential plc rather than by the Company.

As at 30 June 2021, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £41m (31 December 2020: £42m) is expected to be settled within 12 months.

The following table reconciles the movement in subordinated liabilities in the period:

	For the six months ended 30 June 2021 £m	For the year ended 31 December 2020 £m
At 1 January	**3,729**	3,767
Amortisation	**(14)**	(23)
Foreign exchange movements	**(4)**	(15)
At end of period	**3,711**	3,729

There were no repayments of principal on these loans during the year. The amortisation of premium on the loans based on an effective interest rate and the foreign exchange movement on the translation of the subordinated liabilities denominated in US dollar are both non-cash items.

12 Fair value methodology

12.1 Determination of fair value hierarchy

The fair values of assets and liabilities for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, by using quotations from independent third parties such as brokers and pricing services, or by using appropriate valuation techniques. Fair value is the amount for which an asset could be exchanged or a liability settled in an arm's length transaction.

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 1 principally includes exchange-listed equities, mutual funds with quoted prices, exchange-traded derivatives such as futures and options, and national government bonds, unless there is evidence that trading in a given instrument is so infrequent that the market could not be considered active. It also includes other financial instruments where there is clear evidence that the valuation is based on a traded price in an active market.

Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 2 principally includes corporate bonds and other national and non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without DPF that are valued using observable inputs.

Level 3 - significant inputs for the asset or liability are not based on observable market data (unobservable inputs)
Level 3 principally includes investments in private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

12 Fair value methodology (continued)

12.2 Valuation approach for level 2 assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other national and non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or quotes from third-party brokers. These valuations are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain third-party broker quotes. When prices are not available from pricing services, quotes are sourced directly from brokers. The Group seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

12.3 Level 3 assets and liabilities

12.3.1 Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

Where certain debt securities are valued using broker quotes, adjustments may be required in limited circumstances. This is generally where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those described below with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. The input assumptions are determined based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Certain debt securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower and allocating an internal credit rating which is unobservable. The internal credit rating implicitly incorporates environmental, social and governance (ESG) considerations through the analysts views of the industry and issuer. Under matrix pricing, these debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt securities, factoring in a specified liquidity premium. The selection of comparable quoted public debt securities used to determine the credit spread is based on a credit spread matrix that takes into account the internal credit rating, maturity and currency of the debt security.

The fair value estimates are made at a specific point in time, based upon any available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time a significant volume of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases, the disclosed value cannot be realised in immediate settlement of the financial instrument. In accordance with the Group Risk Framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

As at 30 June 2021, the Group held £42,022m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (31 December 2020: £40,251m). This included £1,301m of loans (31 December 2020: £1,366m) and corresponding borrowings of £1,235m (31 December 2020: £1,301m) held by a subsidiary of the Group, attaching to a portfolio of buy-to-let mortgages financed largely by external third-party (non-recourse) borrowings. The Group's exposure to this portfolio is limited to the investments held by the WPSF. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. The Group's investment properties are predominantly valued using an income capitalisation technique. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenants and location. Typically these variables used are compared to recent transactions with similar features to those being valued. The valuation of investment property inherently captures the impact of climate change if it were located in an area subject to climate change events. The key inputs of yield and rental value are proxies for a range of factors which will include climate change. The trend is towards greener buildings achieving better rents and yields than comparable buildings, all other factors being equal.

As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used.

12 Fair value methodology (continued)

12.3 Level 3 assets and liabilities (continued)

12.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 30 June 2021 were £11,153m (31 December 2020: £11,672m), representing 7.4% of the total fair-valued financial assets net of financial liabilities (31 December 2019: 7.9%).

Internal valuations are inherently more subjective than external valuations. These internally valued net assets and liabilities primarily consist of the following items:

- Debt securities of £10,539m as at 30 June 2021 (31 December 2020: £11,149m), of which £8,830m (31 December 2020: £9,725m) were valued using discounted cash flow models with an internally developed discount rate. The remaining debt securities were valued using other valuation methodologies such as enterprise valuation and estimated recovery (such as liquidators' reports).
- Private equity investments in both debt and equity securities of £304m as at 30 June 2021 (31 December 2020: £315m) were valued internally using a discounted cash flow model. The most significant inputs to the valuation are the forecast cash flows of the underlying business, discount rate, and terminal value assumption, all of which involve significant judgement. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments are held by the Group's consolidated private equity infrastructure funds.
- Equity release mortgage loans of £1,707m as at 30 June 2021 (31 December 2020: £1,777m) and a corresponding liability of £396m (31 December 2020: £409m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yields.
- Liabilities of £1,590m as at 30 June 2021 (31 December 2020: £1,407m), for the third-party interest in consolidated funds in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities were valued by reference to the underlying assets.

12.3.3 Governance of level 3

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by business unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities, the Group makes use of the extensive expertise of its Asset Management business. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

12 Fair value methodology (continued)

12.4 Fair value hierarchy for assets measured at fair value in the condensed consolidated statement of financial position

The tables below presents the Group's assets measured at fair value by level of the fair value hierarchy for each component of business.

	As at 30 June 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	17,302	17,302
Loans	—	—	1,430	1,430
Derivative assets	65	2,720	—	2,785
Equity securities and pooled investment funds	45,911	4,336	9,058	59,305
Debt securities	33,075	16,378	6,080	55,533
Total with-profits	79,051	23,434	33,870	136,355
Unit-linked:				
Investment property	—	—	349	349
Loans	—	—	—	—
Derivative assets	—	1	—	1
Equity securities and pooled investment funds	12,612	385	492	13,489
Debt securities	4,671	4,254	15	8,940
Total unit-linked	17,283	4,640	856	22,779
Annuity and other long-term business:				
Investment property	—	—	1,446	1,446
Loans	—	—	1,707	1,707
Derivative assets	—	626	—	626
Equity securities and pooled investment funds	6	—	2	8
Debt securities	6,229	5,001	7,356	18,586
Total annuity and other long-term business	6,235	5,627	10,511	22,373
Other:				
Investment property	—	—	—	—
Loans	—	—	—	—
Derivative assets	—	107	—	107
Equity securities and pooled investment funds	187	—	6	193
Debt securities	766	448	—	1,214
Total other	953	555	6	1,514
Group:				
Investment property	—	—	19,097	19,097
Loans	—	—	3,137	3,137
Derivative assets	65	3,454	—	3,519
Equity securities and pooled investment funds	58,716	4,721	9,558	72,995
Debt securities	44,741	26,081	13,451	84,273
Total assets at fair value	103,522	34,256	45,243	183,021

12 Fair value methodology (continued)

12.4 Fair value hierarchy for assets measured at fair value in the condensed consolidated statement of financial position (continued)

	As at 31 December 2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	17,167	17,167
Loans	—	—	1,443	1,443
Derivative assets	112	4,698	—	4,810
Equity securities and pooled investment funds	43,920	3,560	7,562	55,042
Debt securities	19,443	30,563	5,637	55,643
Total with-profits	63,475	38,821	31,809	134,105
Unit-linked:				
Investment property	—	—	409	409
Derivative assets	3	5	—	8
Equity securities and pooled investment funds	11,941	349	889	13,179
Debt securities	2,633	5,868	5	8,506
Total unit-linked	14,577	6,222	1,303	22,102
Annuity and other long-term business:				
Investment property	—	—	1,530	1,530
Loans	—	—	1,777	1,777
Derivative assets	—	778	—	778
Equity securities and pooled investment funds	2	—	2	4
Debt securities	3,141	10,191	6,942	20,274
Total annuity and other long-term business	3,143	10,969	10,251	24,363
Other:				
Investment property	—	—	—	—
Loans	—	—	—	—
Derivative assets	—	109	—	109
Equity securities and pooled investment funds	189	—	5	194
Debt securities	801	215	—	1,016
Total other	990	324	5	1,319
Group:				
Investment property	—	—	19,106	19,106
Loans	—	—	3,220	3,220
Derivative assets	115	5,590	—	5,705
Equity securities and pooled investment funds	56,052	3,909	8,458	68,419
Debt securities	26,018	46,837	12,584	85,439
Total assets at fair value	82,185	56,336	43,368	181,889

12 Fair value methodology (continued)

12.5 Fair value hierarchy for liabilities measured at fair value in the condensed consolidated statement of financial position

The table below presents the Group's liabilities measured at fair value by level of the fair value hierarchy:

	As at 30 June 2021			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	**—**	**15,198**	**—**	**15,198**
Third-party interest in consolidated funds	**7,664**	**4,132**	**1,590**	**13,386**
Subordinated liabilities and other borrowings	**—**	**—**	**1,235**	**1,235**
Derivative liabilities	**41**	**2,906**	**—**	**2,947**
Accruals, deferred income and other liabilities	**—**	**—**	**396**	**396**
Total liabilities at fair value	**7,705**	**22,236**	**3,221**	**33,162**

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	15,547	—	15,547
Third-party interest in consolidated funds	7,972	3,886	1,407	13,265
Subordinated liabilities and other borrowings	—	—	1,301	1,301
Derivative liabilities	37	3,423	—	3,460
Accruals, deferred income and other liabilities	—	—	409	409
Total liabilities at fair value	8,009	22,856	3,117	33,982

12.6 Transfers between levels

The Group’s policy is to recognise transfers into and transfers out of levels as at the end of each half-year reporting period, except for material transfers, which are recognised as of the date of the event or change in circumstances that caused the transfer.

Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

	For the six months ended 30 June 2021		
	Financial assets and liabilities - Transfers between levels		
	Equity securities and pooled investment funds	Debt securities	Total
	£m	£m	£m
From level 1 to level 2	**—**	**586**	**586**
From level 1 to level 3	**9**	**—**	**9**
From level 2 to level 1 [i]	**—**	**15,372**	**15,372**
From level 2 to level 3	**171**	**1,776**	**1,947**
From level 3 to level 1	**371**	—	**371**
From level 3 to level 2	**33**	**133**	**166**

	For the year ended 31 December 2020		
	Financial Assets and Liabilities - Transfers between levels		
	Equity securities and pooled investment funds	Debt securities	Total
	£m	£m	£m
From level 1 to level 2	—	8,200	8,200
From level 1 to level 3	7	—	7
From level 2 to level 1	—	3,930	3,930
From level 2 to level 3	84	439	523
From level 3 to level 2	—	202	202

[i] The transfers in debt securities from level 2 to level 1 are primarily driven by increased liquidity in the bond markets towards the end of June 2021 as compared to the end of December 2020 and refinements made to our levelling methodology.

12 Fair value methodology (continued)

12.7 Reconciliation of movements in level 3 assets and liabilities

The movements during the year of level 3 assets and liabilities held at fair value, excluding assets and liabilities held for sale, are analysed in the tables below:

	For the six months ended 30 June 2021										
	At 1 Jan £m	Total gains/ (losses) in income statement £m	Foreign exchange £m	Purchases £m	Sales £m	Transfer to held for sale £m	Settled £m	Issued £m	Transfers into level 3 £m	Transfers out of level 3 £m	At 30 Jun £m
Level 3 assets:											
Investment property	**19,106**	**282**	**(301)**	**364**	**(180)**	**(174)**	**—**	**—**	**—**	**—**	**19,097**
Loans	**3,220**	**(61)**	**(1)**	**67**	**(2)**	**—**	**(86)**	**—**	**—**	**—**	**3,137**
Equity securities and pooled investment funds	**8,458**	**619**	**27**	**1,475**	**(797)**	**—**	**—**	**—**	**180**	**(404)**	**9,558**
Debt securities	**12,584**	**(575)**	**—**	**448**	**(649)**	**—**	**—**	**—**	**1,776**	**(133)**	**13,451**
Total level 3 assets	**43,368**	**265**	**(275)**	**2,354**	**(1,628)**	**(174)**	**(86)**	**—**	**1,956**	**(537)**	**45,243**
Level 3 liabilities:											
Third-party interest in consolidated funds	**1,407**	**182**	**—**	**—**	**—**	**—**	**(115)**	**116**	**—**	**—**	**1,590**
Subordinated liabilities and other borrowings	**1,301**	**—**	**—**	**—**	**—**	**—**	**(66)**	**—**	**—**	**—**	**1,235**
Other liabilities	**409**	**(9)**	**—**	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**396**
Total level 3 liabilities	**3,117**	**173**	**—**	**—**	**—**	**—**	**(185)**	**116**	**—**	**—**	**3,221**

	For the year ended 31 December 2020										
	At 1 Jan £m	Total gains/ (losses) in income statement £m	Foreign exchange £m	Purchases £m	Sales £m	Transfer to held for sale £m	Settled £m	Issued £m	Transfers into level 3 £m	Transfers out of level 3 £m	At 31 Dec £m
Level 3 assets:											
Investment property	19,136	(752)	234	874	(281)	(105)	—	—	—	—	19,106
Loans	3,339	36	—	9	(45)	—	(119)	—	—	—	3,220
Equity securities and pooled investment funds	8,161	(141)	78	1,033	(764)	—	—	—	91	—	8,458
Debt securities	11,215	1,038	4	1,365	(1,296)	—	—	21	439	(202)	12,584
Total level 3 assets	41,851	181	316	3,281	(2,386)	(105)	(119)	21	530	(202)	43,368
Level 3 liabilities:											
Third-party interest in consolidated funds	1,135	39	—	—	—	—	(486)	719	—	—	1,407
Borrowings and subordinated liabilities	1,422	—	—	—	—	—	(121)	—	—	—	1,301
Other liabilities	390	26	—	—	—	—	(7)	—	—	—	409
Total level 3 liabilities	2,947	65	—	—	—	—	(614)	719	—	—	3,117

12.8 Unrealised gains and losses in respect of level 3 assets and liabilities

Unrealised gains and losses recognised in the condensed consolidated income statement in relation to assets and liabilities classified as level 3 are analysed as follows:

	For the six months ended 30 June 2021 £m	For the six months ended 30 June 2020 £m	For the year ended 31 December 2020 £m
Investment property	**271**	(687)	(769)
Loans	**(61)**	37	32
Equity securities and pooled investment funds	**727**	2	(550)
Debt securities	**(520)**	600	1,030
Third party interest in consolidated funds	**16**	(54)	(183)
Other financial liabilities	**(9)**	24	26
Total	**424**	(78)	(414)

12 Fair value methodology (continued)

12.9 Sensitivity of the fair value of level 3 instruments to changes in significant inputs

The Group assesses the sensitivity of the fair value of level 3 assets to reasonably possible changes in the most significant unobservable inputs. The table below provides a breakdown of assets within the level 3 fair value hierarchy by investment type, the sensitivity of the most significant unobservable inputs on their fair value, and the impact on IFRS profit after tax and shareholders' equity for those held within the shareholder backed-funds.

At 30 June 2021	Fair value £m	Held in shareholder -backed funds £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vii] £m
Investment property:							
Property in use	18,036	1,769	Income capitalisation	Equivalent yield	Decrease by 50bps	2,131	155
					Increase by 50bps	(1,719)	(123)
				Estimated rental value	Decrease by 10%	(1,514)	(67)
					Increase by 10%	1,530	67
Property under development	1,061	26		Fair value	Increase by 10%	106	—
					Decrease by 10%	(106)	—
Loans:							
Equity-release mortgages [i]	1,707	1,707	Discounted cash flow [ii]	Discount rate	Increase by 50bps	(143)	(117)
					Decrease by 50bps	158	128
				Current property value	Increase by 10%	46	37
					Decrease by 10%	(56)	(46)
				Assumed annual property growth rate	Increase by 100bps	137	112
					Decrease by 100bps	(193)	(158)
				Assumed annual property rental yield	Increase by 100bps	(87)	(71)
					Decrease by 100bps	84	68
Other mortgage and retail loans	1,430	—	Broker quotes [iii]	Fair value	Increase by 10%	143	—
					Decrease by 10%	(143)	—
Equity securities and pooled investment funds [iv]	9,476	500	Net asset statements	Net asset value	Increase by 10%	948	1
					Decrease by 10%	(948)	(1)
Infrastructure fund investments	304	—	Discounted cash flow [v]	Discount rate	Increase by 10%	(39)	—
					Decrease by 10%	44	—
Debt securities: [iv]							
Private placement loans	8,427	5,072	Discounted cash flow [vi]	Discount rate	Increase by 85bps	(1,003)	(539)
					Decrease by 85bps	1,247	676
Retail income strips	403	342	Discounted cash flow [vi]	Discount rate	Increase by 50bps	(43)	(30)
					Decrease by 50bps	54	39
Unquoted corporate bonds	4,399	1,957	Broker quotes, enterprise valuation, estimated recovery	Fair value	Increase by 10%	440	158
					Decrease by 10%	(440)	(158)
Total level 3	45,243	11,373					

[i] The equity-release mortgages have a no-negative equity guarantee ("NNEG") that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against.

[ii] Future cashflows are estimated based on assumptions, including prepayment, death and entry into long-term care, and discounted using an appropriate discount rate. The NNEG is based on a Black-Scholes option pricing valuation, using assumptions including the current property value, future property growth and property rental yields, and is recognised as a deduction to the value of the loan.

[iii] Quotes received from an external pricing service.

[iv] Excludes infrastructure fund investments.

[v] These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2018). Valuations are also benchmarked against comparable infrastructure transactions. The discount rate is made up of cash flows from dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

[vi] The discount rate is made up of a risk-free rate and a credit spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities.

[vii] Of the £11,373m (31 December 2020: £11,559m) of level 3 assets held in shareholder-backed funds, £856m (2020: £1,303m) is held by unit-linked business. These assets are included in the analysis presented however, as the investment risk is borne by the unit-linked policyholders, there is no impact on IFRS profit after tax and shareholder's equity. The impact on IFRS profit after tax and shareholders' equity for the year ended 31 December 2020 as previously disclosed in the 2020 annual report and accounts has been restated.

12 Fair value methodology (continued)

12.9 Sensitivity of the fair value of level 3 instruments to changes in significant inputs (continued)

At 31 December 2020							
	Fair value £m	Held in shareholder -backed funds £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity (vii) £m
Investment property:							
Property in use	17,790	1,914	Income capitalisation	Equivalent yield	Decrease by 50bps	2,078	157
					Increase by 50bps	(1,733)	(126)
				Estimated rental value	Decrease by 10%	(1,476)	(63)
					Increase by 10%	1,417	63
Property under development	1,316	25		Fair value	Increase by 10%	132	—
					Decrease by 10%	(132)	—
Loans:							
Equity-release mortgages (i)	1,777	1,777	Discounted cash flow (ii)	Discount rate	Increase by 50bps	(155)	(127)
					Decrease by 50bps	172	141
				Current property value	Increase by 10%	50	41
					Decrease by 10%	(59)	(48)
				Assumed annual property growth rate	Increase by 100bps	154	126
					Decrease by 100bps	(215)	(176)
				Assumed annual property rental yield	Increase by 100bps	(94)	(77)
					Decrease by 100bps	91	74
Other mortgage and retail loans	1,443	—	Broker quotes (iii)	Fair value	Increase by 10%	144	—
					Decrease by 10%	(144)	—
Equity securities and pooled investment funds (iv)	8,377	896	Net asset statements	Net asset value	Increase by 10%	838	1
					Decrease by 10%	(838)	(1)
Infrastructure fund investments	315	—	Discounted cash flow (v)	Discount rate	Increase by 10%	(36)	—
					Decrease by 10%	41	—
Debt securities: (iv)							
Private placement loans	9,298	5,521	Discounted cash flow (vi)	Discount rate	Increase by 85bps	(1,105)	(597)
					Decrease by 85bps	1,378	751
Retail income strips	427	362	Discounted cash flow (vi)	Discount rate	Increase by 50bps	(47)	(33)
					Decrease by 50bps	60	42
Unquoted corporate bonds	2,625	1,064	Broker quotes, enterprise valuation, estimated recovery	Fair value	Increase by 10%	263	86
					Decrease by 10%	(263)	(86)
Total level 3	43,368	11,559					

12.10 Fair value of assets and liabilities at amortised cost

The tables below show the assets and liabilities carried at amortised cost on the condensed consolidated statement of financial position for which fair value is disclosed. The assets and liabilities that are carried at amortised cost, where the carrying value approximates the fair value, are excluded from the analysis below:

	As at 30 June 2021				
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
Assets:					
Loans	—	**649**	**2,222**	**2,871**	**2,793**
Liabilities:					
Subordinated liabilities and other borrowings	—	**7,422**	**86**	**7,508**	**7,252**

12 Fair value methodology (continued)

12.10 Fair value of assets and liabilities at amortised cost (continued)

	As at 31 December 2020				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets:					
Loans	—	710	2,193	2,903	2,811
Liabilities:					
Subordinated liabilities and other borrowings	—	7,094	94	7,188	6,966

The estimated fair value of subordinated liabilities are based on the quoted market offer price. The fair value of the other assets and liabilities in the tables above have been estimated from the discounted cash flows expected to be received or paid. Where appropriate, an observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities.

13 Contingencies and related obligations

13.1 Litigation and regulatory matters

The Group is involved in various litigation and regulatory issues. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

In addition to the matters set out in Note 6 regarding the portfolio dividend tax litigation, further information is provided below in respect of the regulatory provision in relation to past annuity sales.

PAC agreed with the Financial Conduct Authority ('FCA') to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and have also been conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review examined whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. Significant progress has been made on this redress exercise since 31 December 2020, and there are now only a small number of potential remaining cases from the total population. At 31 December 2020 a provision of £49m was held, of which £14m has been utilised during the period. Given the minimal number of remaining cases, the residual provision of £35m has been released in the period.

13.2 Guarantees

Guarantee funds provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant, and adequate reserves are available for all anticipated payments for known insolvencies.

M&G plc acts as guarantor for certain property leases where a group company is a lessee. The most material of these is the guarantee provided in respect of the 10 Fenchurch Avenue lease between Saxon Land B.V. and M&G Prudential Services Limited.

M&G plc has acted as a guarantor for M&G Regulated Entity Holding Company Limited to Royal London for any obligations under the transaction documents for the purchase of Ascentric. This guarantee will remain in place until 1 September 2021, a year following completion.

The Group has also provided other guarantees and commitments to third parties entered into in the normal course of business, but the Group does not consider that the amounts involved are significant.

13.3 Support for the With-Profits Fund by shareholders

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of the With-Profits Fund, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn. In the unlikely circumstance that the depletion of the excess assets within the with-profits sub-funds was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

The following matters are of relevance with respect to the With-Profits Fund:

13.3.1 Pension mis-selling review

The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator at that time) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged, to ensure they have the opportunity to take part in the review. Currently a provision amounting to £258m as at 30 June 2021 (31 December 2020: £303m) is being held in relation to this within insurance contract liabilities.

The key assumptions underlying the provisions are:

- Average cost of redress per customer.
- Proportion of provision (reserve rate) held for soft close cases (where all reasonable steps have been taken to contact the customer but the customer has not engaged with the review).

13 Contingencies and related obligations (continued)

13.3 Support for the With-Profits Fund by shareholders (continued)

Sensitivities of the value of the provision to change in assumptions are as follows:

Assumption	Change in assumption	As at 30 June 2021 £m	As at 31 December 2020 £m
Average cost of redressal	increase/decrease by 10%	**+/- 10**	+/- 10
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 10**	+/- 30

Costs arising from this review are met by the excess assets of the with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. An assurance was given that these deductions from excess assets would not impact PAC's bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, the assurance provides that support would be made available to the sub-fund from PAC's shareholder resources for as long as the situation continued, so as to ensure that PAC's policyholders were not disadvantaged. PAC's comfort in its ability to make such support available is supported by the intra-group arrangements formalising the circumstances in which M&G plc would make capital support available to PAC.

13.3.2 With-profits options and guarantees

Certain policies within the With-Profits Fund include potentially valuable guarantees for policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. These options and guarantees are valued as part of the policyholder liabilities. Please refer to Note 10.1 for further details on these options and guarantees.

14 Related party transactions

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements as at 31 December 2020.

There have been no related party transactions in the six months to 30 June 2021 which have had a material effect on the results or financial position of the Group.

15 Post balance sheet events

On 5 April 2021, M&G FA Limited, a wholly-owned subsidiary of the Group agreed to acquire a further 0.13% of the share capital of Prudential Portfolio Managers (South Africa) (Pty) Ltd (PPMSA) for a cash consideration of £0.2m. On 2 July 2021 all the substantive conditions relating to the agreement were completed and the Group obtained control of PPMSA. Accordingly, its results will be consolidated in the Group financial statements from 2 July 2021.

The transaction has resulted in M&G FA Limited's direct holding in PPMSA to increase from 49.99% to 50.12%. The Group has accounted for the investment as an associate using the equity method in these condensed consolidated financial statements. As at 30 June 2021, the carrying value of the investment in PPMSA was £34.4m and the Group's share of profit for the period was £5.9m.

Furthermore, M&G Group Limited has provided a guarantee in respect of an existing bank facility of the transaction counterparty amounting to ZAR 220m, which will be secured against a further 7% shareholding that the seller retains in PPMSA.

Supplementary information

Alternative performance measures

Overview of the Group's key performance measures

The Group measures its financial performance using a number of key performance measures (KPM). Two of these measures, referred to as alternative performance measures (APM), are derived from the financial statements prepared in accordance with the IFRS financial reporting framework or the Solvency II requirements, but are not defined under IFRS or Solvency II. The APMs are used to complement and not to substitute the disclosures prepared in accordance with IFRS and Solvency II, and provide additional information on the long-term performance of the Group.

All information included in this section does not form part of the independent review performed by the external auditors.

The Group's KPMs are summarised below, along with which of these measures are considered APMs by the Group.

Key performance measure	Type	Definition
IFRS result after tax	**KPM**	The IFRS result after tax demonstrates to our shareholders the financial performance of the Group during the relevant period on an IFRS basis.
Adjusted operating profit before tax	**APM, KPM**	Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements the IFRS result after tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to the IFRS result before tax. Adjustments are in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations. The adjusted operating profit methodology is described in Note 3.2, along with a reconciliation of adjusted operating profit before tax to the IFRS result after tax.
Savings and Asset Management net client flows	**KPM**	Savings and Asset Management net client flows represent gross inflows less gross outflows during the period. Gross inflows are new funds from customers and clients. Gross outflows are funds withdrawn by customers and clients.
Assets under management and administration (AUMA)	**KPM**	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of customers and clients at the end of each financial period. Assets managed by the Group include those managed on behalf of our retail customers and institutional and retail clients. Assets administered by the Group includes assets which we provide investment management services for, in addition to assets we administer where the customer has elected to invest in with a third-party investment manager. Assets under advice are advisory portfolios where clients receive investment recommendations such as Strategic Asset Allocation and model portfolios but retain discretion over executing the advice.
Shareholder Solvency II coverage ratio	**APM, KPM**	The regulatory Solvency II capital position considers the Group's overall own funds and Solvency Capital Requirements ('SCR'). The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II coverage ratio is described in the "Solvency II capital position" section.
Total capital generation	**KPM**	Surplus capital is the amount by which own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements and capital generated from discontinued operations.
Operating capital generation	**KPM**	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs.

Supplementary information (continued)

Adjusted operating profit before tax

(i) Adjusted operating profit/(loss) before tax by segment

	Savings and Asset Management			Heritage			Corporate Centre			Total		
	For the six months ended 30 June		For the year ended 31 December	For the six months ended 30 June		For the year ended 31 December	For the six months ended 30 June		For the year ended 31 December	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020	2021	2020	2020	2021	2020	2020	2021	2020	2020
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fee-based revenues	**565**	541	1,146	**41**	39	74	**—**	—	—	**606**	580	1,220
Annuity margin	**—**	—	—	**157**	139	438	**—**	—	—	**157**	139	438
With-profits shareholder transfer net of hedging gains/(losses)	**46**	24	44	**108**	110	207	**—**	—	—	**154**	134	251
Total adjusted operating income	**611**	565	1,190	**306**	288	719	**—**	—	—	**917**	853	1,909
Adjusted operating expenses	**(432)**	(382)	(840)	**(36)**	(30)	(79)	**(48)**	(75)	(101)	**(516)**	(487)	(1,020)
Other shareholder (loss)/profit	**(24)**	(26)	(28)	**12**	40	59	**(68)**	(76)	(142)	**(80)**	(62)	(111)
Share of profit from joint ventures and associates [(i)]	**6**	5	10	**—**	—	—	**—**	—	—	**6**	5	10
Adjusted operating profit/(loss) before tax	**161**	162	332	**282**	298	699	**(116)**	(151)	(243)	**327**	309	788

[(i)] Excludes adjusted operating profit before tax from joint ventures in the With-Profits Fund.

(ii) Adjusted operating profit/(loss) before tax by segment and source

	Savings and Asset Management			Heritage			Corporate Centre
	Asset Management	With-profits	Other	Annuities	With-profits	Other	Other
For the six months ended 30 June 2021	£m	£m	£m	£m	£m	£m	£m
Asset Management fee-based revenues	473	—	—	—	—	—	—
Other fee-based revenues	—	—	92	—	—	41	—
Fee-based revenues	473	—	92	—	—	41	—
Annuity margin	—	—	—	157	—	—	—
With-profits shareholder transfer net of hedging gains/(losses)	—	46	—	—	108	—	—
Adjusted operating income	473	46	92	157	108	41	—
Asset Management operating expenses	(333)	—	—	—	—	—	—
Other operating expenses	—	—	(99)	—	—	(36)	(48)
Adjusted operating expenses	—	—	(99)	—	—	(36)	(48)
Other shareholder (loss)/profit	—	—	(24)	—	—	12	(68)
Share of profit from joint ventures and associates	—	—	6	—	—	—	—
Adjusted operating profit/(loss) before tax	140	46	(25)	157	108	17	(116)

Supplementary information (continued)

Adjusted operating profit before tax (continued)

For the six months ended 30 June 2020	Savings and Asset Management			Heritage			Corporate Centre
	Asset Management £m	With-profits £m	Other £m	Annuities £m	With-profits £m	Other £m	Other £m
Asset Management fee-based revenues	469	—	—	—	—	—	—
Other fee-based revenues	—	—	72	—	—	39	—
Fee-based revenues	469	—	72	—	—	39	—
Annuity margin	—	—	—	139	—	—	—
With-profits shareholder transfer net of hedging gains/(losses)	—	24	—	—	110	—	—
Adjusted operating income	469	24	72	139	110	39	—
Asset Management operating expenses	(306)	—	—	—	—	—	—
Other operating expenses	—	—	(76)	—	—	(30)	(75)
Adjusted operating expenses	(306)	—	(76)	—	—	(30)	(75)
Other shareholder profit/(loss)	—	—	(26)	—	—	40	(76)
Share of profit from joint ventures and associates	—	—	5	—	—	—	—
Adjusted operating profit/(loss) before tax	163	24	(25)	139	110	49	(151)

For the year ended 31 December 2020	Savings and Asset Management			Heritage			Corporate Centre
	Asset Management £m	With-profits £m	Other £m	Annuities £m	With-profits £m	Other £m	Other £m
Asset Management fee-based revenues	988	—	—	—	—	—	—
Other fee-based revenues	—	—	158	—	—	74	—
Fee-based revenues	988	—	158	—	—	74	—
Annuity margin	—	—	—	438	—	—	—
With-profits shareholder transfer net of hedging gains/(losses)	—	44	—	—	207	—	—
Adjusted operating income	988	44	158	438	207	74	—
Asset Management operating expenses	(672)	—	—	—	—	—	—
Other operating expenses	—	—	(168)	—	—	(79)	(101)
Adjusted operating expenses	(672)	—	(168)	—	—	(79)	(101)
Other shareholder profit/(loss)	—	—	(28)	—	—	59	(142)
Share of profit from joint ventures and associates	—	—	10	—	—	—	—
Adjusted operating profit/(loss) before tax	316	44	(28)	438	207	54	(243)

Supplementary information (continued)

Adjusted operating profit before tax (continued)

Adjusted operating profit before tax arising from annuity margin is further analysed in the table below:

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
Breakdown of contribution from annuity margin	**£m**	£m	£m
Return on excess assets and margin release	**87**	94	188
Asset trading and portfolio management actions	**4**	40	59
Longevity assumption changes	**—**	23	217
Mismatching (losses)/profits (i)	**(15)**	28	38
Other assumption and model changes (ii)	**33**	(15)	(52)
Experience variances and model improvements	**26**	11	19
Other provisions and reserves	**22**	(42)	(31)
Shareholder annuities	**157**	139	438

(i) Mismatching losses of £15m for the six months ended 30 June 2021 (30 June 2020: £28m profits, year ended 31 December 2020: £38m profits) relates to short-term mismatches between the value of annuity liabilities and the long-term assets backing these liabilities due to the impact of market movements.

(ii) Other assumptions and model changes of £33m for the six months ended 30 June 2021 (30 June 2020: £(15m), year ended 31 December 2020: £(52m)) include assumption changes other than those relating to longevity, including the impact of expense assumption changes and the impact of improvements to models.

Adjusted operating profit before tax arising from other Savings and Asset Management is further analysed in the table below:

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
Breakdown of other Savings and Asset Management adjusted operating profit	**£m**	£m	£m
International business (i)	**15**	11	20
Investment income (ii)	**5**	(10)	5
Other	**(45)**	(26)	(53)
Other Savings and Asset Management	**(25)**	(25)	(28)

(i) International business includes our share of profits from our asset management business in South Africa which was accounted for as an associate during the period, and profits from our European savings businesses.

(ii) Investment income includes income arising in Asset Management, primarily in respect of seed capital investments.

(iii) Reconciliation of adjusted operating profit before tax to IFRS profit after tax

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
Adjusted operating profit before tax	**327**	309	788
Short-term fluctuations in investment returns	**(549)**	746	678
Restructuring and other costs	**(85)**	(22)	(73)
IFRS profit attributable to non-controlling interests	**3**	2	4
IFRS profit before tax attributable to equity holders	**(304)**	1,035	1,397
Tax charge attributable to equity holders	**56**	(209)	(255)
IFRS profit after tax attributable to equity holders	**(248)**	826	1,142

Supplementary information (continued)

Assets under management and administration (AUMA) and net client flows

(i) Detailed AUMA and net client flows

	As at 31 December 2020 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 30 June 2021 £bn
Institutional Asset Management	**85.5**	**7.1**	**(4.9)**	**2.2**	**2.0**	**89.7**
Retail Asset Management	**64.2**	**7.9**	**(11.3)**	**(3.4)**	**2.0**	**62.8**
Retail Savings	**81.8**	**3.8**	**(4.6)**	**(0.8)**	**3.8**	**84.8**
of which: PruFund	**55.5**	**2.1**	**(2.8)**	**(0.7)**	**2.5**	**57.3**
Other	**0.8**	**—**	**—**	**—**	**(0.1)**	**0.7**
Total Savings and Asset Management (i)	**232.3**	**18.8**	**(20.8)**	**(2.0)**	**7.7**	**238.0**
Shareholder annuities	**35.3**	**—**	**(0.8)**	**(0.8)**	**(1.6)**	**32.9**
Traditional with-profits	**84.3**	**0.2**	**(2.5)**	**(2.3)**	**1.6**	**83.6**
Other	**14.1**	**—**	**(0.2)**	**(0.2)**	**(0.3)**	**13.6**
Total Heritage	**133.7**	**0.2**	**(3.5)**	**(3.3)**	**(0.3)**	**130.1**
Corporate assets	**1.2**	**—**	**—**	**—**	**0.7**	**1.9**
Group total	**367.2**	**19.0**	**(24.3)**	**(5.3)**	**8.1**	**370.0**

(i) Included in total Savings and Asset Management AUMA of £238.0 billion (30 June 2020: £208.0 billion, 31 December 2020: £232.3 billion) is £6.8 billion (30 June 2020: £6.0 billion, 31 December 2020: £6.5 billion) of assets under advice.

	As at 31 December 2019 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 30 June 2020 £bn
Institutional Asset Management	76.8	6.5	(3.7)	2.8	1.6	81.2
Retail Asset Management	74.9	8.4	(16.1)	(7.7)	(3.0)	64.2
Retail Savings	63.5	3.8	(3.0)	0.8	(2.5)	61.8
of which: PruFund	53.8	3.2	(2.6)	0.6	(2.1)	52.3
Other	0.7	—	—	—	0.1	0.8
Total Savings and Asset Management (i)	215.9	18.7	(22.8)	(4.1)	(3.8)	208.0
Shareholder annuities	35.5	—	(0.9)	(0.9)	1.2	35.8
Traditional with-profits	84.8	0.2	(2.5)	(2.3)	(2.5)	80.0
Other	13.7	—	(0.1)	(0.1)	—	13.6
Total Heritage	134.0	0.2	(3.5)	(3.3)	(1.3)	129.4
Corporate assets	1.6	—	—	—	(0.3)	1.3
Group total	351.5	18.9	(26.3)	(7.4)	(5.4)	338.7

	As at 31 December 2019 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2020 £bn
Institutional Asset Management	76.8	13.0	(7.9)	5.1	3.6	85.5
Retail Asset Management	74.9	15.0	(27.1)	(12.1)	1.4	64.2
Retail Savings	63.5	6.8	(6.4)	0.4	17.9	81.8
of which: PruFund	53.8	5.2	(4.8)	0.4	1.3	55.5
Other	0.7	—	—	—	0.1	0.8
Total Savings and Asset Management (i)	215.9	34.8	(41.4)	(6.6)	23.0	232.3
Shareholder annuities	35.5	—	(1.8)	(1.8)	1.6	35.3
Traditional with-profits	84.8	0.3	(5.0)	(4.7)	4.2	84.3
Other	13.7	0.1	(0.2)	(0.1)	0.5	14.1
Total Heritage	134.0	0.4	(7.0)	(6.6)	6.3	133.7
Corporate assets	1.6	—	—	—	(0.4)	1.2
Group total	351.5	35.2	(48.4)	(13.2)	28.9	367.2

Supplementary information (continued)

Assets under management and administration (AUMA) and net client flows (continued)

(ii) AUMA by asset class

As at 30 June 2021	On balance sheet AUMA					External AUMA			Total
	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Retail £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	12.5	0.3	1.4	—	14.2	0.7	13.7	14.4	28.6
Reinsurance assets	—	0.1	1.4	—	1.5	—	—	—	1.5
Loans	1.6	—	2.2	—	3.8	—	11.5	11.5	15.3
Derivatives [i]	1.3	—	(0.5)	—	0.8	0.1	(0.1)	—	0.8
Equity securities and pooled investment funds	70.3	11.1	—	—	81.4	27.1	10.0	37.1	118.5
Deposits	12.5	0.9	1.1	—	14.5	—	—	—	14.5
Debt securities	43.1	2.7	18.5	1.2	65.5	33.4	52.0	85.4	150.9
of which: Corporate	31.5	1.6	12.9	1.2	47.2	20.3	30.0	50.3	97.5
of which: Government	9.3	1.0	4.9	—	15.2	11.5	12.1	23.6	38.8
of which: ABS	2.3	0.1	0.7	—	3.1	1.6	9.9	11.5	14.6
Cash and cash equivalents	2.6	0.2	1.0	1.3	5.1	1.5	2.6	4.1	9.2
Other	0.7	0.1	9.9	—	10.7	—	—	—	10.7
Other AUMA									20.0
Total [ii]	144.6	15.4	35.0	2.5	197.5	62.8	89.7	152.5	370.0

[i] Derivative assets are shown net of derivative liabilities.

[ii] Included in total AUMA of £370.0 billion (31 December 2020: £367.2 billion) is £6.8 billion (31 December 2020: £6.5 billion) of assets under advice.

As at 31 December 2020	On balance sheet AUMA					External AUMA			Total
	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Retail £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	12.4	0.4	1.5	—	14.3	1.5	12.9	14.4	28.7
Reinsurance assets	—	0.1	11.6	—	11.7	—	—	—	11.7
Loans	1.6	—	2.3	—	3.9	—	11.5	11.5	15.4
Derivatives [i]	2.7	—	(0.3)	—	2.4	(0.1)	(0.2)	(0.3)	2.1
Equity securities and pooled investment funds	65.1	11.2	—	—	76.3	25.7	6.1	31.8	108.1
Deposits	13.4	1.0	1.2	—	15.6	—	—	—	15.6
Debt securities	43.4	2.8	20.2	1.0	67.4	35.0	52.7	87.7	155.1
of which: Corporate	31.7	1.7	14.1	1.0	48.5	20.2	32.2	52.4	100.9
of which: Government	9.0	1.0	5.3	—	15.3	13.7	12.2	25.9	41.2
of which: ABS	2.7	0.1	0.8	—	3.6	1.1	8.3	9.4	13.0
Cash and cash equivalents	3.6	0.2	1.0	0.9	5.7	2.1	2.5	4.6	10.3
Other	1.0	0.1	0.2	—	1.3	—	—	—	1.3
Other AUMA	—	—	—	—	—	—	—	—	18.9
Total [ii]	143.2	15.8	37.7	1.9	198.6	64.2	85.5	149.7	367.2

Supplementary information (continued)

Assets under management and administration (AUMA) and net client flows (continued)

(iii) AUMA by geography

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
UK	**306.5**	306.9
Europe	**47.6**	44.6
Asia-Pacific	**9.0**	9.6
Middle East and Africa	**5.8**	5.2
Americas	**1.1**	0.9
Total AUMA [i]	**370.0**	367.2

[i] Included in total AUMA of £370.0 billion (31 December 2020: £367.2 billion) is £6.8 billion (31 December 2020: £6.5 billion) of assets under advice.

Solvency II capital position

Solvency II overview

The Group is supervised as an insurance group by the Prudential Regulation Authority. Individual insurance undertakings within the Group are also subject to the supervision of the Prudential Regulation Authority (or other EU competent authorities) on a solo basis under the Solvency II regime.

The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the Solvency Capital Requirement (SCR). Own funds is the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments. The SCR is calculated using the Group's internal model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

Estimated and unaudited reconciliation of IFRS shareholders' equity to Group Solvency II own funds

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
IFRS shareholders' equity	**5.1**	5.6
Add back unallocated surplus of the With-Profits Fund	**16.2**	15.6
Deduct goodwill and intangible assets	**(1.3)**	(1.3)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**(0.3)**	0.3
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.4)**	(1.5)
Impact of measuring assets and liabilities in line with Solvency II principles	**0.1**	(0.1)
Recognise own shares	**0.1**	0.1
Other	**(0.2)**	(0.1)
Solvency II excess of assets over liabilities	**18.3**	18.6
Subordinated debt capital	**3.7**	4.0
Ring-fenced fund restrictions	**(7.4)**	(7.0)
Deduct own shares	**(0.1)**	(0.1)
Solvency II eligible own funds	**14.5**	15.5

The key items in the reconciliation are explained below:

- Unallocated surplus of the With-Profits Fund: this amount is treated as a liability under IFRS, but considered surplus assets under Solvency II.
- Goodwill and intangible assets: these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.
- Policyholder liability and reinsurance asset valuation differences: there are significant differences in the valuation of technical provisions between IFRS and Solvency II. The most material differences relate to the exclusion of prudent margins in longevity assumptions under Solvency II, and also the use of different discount rates, both in relation to the valuation of annuity liabilities.
- Solvency II risk margin (net of transitional measures): the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.
- Subordinated debt capital: subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- Ring-fenced fund restrictions: any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

Supplementary information (continued)

Solvency II capital position (continued)

Composition of own funds

The Group's total estimated and unaudited own funds are analysed by Tier as follows:

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
Tier 1 (unrestricted)	**10.7**	11.4
Tier 1 (restricted)	**—**	—
Tier 2	**3.7**	4.0
Tier 3	**0.1**	0.1
Total own funds	**14.5**	15.5

The Group's Tier 2 capital consists of subordinated debt instruments. The terms of these instruments allow them to be treated as capital for the purposes of Solvency II. The instruments were originally issued by Prudential plc, and subsequently substituted to the parent company, as permitted under the terms and conditions of each applicable instrument, prior to demerger. The details of the Group's subordinated liabilities are shown in Note 11. The Solvency II value of the debt differs to the IFRS carrying value due to a different basis of measurement on the respective balance sheets.

The Group's Tier 3 capital of £0.1bn (31 December 2020: £0.1 billion) relates to deferred tax asset balances.

Estimated and unaudited shareholder view of the Solvency II capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more relevant reflection of the capital strength of the Group.

The estimated and unaudited shareholder Solvency II capital position for the Group as at 30 June 2021 and 31 December 2020 is shown below:

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
Shareholder Solvency II own funds	**10.8**	10.6
Shareholder Solvency II SCR	**(5.4)**	(5.8)
Solvency II surplus	**5.4**	4.8
Shareholder Solvency II coverage ratio [(i)]	**198 %**	182 %

[(i)] Shareholder Solvency II coverage ratio has been calculated using unrounded figures.

The Group's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. Further information on the ring-fenced With-Profits Fund's capital position is provided in the 'Estimated and unaudited With-Profits Fund view of the Solvency II capital position' section.

In accordance with the Solvency II requirements, these results include:

- A Solvency Capital Requirement which has been calculated using the Group's internal model.
- Transitional measures, which are presented after assuming a recalculation at the valuation date, using management's estimate of the impact of operating and market conditions. As at 30 June 2021, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position will differ to the position disclosed in the formal regulatory Quantitative Reporting Templates.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation Authority.
- M&G Group Limited and other undertakings carrying out financial activities consolidated under local sectoral or notional sectoral capital requirements.

Supplementary information (continued)

Solvency II capital position (continued)

Breakdown of the shareholder Solvency II SCR by risk type

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
Equity	**1.6**	1.5
Property	**0.9**	0.9
Interest rate	**0.4**	0.4
Credit	**3.1**	3.5
Currency	**1.0**	0.9
Longevity	**1.7**	2.1
Lapse	**0.3**	0.2
Operational and expense	**1.5**	1.6
Sectoral (i)	**0.5**	0.5
Total undiversified	**11.0**	11.6
Diversification, deferred tax, and other	**(5.5)**	(5.8)
Shareholder SCR	**5.5**	5.8

(i) Includes entities included within the Group's Solvency II capital position on a sectoral or notional sectoral basis, the most material of which is M&G Group Limited.

Sensitivity analysis of the shareholder Solvency II coverage ratio

The estimated sensitivity of the Group's shareholder Solvency II coverage ratio to significant changes in market conditions are shown below. All sensitivities are presented after an assumed recalculation of transitional measures on technical provisions.

	As at 30 June 2021		As at 31 December 2020	
	Surplus £bn	Shareholder coverage ratio %	Surplus £bn	Shareholder coverage ratio %
Base (as reported)	5.4	**198 %**	4.8	182 %
20% instantaneous fall in equity markets	4.8	**189 %**	4.3	175 %
20% instantaneous fall in property markets	4.9	**191 %**	4.4	175 %
50 bp reduction in interest rates	5.3	**190 %**	4.6	173 %
100 bp widening in credit spreads	4.9	**195 %**	4.3	178 %
20% credit asset downgrade (i)	5.0	**190 %**	4.4	175 %

(i) Average impact of one full letter downgrade across 20% of assets exposed to credit risk.

Estimated and unaudited With-Profits Fund view of the Solvency II capital position

The With-Profits Fund view of the Solvency II capital position represents the standalone capital strength of the Group's ring-fenced With-Profits Fund. This view of Solvency II capital takes into account the assets, liabilities, and risk exposures within the ring-fenced With-Profits Fund, which includes the WPSF and DCPSF. On 1 April 2021, SAIF merged with PAC's main WPSF and the assets and liabilities of SAIF combined with those of the WPSF.

The estimated and unaudited Solvency II capital position for the Group under the With-Profits Fund view as at 30 June 2021 and 31 December 2020 is shown below:

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
With-Profits Fund Solvency II own funds	**11.0**	11.9
With-Profits Fund Solvency II SCR	**(3.6)**	(4.9)
With-Profits Fund Solvency II surplus	**7.4**	7.0
With-Profits Fund Solvency II coverage ratio (i)	**301%**	242%

(i) With-Profits Fund Solvency II coverage ratio has been calculated using unrounded figures.

Supplementary information (continued)

Solvency II capital position (continued)

Estimated regulatory view of the Solvency II capital position

The estimated and unaudited Solvency II capital position for the Group under the ‘regulatory’ view is shown below:

	As at 30 June 2021 £bn	As at 31 December 2020 £bn
Solvency II own funds	**14.5**	15.5
Solvency II SCR	**(9.1)**	(10.7)
Solvency II surplus	**5.4**	4.8
Solvency II coverage ratio [i]	**159%**	144%

[i] Solvency II coverage ratio has been calculated using unrounded figures.

Capital generation

The level of surplus capital is an important financial consideration for the Group. Capital generation measures the change in surplus capital during the reporting period, and is therefore considered a key measure for the Group. It is integral to the running and monitoring of the business, capital allocation and investment decisions, and ultimately the Group’s dividend policy.

The overall change in Solvency II surplus capital over the period is analysed as follows:

Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements and capital generated from discontinued operations.

Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs as defined under adjusted operating profit before tax. It has two components:

a. Underlying capital generation, which includes: the underlying expected surplus capital from the in-force life insurance business; the change in surplus capital as a result of writing new life insurance business; the adjusted operating profit before tax and associated capital movements from Asset Management; and other items including head office expenses and debt interest costs.

b. Other operating capital generation, which includes non-market related experience variances, assumption changes, modelling changes and other movements.

Dividends and capital movements primarily represent external dividends paid to shareholders and changes to the capital structure of the Group, such as issuing or repaying debt instruments. Also included within capital movements are the Solvency II impact of the Group’s share-based payment awards over and above the amount expensed in respect of those awards, and the surplus utilised or generated from transactions relating to the acquisition of business as defined by IFRS.

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.0% for the six months ended 30 June 2021, 4.3% for the six months ended 30 June 2020 and the year ended 31 December 2020. For annuity business, the assumed average return on assets backing capital was 1.15% for the six months ended 30 June 2021, 2.09% for the six months ended 30 June 2020 and 2.09% for the year ended 31 December 2020.

The Group’s capital generation results in respect of the six months ended 30 June 2021 and 30 June 2020, and year ended 31 December 2020 are shown below, alongside a reconciliation of the total movement in the Group’s Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group’s ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in the previous section of this supplementary information.

Supplementary information (continued)

Capital generation (continued).

	Savings and Asset Management			Heritage			Corporate Centre			Total		
	For the six months ended 30 June 2021	For the six months ended 30 June 2020	For the year ended 31 December 2020	**For the six months ended 30 June 2021**	For the six months ended 30 June 2020	For the year ended 31 December 2020	**For the six months ended 30 June 2021**	For the six months ended 30 June 2020	For the year ended 31 December 2020	**For the six months ended 30 June 2021**	For the six months ended 30 June 2020	For the year ended 31 December 2020
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Underlying capital generation	**176**	186	417	**182**	209	446	**(142)**	(132)	(286)	**216**	263	577
Other operating capital generation	**(4)**	18	83	**98**	262	564	**(1)**	(4)	88	**93**	276	735
Operating capital generation	**172**	204	500	**280**	471	1,010	**(143)**	(136)	(198)	**309**	539	1,312
Market movements										**600**	(614)	(118)
Restructuring and other costs										**(113)**	(20)	(73)
Tax										**73**	(107)	(126)
Total capital generation										**869**	(202)	995

		For the six months ended 30 June 2021			For the six months ended 30 June 2020			For the year ended 31 December 2020		
		Own funds (i)	**SCR** (i)	**Surplus**	Own funds (i)	SCR (i)	Surplus	Own funds (i)	SCR (i)	Surplus
Reconciliation of movement in Group Solvency II surplus		**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Underlying capital generation										
Savings and Asset Management	Asset Management	**140**	**4**	**144**	163	(8)	155	316	(8)	308
	With-profits	**93**	**(67)**	**26**	87	(69)	18	163	(75)	88
	of which: In-force	**89**	**(39)**	**50**	76	(37)	39	151	(51)	100
	of which: New business	**4**	**(28)**	**(24)**	11	(32)	(21)	12	(24)	(12)
	Other	**6**	**—**	**6**	16	(3)	13	26	(5)	21
	Savings and Asset Management underlying capital generation	**239**	**(63)**	**176**	266	(80)	186	505	(88)	417
Heritage	With-profits	**65**	**3**	**68**	49	(9)	40	100	5	105
	Shareholder annuity and other	**46**	**68**	**114**	95	74	169	193	148	341
	Heritage underlying capital generation	**111**	**71**	**182**	144	65	209	293	153	446
Corporate	**Interest and head office**	**(138)**	**(4)**	**(142)**	(134)	2	(132)	(289)	3	(286)
Underlying capital generation		**212**	**4**	**216**	276	(13)	263	509	68	577
Other operating capital generation										
	Savings and Asset Management	**(55)**	**51**	**(4)**	(9)	27	18	27	56	83
	Heritage	**1**	**97**	**98**	152	110	262	297	267	564
	Corporate Centre	**3**	**(4)**	**(1)**	2	(6)	(4)	82	6	88
Operating capital generation		**161**	**148**	**309**	421	118	539	915	397	1,312
	Market movements	**340**	**260**	**600**	(326)	(288)	(614)	283	(401)	(118)
	Restructuring and other	**(99)**	**(14)**	**(113)**	(20)	—	(20)	(73)	—	(73)
	Tax	**87**	**(14)**	**73**	(141)	34	(107)	(159)	33	(126)
Total capital generation		**489**	**380**	**869**	(66)	(136)	(202)	966	29	995
Dividends and capital movements		**(293)**	**—**	**(293)**	(410)	—	(410)	(644)	(39)	(683)
Total increase/(decrease) in Solvency II surplus		**196**	**380**	**576**	(476)	(136)	(612)	322	(10)	312

(i) Own funds and SCR movements shown as per the shareholder Solvency II capital position, and do not include the own funds and SCR in respect of the ring-fenced With-Profits Fund.

Supplementary information (continued)

Financial ratios

Included in this section are details of how some of the financial ratios used to help analyse the performance of the Asset Management business are calculated.

(i) Cost/income ratio

Cost/income ratio is a measure of cost efficiency which analyses costs as a percentage of revenue.

	For the six months ended 30 June		For the year ended 31 December
	2021	2020	2020
	£m	£m	£m
Total Asset Management operating expenses	**333**	306	672
Adjustment for revaluations (i)	**2**	1	2
Total Asset Management adjusted costs	**335**	307	674
Total Asset Management fee-based revenue	**473**	469	988
Less: Performance fees	**(4)**	(3)	(42)
Total Asset Management underlying fee-based revenue	**469**	466	946
Cost/income ratio (%)	**71%**	66%	71%

(i) Reflects the revaluation of provisions relating to performance based awards that are linked to underlying fund performance. M&G Group hold units in the underlying funds to hedge the exposure on these awards.

(ii) Average revenue margin

This represents the average fee revenue yield on fee business and demonstrates the margin being earned on the assets we manage or administer.

	For the six months ended 30 June						For the year ended 31 December		
	2021			2020			2020		
	Average AUMA (i)	**Revenue (ii)**	**Revenue margin (iii)**	Average AUMA (i)	Revenue (ii)	Revenue margin (iii)	Average AUMA (i)	Revenue (ii)	Revenue margin (iii)
	£bn	**£m**	**bps**	£bn	£m	bps	£bn	£m	bps
Retail Asset Management	**100**	**213**	**42**	92	230	50	93	466	50
Institutional Asset Management	**182**	**256**	**28**	169	236	28	171	480	28
Total Asset Management	**282**	**469**	**33**	261	466	36	264	946	36

(i) Average AUMA represents the average total market value of all financial assets managed and administered on behalf of customers during the financial period. Average AUMA is calculated using a 13-point average of monthly closing AUMA for full-year periods and seven-point average of monthly closing AUMA for half-year periods. This includes internal AUMA in Retail Asset Management of £42bn (30 June 2020: £29bn; 31 December 2020: £32bn) and in Institutional Asset Management of £97bn (30 June 2020: £91bn; 31 December 2020: £91bn) which is not included in the Retail and Institutional Asset Management lines within the detailed AUMA tables.

(ii) Revenue margin is calculated by annualising underlying fee based revenues earned, which excludes performance fees, in the period divided by average AUMA for the period. Revenue includes £129m of internal revenue (30 June 2020: £104m; 31 December 2020: £227m), of which £104m (30 June 2020: £89m, 31 December 2020: £188m) is included in Institutional Asset Management and £25m (30 June 2020: £15m, 31 December 2020: £39m) in Retail Asset Management.

(iii) Fee margin relates to the total margin for internal and external revenue. Retail Asset Management external revenue margin is 65 bps (30 June 2020: 68 bps, 31 December 2020: 70 bps) and Institutional Asset Management external revenue margin is 36 bps (30 June 2020: 38 bps, 31 December 2020: 37 bps). Total Asset Management internal revenue margin is 19 bps (30 June 2020: 17 bps, 31 December 2020: 18 bps).

Supplementary information (continued)

Credit risk

The Group's exposure to credit risk primarily arises from the annuity portfolio, which holds large amounts of investments on which a certain level of defaults and downgrades are expected.

While the with-profits and unit-linked funds have large holdings of assets subject to credit risk, the shareholder results of the Group are not directly exposed to credit defaults on assets held in these components. The direct exposure of the Group's shareholders' equity to credit default risk in other areas of the business is small in the context of the Group. However, the shareholder is indirectly exposed to credit risk through lower shareholder transfers in respect of the with-profits business, and lower charges levied in respect of the unit-linked and other components of the business.

Debt securities

Debt securities held in respect of annuities and other long-term business are analysed below by asset class:

	As at 30 June 2021 £m	As at 31 December 2020 £m
Government bonds	**4,972**	5,354
Corporate bonds	**12,866**	14,113
Asset-backed securities	**748**	807
Total debt securities	**18,586**	20,274

Debt securities held in respect of annuities and other long-term business are analysed below according to external credit ratings[4] issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative. Debt securities are internally rated where no external credit rating is available.

	As at 30 June 2021 £m	As at 31 December 2020 £m
AAA	**2,590**	2,274
AA+ to AA-	**6,119**	7,202
A+ to A-	**5,859**	6,639
BBB+ to BBB-	**3,381**	3,484
Below BBB-	**637**	675
Total	**18,586**	20,274

In the table above, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as below BBB.

Asset-backed securities

The annuities and other long-term business segment has holdings in asset-backed securities (ABS) which are presented within debt securities on the condensed consolidated statement of financial position. These holdings in ABS comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities. At 30 June 2021 the annuities and other longer term business holdings in asset-backed securities was £748m (31 December 2020: £807m). The majority of these asset backed securities are UK securities.

[4] The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch Solutions and their respective affiliates and suppliers ("Content Providers") is referred to here as the "Content". Reproduction of any content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

Supplementary information (continued)

Credit risk (continued)

Exposure to sovereign debt

The exposure of annuity and other long term business to sovereign debt is analysed as follows:

	As at 30 June 2021 £m	As at 31 December 2020 £m
Spain	**46**	57
France	**69**	22
Germany	**113**	137
Total Eurozone	**228**	216
United Kingdom	**1,822**	1,949
Other	**177**	180
Total	**2,227**	2,345

This table does not include non-central sovereign debt (Quasi sovereign, Supranational and other public sector debt), therefore does not agree to the Government debt balance within the debt securities by industry disclosures that follow.

Exposure to debt securities issued by banks

The exposure of annuities and other long term business to debt securities issued by banks is shown below by type of debt and also by economy. Subordinated debt is a fixed interest debt that ranks below other debt in order of priority for repayment if the issuer is liquidated.

Holders are compensated for the added risk through higher rates of interest. The senior debt ranks above subordinated debt in the event of liquidation, whereas covered senior debt is also backed by other assets in the event of insolvency. These debt tier classifications are consistent with the treatment of capital for regulatory purposes.

	Senior debt			Subordinated debt		
As at 30 June 2021	**Covered £m**	**Senior £m**	**Total senior debt £m**	**Tier 2 £m**	**Total subordinated debt £m**	**Total £m**
France	**12**	**48**	**60**	**—**	**—**	**60**
Germany	**3**	**—**	**3**	**81**	**81**	**84**
Netherlands	**—**	**44**	**44**	**—**	**—**	**44**
Other Eurozone	**—**	**23**	**23**	**—**	**—**	**23**
Total Eurozone	**15**	**115**	**130**	**81**	**81**	**211**
United Kingdom	**370**	**116**	**486**	**106**	**106**	**592**
United States	**—**	**234**	**234**	**31**	**31**	**265**
Other	**—**	**23**	**23**	**—**	**—**	**23**
Total	**385**	**488**	**873**	**218**	**218**	**1,091**

	Senior debt			Subordinated debt		
As at 31 December 2020	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Total subordinated debt £m	Total £m
France	12	34	46	—	—	46
Germany	3	—	3	90	90	93
Netherlands	—	45	45	—	—	45
Other Eurozone	—	—	—	—	—	—
Total Eurozone	15	79	94	90	90	184
United Kingdom	409	190	599	72	72	671
United States	—	247	247	33	33	280
Other	—	23	23	36	36	59
Total	424	539	963	231	231	1,194

Supplementary information (continued)

Credit risk (continued)

Exposure of debt securities by sector

The exposure of annuities and other long term business to debt securities is analysed below by sector:

	As at 30 June 2021 £m	As at 31 December 2020 £m
Financial	**5,825**	6,317
Government	**4,972**	5,354
Real Estate	**2,797**	3,036
Utilities	**2,432**	2,727
Consumer	**855**	967
Industrial	**619**	709
Communications	**392**	431
Other	**694**	733
Total	**18,586**	20,274

Glossary

Term	Definition
Adjusted operating profit before tax	Adjusted operating profit before tax is one of the Group's key alternative performance measures. It is defined in the alternative performance measure section on page 52.
Alternative performance measure (APM)	An APM is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations.
Asset-backed securities (ABS)	A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.
Asset management cost/income ratio	The asset management cost/income ratio represents total operating expenses excluding revaluation of provisions for employee performance awards divided by total fee-based revenues, excluding performance fees.
Assets under management and administration (AUMA)	Assets under management and administration represents the total market value of all financial assets managed, administered or advised on behalf of customers and clients.
Average fee margin	The average fee margin is calculated from fee-based revenues earned in the period, excluding performance fees, divided by average AUMA for the period. It demonstrates the revenue margin that was earned on the assets we manage and administer.
Board	The Board of directors of the Company.
Bonuses	Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus: – Regular bonus: expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and – Final bonus: an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.
Chief Operating Decision Maker	The Group Executive Committee.
Company/Parent Company	M&G plc, a public limited company incorporated in England and Wales with registered number 11444019 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
Demerger	The demerger of the Group from the Prudential Group in October 2019.
Director	A Director of the Company.
Earnings per share (EPS)	Earnings per share (EPS) is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.
Employee benefit trust (EBT)	An employee benefit trust (EBT) is a trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards.
Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the condensed consolidated income statement.
FCA	Financial Conduct Authority - the body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.
Group	The Company and its subsidiaries.

Glossary (continued)

Term	Definition
Group Executive Committee	The Group Executive Committee is composed of board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.
Key performance measure (KPM)	The Group measures its financial performance using the following key performance measures: IFRS result after tax, adjusted operating profit before tax, Savings and Asset Management net client flows, AUMA, shareholder Solvency II coverage ratio, total capital generation and operating capital generation.
Leverage ratio	The leverage ratio is calculated as the nominal value of debt as a percentage of the Group's shareholder Solvency II own funds.
Long term incentive plan (LTIP)	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to the Group's strategy.
Merger and Transformation Programme	In August 2017, Prudential plc announced the merger of its UK and Europe business with the asset manager M&G to form the Group (the Merger). In conjunction with the Merger, and as part of the execution of its business strategy, the Group is implementing a transformation programme, with a number of initiatives and programmes. This is expected to be completed in 2022.
M&G Group Limited (MGG)	MGG is a private limited company incorporated in England and Wales with registered number 00633480 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom. MGG is the holding company of the Group's asset management business, M&G Investments.
Net client flows	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period.
Non-profit business	Contracts where the policyholders are not entitled to a share of the company's profit and surplus, but are entitled to other contractual benefits. Examples include pure risk policies (such as fixed annuities) and unit-linked policies.
Operating capital generation	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring costs.
Own funds	Own funds refers to the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments.
Prudential Regulation Authority (PRA)	The PRA is the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
Prudential Assurance Company (PAC)	The Prudential Assurance Company Limited, a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London, EC3M 5AG, United Kingdom
Prudential Group	Prudential plc and its subsidiaries and subsidiary undertakings.
Prudential plc	Prudential plc is a public limited company incorporated in England and Wales with registered number 1397169 whose registered office is 1 Angel Court, London EC2R 7AG, United Kingdom.
PruFund	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
Rothesay Life	Rothesay Life PLC
Scottish Amicable Insurance Fund (SAIF)	SAIF was a ring-fenced sub-fund of the With-Profits Fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund was solely for the benefit of policyholders of SAIF. On 1 April 2021 SAIF merged with PAC's main with-profits sub-fund and the assets and liabilities of SAIF combined with those of the with-profits sub-fund.

Glossary (continued)

Term	Definition	Term	Definition
Shareholder Solvency II coverage ratio	Shareholder Solvency II coverage ratio is the ratio of own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund.	**Unallocated surplus of the With-Profits Fund**	Unallocated surplus of the With-Profits Fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders.
Solvency II	A regime for the prudential regulation of insurance companies that was introduced by the EU on 1 January 2016	**Unit-linked policy**	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.
Solvency II surplus	Solvency II surplus represents the own funds held by the Group less the solvency capital requirement.	**With-profits business**	Contracts where the policyholders have a contractual right to receive, at the discretion of the company, additional benefits based on the profits of the fund, as a supplement to any guaranteed benefits.
Total capital generation	Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.	**With-Profits Fund**	The Prudential Assurance Company Limited's fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. It is also known as a participating fund as policyholders have a participating interest in the With-Profits Fund and any declared bonuses.
Transitional measures	Transitional measures on technical provisions are an adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January 2016. This decreases linearly over 16 years following the implementation of Solvency II, but may be recalculated in certain cases, subject to agreement with the PRA.		