M&G plc prospectus
25 September 2019

This document comprises a prospectus for the purposes of Article 6 of Regulation (EU) 2017/1129, as amended, relating to M&G plc (the "**Company**" and together with its subsidiaries, the "**Group**") and has been approved by the Financial Conduct Authority of the United Kingdom ("**FCA**"), as competent authority under Regulation (EU) 2017/1129, in accordance with section 87A of the Financial Services and Markets Act 2000 of England and Wales, as amended ("**FSMA**"), and prepared and made available to the public in accordance with the Prospectus Regulation Rules of the FCA made under section 73A of FSMA (the "**Prospectus Regulation Rules**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129 and such approval should not be considered as an endorsement of the issuer that is the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities. This Prospectus is not an offer or invitation to the public to subscribe for or purchase fully paid ordinary shares in the capital of the Company ("**M&G Shares**") but is issued solely in connection with the admission of M&G Shares to the premium listing segment of the Official List of the FCA and to the London Stock Exchange's main market for listed securities ("**Admission**"). It is proposed that Admission will take place shortly following the Demerger and, unless the context requires otherwise, this Prospectus has been prepared on the assumption that the Demerger Resolution will be passed at the Prudential General Meeting and that the Demerger will become effective as proposed.

Application will be made to the FCA for all M&G Shares to be admitted to the premium listing segment of the Official List of the FCA and to the London Stock Exchange for M&G Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. No application has been made or is currently intended to be made for M&G Shares to be admitted to listing or trading on any other exchange. It is expected that Admission will become effective, and that dealings in M&G Shares will commence on the London Stock Exchange, at 8.00 a.m. on 21 October 2019 (International Security Identification Number: GB00BKFB1C65).

This Prospectus is issued solely in connection with Admission. This Prospectus does not constitute or form part of an offer or invitation to sell or issue, or any solicitation of an offer to purchase or subscribe for, any securities by any person. No offer of M&G Shares is being made in any jurisdiction.

This Prospectus should be read in its entirety. In particular, investors should take account of the section entitled "Risk Factors" which contains a discussion of certain risks relating to the business of the Company. Investors should not solely rely on the information summarised in the section entitled "Summary".

M&G plc

(incorporated in England and Wales under the Companies Act 2006 with registered number 11444019)

Introduction to the premium listing segment of the Official List and
admission to trading on the main market of the London Stock Exchange

Sponsor

Goldman Sachs International

Ordinary share capital immediately following Admission

Issued and fully paid M&G Shares

Number	Nominal value
up to 2,599,955,535	£0.05

Goldman Sachs International ("**Goldman Sachs**"), which is authorised by the Prudential Regulatory Authority and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority, is acting exclusively for the Company and no one else in connection with Admission and the Demerger and they will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to Admission or the Demerger and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to Admission or the Demerger or any other transaction, matter, or arrangement referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on Goldman Sachs by FSMA or the regulatory regime established thereunder or under the regulatory regime of any other applicable jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, neither Goldman Sachs nor any of its affiliates accepts any responsibility whatsoever for the contents of this Prospectus including its accuracy, completeness and verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company or its subsidiaries, M&G Shares or Admission or the Demerger. Goldman Sachs and its affiliates accordingly disclaim, to the fullest extent permitted by applicable law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise be found to have in respect of this Prospectus or any such statement. No representation or warranty, express or implied, is made by Goldman Sachs or any of its affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this Prospectus, and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future.

The distribution of this Prospectus in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions in relation to M&G Shares or this Prospectus, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Except in the United Kingdom, no action has been taken or will be taken in any jurisdiction that would permit possession or distribution of this Prospectus in any country or jurisdiction where action for that purpose is required. Accordingly, this Prospectus may not be distributed or published in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration. Failure to comply with these restrictions may constitute a violation of the securities laws or regulations of such jurisdictions.

The M&G Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "**US Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. None of the US Securities and Exchange Commission, any other US federal or state securities commission or any US regulatory authority has approved or disapproved of the M&G Shares nor have such authorities passed upon or endorsed the merits of the M&G Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This Prospectus is dated 25 September 2019.

TABLE OF CONTENTS

SUMMARY

1. INTRODUCTION AND WARNINGS

1.1 Details of the issuer

The issuer is M&G plc (the "**Company**"), a public limited company incorporated in England and Wales with registered number 11444019.

The Company's registered and head office is at 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom. The telephone number of the Company's registered office is +44 (0)20 7626 4588 and the legal entity identifier of the Company is 254900TWUJUQ44TQJY84.

1.2 Details of the securities

On Admission, the M&G Shares will be registered with an ISIN of GB00BKFB1C65 and SEDOL of BKFB1C6. It is expected that the M&G Shares will be traded on the main market for listed securities of the London Stock Exchange under the ticker symbol "MNG".

1.3 Details of the FCA

The head office of the FCA is at 12 Endeavour Square, London, E20 1JN. The telephone number of the FCA is +44 (0)20 7066 1000.

This Prospectus was approved by the FCA on 25 September 2019.

1.4 Warnings

This summary should be read as an introduction to this Prospectus.

This Prospectus should be read in its entirety. Where a claim relating to the information contained in this Prospectus is brought before a court, a plaintiff might, under the national legislation of the European Economic Area member states, have to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Civil liability attaches to the Directors and the Company, who are responsible for this summary including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or if it does not provide, when read together with the other parts of this Prospectus, key information in order to aid in considering the admission of M&G Shares to the premium listing segment of the Official List of the FCA and to the London Stock Exchange's main market for listed securities.

2. KEY INFORMATION ON THE ISSUER

2.1 Who is the issuer of the securities?

The Company was incorporated in England and Wales on 2 July 2018 as Voyager Dallas Holding Company Limited with registered number 11444019. Voyager Dallas Holding Company Limited changed its name to M&G Prudential Limited on 3 July 2018, to M&G Prudential plc on 24 July 2019 when it was re-registered as a public limited company and to M&G plc on 16 September 2019. The legal entity identifier of the Company is 254900TWUJUQ44TQJY84.

(A) Principal activity

The principal activity of the Company is to act as the ultimate holding company of the Group. The principal legislation under which the Company operates is the Companies Act and regulations made thereunder.

(B) Major shareholders

As at the date of this Prospectus, the entire issued share capital of the Company is held and controlled by Prudential plc. Immediately following the Demerger, the shareholders of the Company will be the same as the shareholders of Prudential plc as at the Record Time.

As at 23 September 2019, being the latest practicable date prior to the publication of this Prospectus (the "**Latest Practicable Date**"), and so far as is known to the Company by virtue of the notifications made to Prudential plc pursuant to the Companies Act, the Market Abuse Regulation and/or the Disclosure Guidance and Transparency Rules, the following will, on Admission, be directly or indirectly interested in 3 per cent or more of the Company's issued share capital:

Name of shareholder	Percentage of total voting rights
Capital Group Companies, Inc	9.87
BlackRock, Inc	5.08
NorgesBank	3.99

(C) Key managing directors

The Executive Directors of the Company are:

Director	Position
John Foley	Chief Executive
Clare Bousfield	Chief Financial Officer

(D) Statutory auditor

The auditor of the Company since the date of its incorporation has been KPMG LLP, whose registered office is at 15 Canada Square, London E14 5GL. KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales and has no material interest in the Group.

2.2 What is the key financial information regarding the issuer?

(A) Selected historical key financial information

The tables below set out selected key financial information for the Group for the six months ended 30 June 2019 and 2018 as well as the financial years ended 31 December 2018, 2017 and 2016.

Table 1: Income statement

	For the year ended 31 December			For the six months ended 30 June	
	2018 £m	2017 £m	2016 £m	2019 £m	Unaudited 2018 £m
Earned premiums, net of reinsurance	(76)	12,076	9,285	5,420	(6,043)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	5,070	(22,985)	(27,830)	(16,464)	6,439
Profit before tax	591	1,756	2,180	1,427	72
Profit for the period attributable to equity holders	806	1,074	1,134	794	67

Table 2: Balance sheet

	As at 31 December			As at 30 June
	2018	2017	2016	2019
Financial assets (£m)	176,020	189,924	177,439	186,071
Total assets (£m)	211,503	211,984	198,300	221,690
Insurance contract liabilities (£m)	69,298	88,623	89,464	76,680
Financial liabilities (£m)	39,026	36,100	33,069	40,432
Total liabilities (£m)	202,704	203,629	190,409	213,192
Total equity (£m)	8,799	8,355	7,891	8,498
Solvency Cover Ratio (%)	172	N/A	N/A	169

(B) Selected pro forma key financial information

The unaudited pro forma information has been prepared on the basis of the notes set out below to illustrate the impact of the Demerger on the consolidated statement of financial position of the Group. The pro forma statement of financial position is based on the statement of financial position as at 30 June 2019 and has been prepared on the basis that the Demerger took place on that date.

The pro forma financial information has been prepared in accordance with the accounting policies normally adopted by the Group and applied in preparing the historical financial information of the Group set out in Schedule II (*Historical Financial Information*) of this Prospectus (the "**Historical Financial Information**").

The unaudited pro forma information of the Group has been prepared for illustrative purposes only and in accordance with Annex 20 of the PR Regulation. Because of its nature, the unaudited pro forma information of the Group addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of the Group. It may not, therefore give a true picture of the Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

Table 1: Unaudited pro forma Statement of Financial Position

	Statement of financial position of the Group as at 30 June 2019	Adjustments: Debt Substitution	Adjustments: Pre-demerger dividends	Adjustments: Other	Pro forma
	Note 1 £m	Note 2 £m	Note 3 £m	Note 4 £m	Note 5 £m
Assets					
Goodwill and intangible assets	1,422				1,422
Deferred acquisition costs	107				107
Investment in joint ventures and associates	605				605
Property, plant and equipment	1,383				1,383
Investment property	18,778				18,778
Defined benefit pension asset	51				51
Deferred tax assets	110			36	146
Reinsurance assets	2,690				2,690
Loans	5,997				5,997
Derivative assets	2,883				2,883
Equity securities and pooled investment funds	67,484				67,484
Deposits	16,792				16,792
Debt securities	85,174				85,174
Current tax assets	271				271
Accrued investment income and other debtors	3,149				3,149
Assets held for sale	10,170				10,170
Cash and cash equivalents	4,624	3,217	(3,155)	35	4,721
Total assets	**221,690**	**3,217**	**(3,155)**	**71**	**221,823**
Invested capital	8,498	(380)	(3,155)	68	5,031
Total Invested capital	**8,498**	**(380)**	**(3,155)**	**68**	**5,031**
Liabilities					
Insurance contract liabilities	76,680				76,680
Investment contract liabilities with discretionary participation features	67,560				67,560
Investment contract liabilities without discretionary participation features	15,695				15,695
Unallocated surplus of with-profits funds	15,328				15,328
Third party interest in consolidated funds	9,040				9,040
Borrowings and subordinated liabilities	3,712	3,597			7,309
Defined benefit pension liability	120				120
Lease liabilities	323				323
Deferred tax liabilities	1,187				1,187
Current tax liabilities	427			(32)	395
Derivative liabilities	2,677				2,677
Other financial liabilities	2,723				2,723
Provisions	416				416
Accruals, deferred income and other liabilities	7,140			35	7,175
Liabilities held for sale	10,164				10,164
Total liabilities	**213,192**	**3,597**		**3**	**216,792**
Total equity and liabilities	**221,690**	**3,217**	**(3,155)**	**71**	**221,823**

Notes

1. The statement of financial position has been extracted without material adjustment from the Historical Financial Information.
2. This adjustment represents the Debt Substitution, details of which are set out in section 5.3 (*Capital Resources*) of Part III (*Operating and Financial Review*). The consideration for the Debt Substitution will be the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate

prevailing at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc will also pay the Company the Accrued Interest Amount.

The debt has a fair value, excluding accrued interest, of £3,597 million at 30 June 2019. The difference between the consideration and the fair value of the debt has been accounted for as a distribution by the Company to Prudential plc.

The nominal value of £393 million, consideration of £391 million and fair value of £442 million in respect of the US$ denominated debt has been translated at the 30 June 2019 exchange rate of 1.2727.

3. This adjustment represents dividends of £3,155 million paid and to be paid to Prudential plc, the Company's immediate parent, as part of the Demerger. This consists of the £2,968 million Pre-Demerger Dividend, together with a dividend of £187 million paid on 20 September 2019. All dividends are subject to the customary legal and governance considerations required before approval by the Board.
4. This adjustment represents the accrued interest of £35 million and the current and deferred tax impacts in respect of the Notes substituted by way of the Debt Substitution. £5 million of the accrued interest is in respect of the US$ denominated debt translated at the 30 June 2019 exchange rate of 1.2727.
5. No adjustment has been made to reflect the trading results of the Group since 30 June 2019 or any other change in its financial position in this period.

The unaudited pro forma shareholder Solvency II capital position of the Group set out below has been prepared to illustrate the effect of the Demerger on the shareholder Solvency II capital position of the Group as if the Demerger had taken place on 30 June 2019 and in a manner consistent with the basis of Solvency II reporting of the Group at 30 June 2019 (the "Solvency II accounting policies").

The unaudited pro forma shareholder Solvency II capital position of the Group has been prepared on the basis of, and should be read in conjunction with, the notes set out below.

The unaudited pro forma shareholder Solvency II capital position of the Group has been prepared for illustrative purposes only and in accordance with Annex 20 of the PR Regulation. Because of its nature, the unaudited pro forma shareholder Solvency II capital position of the Group addresses a hypothetical situation and, therefore, does not represent the actual Solvency II capital position following the Demerger. It may not, therefore, give a true picture of the shareholder Solvency II capital position of the Group, nor is it indicative of the capital position that may, or may not, be expected to be achieved in the future.

Table 2: Unaudited pro forma Group shareholder Solvency II capital position

	Group shareholder Solvency II position as at 30 June 2019	Adjustments			
		Debt Substitution	Pre-demerger dividends	Other	Pro forma
	Note 1 £bn	Note 2 £bn	Note 3 £bn	Note 4 £bn	Note 5 £bn
Own Funds	9.5	3.2	(3.2)	0.1	9.6
Solvency Capital Requirement	5.6				5.6
Surplus	3.9	3.2	(3.2)	0.1	4.0
Ratio (%)	169%				170%

Notes

1. The information on the shareholder Solvency II capital position of the Group as at 30 June 2019 has been extracted without material adjustment from the Historical Financial Information.
2. This adjustment represents the Debt Substitution, details of which are set out in section 5.3 (*Capital Resources*) of Part III (*Operating and Financial Review*). The consideration for the Debt Substitution will be the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc will also pay the Company the Accrued Interest Amount.

   The Own Funds impact reflects the consideration of approximately £3.2 billion which will be paid. The Notes meet the requirements to be counted as Solvency II Own Funds and therefore the Notes' liability obligations are reclassified as capital for the purposes of determining Own Funds.

   The nominal value of £0.4 billion and consideration of £0.4 billion in respect of the US$ denominated debt has been translated at the 30 June 2019 exchange rate of 1.2727.
3. This adjustment represents dividends of £3.2 billion paid and to be paid to Prudential plc, the Company's immediate parent, as part of the Demerger. This consists of the £3.0 billion Pre-Demerger Dividend, together with a dividend of £0.2 billion paid on 20 September 2019. All dividends are subject to the customary legal and governance considerations required before approval by the Board.

4. This adjustment represents the accrued interest of £0.04 billion and the current and deferred tax impacts in respect of the Notes substituted by way of the Debt Substitution. £0.01 billion of the accrued interest is in respect of the US$ denominated debt translated at the 30 June 2019 exchange rate of 1.2727.
5. No adjustment has been made to reflect the results of the Group or other changes in Solvency II capital position of the Group since 30 June 2019.

(C) Accountant's report qualifications

There are no qualifications in the accountant's report on the Historical Financial Information.

2.3 What are the key risks that are specific to the issuer?

The Group's business is conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends.

The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives.

The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals.

Adverse experience in the operational risks inherent in the Group's business could disrupt the Group's business functions and have a negative impact on its financial condition, results of operations and prospects.

Certain aspects of the Group's business, including its strategic initiatives, are dependent on joint venture partners and outsourcing services to third party contractors, suppliers, agents and service providers, which carries various material risks.

The Group has a high dependency on technology to operate effectively and to meet the needs of its business, customers and clients, the failure of which could disrupt the Group's business functions and have a negative impact on its business, financial condition, results of operations and prospects.

Failure by the Group to manage conflicts of interest could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects.

Sustained underperformance across a range of funds, or by one of the Group's larger funds or institutional asset management solutions, could have adverse effects on the Group's business, financial condition, results of operations and prospects.

The Group conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates.

3. KEY INFORMATION ON THE SECURITIES

3.1 What are the main features of the securities?

(A) Type, class and ISIN of the securities

The M&G Shares are fully paid ordinary shares with a nominal value of £0.05 each. The Company has and, on Admission will have, one class of ordinary shares, comprising the entire issued share capital of the Company. On Admission, the M&G Shares will be registered with an ISIN of GB00BKFB1C65 and SEDOL of BKFB1C6. It is expected that the M&G Shares will be traded on the main market for listed securities of the London Stock Exchange under the ticker symbol "MNG".

(B) Currency of the securities

The M&G Shares are and, on Admission will be, denominated in Pounds Sterling.

(C) Number of issued and fully paid securities

On Admission, the number of M&G Shares in issue will be equal to the number of Prudential Shares in issue at the Record Time. The M&G Shares have a nominal value of £0.05 each and will be fully paid.

As at the Latest Practicable Date, there were 2,599,885,116 Prudential Shares in issue. Up to a further 70,419 Prudential Shares may be issued by Prudential plc prior to Admission to satisfy entitlements under the Prudential Savings-Related Share Option Scheme. These additional Prudential Shares, if issued, will be issued prior to the Record Time.

(D) Rights attaching to the securities

All M&G Shares will rank *pari passu* in all respects, there being no conversion or exchange rights attaching thereto, and all M&G Shares will have equal rights to participate in capital, dividend and profit distributions by the Company.

On a show of hands every M&G Shareholder who is present in person and every person holding a valid proxy shall have one vote and on a poll every M&G Shareholder present in person or by proxy shall have one vote per M&G Share.

(E) Description of restrictions on free transferability of the securities

The M&G Shares are freely transferable and there are no restrictions on transfer.

(F) Dividend policy

The board of directors of the Company (the "**Board**") considers dividends to be an important component of total shareholder return. Dividends will be set by the Directors taking into account the Company's overall financial position, including its level of regulatory surplus, liquidity position, leverage position, level of interest cover and quality of capital.

Subject to the Company's overall financial position, the Directors would typically expect:

(i) dividends to be stable or increasing in absolute terms over time; and

(ii) interim dividends to be formulaic and calculated as one third of the previous year's full year dividend.

Over the longer term, the level of dividend is expected to develop broadly in line with the Company's ability to generate capital.

At the Directors' discretion, special dividends may be paid to M&G Shareholders in addition to ordinary dividends. Any such special dividends would be expected to be paid only if the Directors consider that the Company's overall financial position, as defined above, was stronger than necessary to support its business and financial needs.

The Board currently expects to declare a 2019 ordinary dividend of around £310 million, subject to the Company's financial performance and overall financial position remaining in line with expectations. Based on the expected number of M&G Shares at Admission, this is equivalent to about 11.92 pence per share. The dividend is expected to be paid to M&G Shareholders in May 2020, in accordance with the Company's proposed financial calendar. The expected 2019 ordinary dividend is consistent with the Board's dividend policy, as described above, being broadly two thirds of the amount that the Board would have anticipated paying in respect of 2019 on a standalone basis under its new dividend policy.

At the same time and subject to the same conditions, the Board expects to declare a one off demerger related dividend of around £100 million. Based on the expected number of M&G Shares at Admission, this is equivalent to about 3.85 pence per share. This is in recognition that, for the majority of the 2019 financial year, the Company was operating without incurring certain costs, e.g. debt interest costs, which it would expect to bear in future and which have been allowed for in determining the initial level of ordinary dividend.

3.2 Where will the securities be traded?

Application will be made for all the M&G Shares to be admitted to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities. No application has been made or is currently intended to be made for M&G Shares to be admitted to listing or trading on any other exchange.

3.3 What are the key risks that are specific to the securities?

Significant trading volumes of M&G Shares in the period following the Demerger could impact the market price of M&G Shares.

There is no existing market for the M&G Shares and an active trading market for the M&G Shares may not develop or be sustained.

There can be no assurance that dividends will be paid on M&G Shares.

4. KEY INFORMATION ON THE ADMISSION TO TRADING ON A REGULATED MARKET

4.1 Why is this Prospectus being produced?

This Prospectus has been produced in connection with the application to be made to the FCA for the M&G Shares to be admitted to the premium listing segment of the Official List. An application will also be made to the London Stock Exchange for the M&G Shares to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings in the M&G Shares will commence on the London Stock Exchange by no later than 8.00 a.m. (London time) on 21 October 2019.

No application has been made for admission of M&G Shares to trading on any other stock exchange (nor is it the current intention of the Company to make any such application in future).

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The times and dates set out in the timetables below and throughout this Prospectus that fall after the date of publication of this Prospectus are indicative only and based on the Company's current expectations and may be subject to change without further notice.

Event	Time and date[(1)]
Publication of the Prudential Shareholder Circular and this Prospectus	25 September 2019
Latest time and date for receipt of forms of proxy and CREST electronic proxy appointment instruction	9.30 a.m. on 11 October 2019
Voting Record Time for determining entitlement to attend and vote at the Prudential General Meeting	6.30 p.m. on 11 October 2019[(2)]
Prudential General Meeting	9.30 a.m. on 15 October 2019
Announcement of the results of the Prudential General Meeting	15 October 2019 (after the Prudential General Meeting)
Latest time and date for transfers from the UK Register to the Hong Kong Register in order to be registered on the Hong Kong Register at the Record Time[(3)]	6.00pm on 15 October 2019
Latest time and date for transfers of Prudential Shares to be registered in order for the transferee to be registered on the UK Register at the Record Time	6.00 p.m. on 18 October 2019
Record Time for determining the entitlement to the Demerger Dividend	6.00 p.m. on 18 October 2019
Demerger Dividend to Qualifying Shareholders	21 October 2019 (immediately prior to Admission)
Admission and commencement of unconditional dealings in M&G Shares on the LSE	8.00 a.m. on 21 October 2019
CREST accounts credited in respect of M&G Shares in uncertificated form	Shortly after 8.00 a.m. on 21 October 2019
Latest date for despatch of definitive share certificates (where applicable) for M&G Shares in certificated form to Qualifying Shareholders on the UK Register	By 31 October 2019

Notes

(1) Unless otherwise indicated, all references to time in this timetable are to London time.

(2) If the Prudential General Meeting is adjourned for any reason, the Voting Record Time for the adjourned meeting will be 6.30 p.m. London time on the date that is two business days before the date set for the adjourned meeting.

(3) After this date, it will not be possible to transfer between the UK Register and the Hong Kong Register until 22 October 2019, the business day after completion of the Demerger.

RISK FACTORS

The risks and uncertainties relating to the M&G Shares, the Group's business and the industry in which it operates, described below, together with all other information contained in this Prospectus, should be carefully considered in light of Admission.

The risks and uncertainties relating to the M&G Shares, the Group's business and the industry in which it operates summarised in the section of this Prospectus headed 'Summary' are the risks that the Directors believe to be the most essential to an assessment of M&G Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, you should consider not only the information on the key risks summarised in the section of this Prospectus headed 'Summary' but also, among other things, the risks and uncertainties described below.

The risks and uncertainties described below represent those the Directors consider to be material as at the date of this Prospectus. However, these risks and uncertainties are not the only ones facing the Group. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently consider to be immaterial, may individually or cumulatively also materially and adversely affect the business, results of operations, financial condition and/or prospects of the Group. If any or a combination of these risks actually occurs, the business, results of operations, financial condition and/or prospects of the Group could be materially and adversely affected. In such case, the market price of M&G Shares could decline. You should carefully consider the information in this Prospectus in light of your personal circumstances.

1. RISKS RELATING TO THE GROUP'S BUSINESS

1.1 The Group's business is conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The financial services markets in which the Group operates are highly competitive, with several factors affecting the Group's continued profitability and its ability to sell its products, including the range, quality, price and yields of the products offered by the Group and the Group's financial strength, ratings, brand strength and name recognition. Additionally, the Group's investment management performance, historical bonus levels, ability to respond to developing customer needs in terms of products and servicing, demographic trends and technological advances as well as customer appetite for certain savings products could also affect the Group's continued profitability and its ability to sell its products. In some of its markets, the Group faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products and/or offer more competitive terms. Further, heightened competition for talented and skilled employees may limit the Group's potential to grow its business as quickly as planned.

The Group's principal competitors include many of the major retail financial services companies and fund management companies including, for example, Aviva, Hargreaves Lansdown, Janus Henderson, Jupiter, Legal & General, Schroders, Standard Life Aberdeen and St. James's Place.

In addition, while diversification of the Group's savings and investments business is ongoing, the Group retains concentration risk to PruFund, a transparent and modern way of with-profits investing in the UK, which offers individuals different rates of smoothed return aligned with their tolerance for risk. This makes the business more vulnerable to factors which reduce PruFund's investment performance and to any design risk arising in respect of it (e.g. in relation to the accumulation of smoothing losses, particularly from lower volatility funds). The Group has launched a number of new products, including the PruFolio range of funds, to reduce this concentration risk and efforts to diversify the Savings & Asset Management product range will continue. However, there is a risk that new products offered by the Group may not be successful and/or that the Group may not achieve the diversification necessary to successfully compete in the markets in which it seeks to operate, which could have an adverse impact on the Group's business, financial condition, results of operations and prospects.

The Group believes competition will intensify across all areas in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions, new non-traditional market entrants and other factors. Customer needs and expectations are changing rapidly, becoming more complex, with increased need for advice and guidance, and an increasing demand for innovative products and simplified service tailored to customers' specific requirements. In particular, in the UK there are several factors which are expected to continue to heighten competition within the sectors in which the Group operates.

The continued evolution of the UK pensions and savings market, particularly the impact of pensions freedoms, means that the Group will need to ensure that it provides customers with the flexible long-term investment solutions that they are increasingly looking for. In the asset management sector, growth in passively-run index trackers continues to gain pace, propelled by the US market and the inability of many active strategies to consistently outperform their benchmarks, net of fees. Market access to passive investing, including strategies driven by smart beta, robot-enabled advice, artificial intelligence and machine learning, is cheap and ubiquitous through passive funds and exchange-traded products, which increases competition.

The Group's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. Failure to do so may negatively impact the Group's ability to attract and retain customers and, importantly, may limit the Group's ability to take advantage of new business arising in the markets in which it operates.

1.2 The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives

The markets in which the Group operates are characterised by continued improvements in operational infrastructure, including changes to reflect adviser or customer requirements and preferences, the introduction of new technologies and developments in industry and regulatory standards. These changes could render the Group's existing technology, systems and control environment obsolete.

In response to such challenges, and as part of the implementation of its business strategies, the Group has commenced a number of significant change initiatives. These change initiatives, many of which involve complex interdependencies and/or are of large scale, are also necessary to reduce conduct risk and improve the experience and outcomes for customers, while strengthening the Group's resilience and control environment, and provide the Group with an efficient and scalable platform for future growth. There may be financial, operational, regulatory, customer and reputational implications if such initiatives fail (either wholly or in part) to meet their objectives and could place strain on the operational capacity, or weaken the control environment, of the Group. The scale and nature of the change programmes may cause disruption to resourcing through heightened uncertainty, increased workloads and short-term resource stretch, which, in turn, result in the transformation activities being delayed or not delivered at all and/or the disruption of business as usual activities. Implementing further strategic initiatives, and undertaking such initiatives concurrently with completion of the Demerger, may amplify these risks.

In addition to the changes required as a result of the Demerger, the Group's current significant change initiatives include the merger of M&G and Prudential UK and Europe, substantial investment in a transformation programme to improve customer experience and enhance the Group's IT and control environment, as well as various major outsourcing partnerships. The Group may fail to deliver the merger and transformation programme in a timely or cost-effective manner and the merger and transformation programme may fail to achieve the expected shareholder cost savings of approximately £145 million per annum by 2022. This could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Significant operational execution risks arise from these initiatives, including in relation to business functions and processes (data, systems and people) and third party arrangements. It is also possible that there may be insufficient organisational capacity to absorb the anticipated changes. Any disruption caused by, or failure to successfully implement any of, the change initiatives could have an adverse impact on the Group's ordinary course business and, consequently, its financial condition, results of operations and prospects, or otherwise harm the Group's reputation.

1.3 The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals

Conduct risk is the risk that acts or omissions of the Group, or individuals within the Group, result in poor or unfair outcomes for customers, employees, other stakeholders or affect market integrity. Conduct risk may arise where the Group fails to design, implement or adhere to appropriate policies and procedures, offer products, services or other propositions that do not meet the needs of customers or fails to perform in accordance with their intended design, or fails to communicate appropriately with customers. This risk may also arise where the Group fails to deal with complaints effectively, sells or recommends unsuitable products or solutions to customers, fails to provide them with adequate information to make informed decisions or provides unsuitable investment or financial planning advice to customers, or fails to do any of the foregoing on an ongoing basis after initial sales, among other things.

The Group is exposed to conduct risk arising from the activities and advice practices of its financial advice business and of external advisers that recommend its products. This advice is provided across a diverse range of complex products, including products from third parties, and investment choices, which may result in customers not understanding the terms and characteristics of a product and/or whether a product meets their own financial objectives. In relation to the Group's financial advice business in particular, ongoing transformation within the Group's business, including the development of new product propositions and digitalisation, creates the need to enhance and maintain controls and oversight to ensure that customers receive fair outcomes and transparent terms. The financial advice industry in the UK has also been more generally exposed to mis-selling advice practices, including in relation to personal pensions and annuity products, which has resulted in significant costs of redress.

Conduct risk remains the subject of close regulatory scrutiny. For example, the Group is conducting a review of historic non-advised annuity products in response to the FCA's Thematic Review of Annuity Sales Practices ("**TRASP**") and will be paying redress to customers where appropriate. The FCA has been conducting an enforcement investigation in relation to historic non-advised annuity sales, which is currently in stage 1 (stage 1 is where the FCA seeks to resolve its findings by agreement in which case a discount of 30% is applied to any financial penalty imposed). This enforcement investigation may result in the Group agreeing to a financial penalty, however this is not expected to have a material impact on the Group's financial position or prospects. Failing to treat customers fairly and appropriately, and failing to demonstrate sufficient suitability processes and monitoring could lead to legal proceedings, regulatory enforcement action or the imposition of a requirement to make redress payments. Given that regulation includes principles-based rules and regulations, the rules and regulations may be subject to differing applications and interpretations by regulators or market participants over time. This could in turn lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals. Moreover, if the Group fails to detect misconduct on a timely basis, or at all, the Group may face further reputational or financial damage. This is particularly pertinent during periods of strategic transformation, if resources typically focused on ordinary course business are diverted to transformation delivery, which brings risks to customer outcomes. See "*The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives*" above.

Any of the foregoing could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

1.4 Adverse experience in the operational risks inherent in the Group's business could disrupt the Group's business functions and have a negative impact on its financial condition, results of operations and prospects

Operational risk, the risk of financial and non-financial impact resulting from inadequate or failed internal processes, personnel and systems or external events, is present in all of the Group's businesses. Exposure to such risk could disrupt the Group's systems and operations significantly, which may result in financial loss, regulatory censure, adverse customer outcomes and/or reputational damage.

The Group's business is dependent on processing a large number of transactions across numerous and diverse products, and it currently employs a large number of models, and user developed applications, some of which are complex, in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained for significant periods. Further, the Group operates in an extensive and evolving legal and regulated environment (including in relation to tax) which adds to the operational complexity of its business processes and controls. See "*The Group conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates*" below.

These factors, among others, result in significant reliance on, and require significant investment in, the information technology ("**IT**") infrastructure, compliance and other operational systems, personnel and processes for the performance of the Group's core business activities. The operational effectiveness and resilience of these components may be impacted, particularly in times of significant change. Although the Group's IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there remains a risk that such controls will not always be effective. Due to human error among other reasons, operational risk incidents do happen periodically and no system or process can entirely prevent them. Such events could, among other things, harm the Group's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers, regulators and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records) or actuarial reserving processes could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the reporting of financial results during the effective period.

1.5 Certain aspects of the Group's business, including its strategic initiatives, are dependent on joint venture partners and outsourcing services to third party contractors, suppliers, agents and service providers, which carries various material risks

The Group has an existing and growing reliance on a number of joint venture and outsourcing (including external data hosting) partners to provide several business operations, including a significant part of the UK back office and customer facing operations as well as a number of IT support functions and investment operations. This creates reliance upon the operational performance and resilience of these joint venture and outsourcing partners, and failure to adequately oversee such partners, the insolvency of such a partner or a failure of its key IT and operational systems and processes could result in significant disruption to the Group's business operations and customers.

In particular, much of the Group's business is administered by strategic outsourced partners. Regulatory risk in respect of this outsourcing, as with other outsourcing arrangements put in place by the Group, rests with the Group. The outsourced nature of the services provided means that there remains a risk that customer outcomes or service standards may fall below required levels. In the event that an outsourcing partner fails to adhere to adequate contractual or regulatory standards, particularly in a customer facing element of the business, the Group is exposed to the material risk of regulatory action and reputational harm.

Furthermore, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not directly controlled by the Group. The Group's product distribution is therefore dependent upon the continuation of these relationships and such third parties operating in compliance with regulatory standards. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in the third party's controls (such as those pertaining to third-party system failure, regulatory compliance or the prevention of financial crime) could adversely affect the results of operations of the Group.

In addition, outsourcing and other agreements may also be terminated on certain dates or subject to certain conditions and could be subject to renewal on less favourable terms or not at all. There is a risk that any such non-renewals or losses could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.6 The Group has a high dependency on technology to operate effectively and to meet the needs of its business, customers and clients, the failure of which could disrupt the Group's business functions and have a negative impact on its business, financial condition, results of operations and prospects

The maintenance, integrity and resilience of the Group's IT infrastructure and applications is paramount to meeting the Group's business, customer and client needs. The Group is currently reliant on a large number of legacy systems spread over a complex supply chain, which creates an enhanced risk of IT issues. The Group may experience outages as a result of computer systems failures or attempts by third parties or malicious insiders to disrupt or improperly access the Group's IT systems. See "*Attempts by third parties or malicious insiders to disrupt or improperly access the Group's IT systems could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects*" below. Such outages may lead to operational issues, reputational damage or customer detriment, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects or damage its reputation.

The Group is currently engaged in a number of initiatives to upgrade and, where required, modernise the Group's IT infrastructure and overall operational resilience, although there remains a risk that such initiatives will not deliver what is required either on time or on budget, or provide the performance levels required to support the current and future needs of the Group and its customers. See "*The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives*" above. Failure to achieve such performance levels may have material adverse consequential effects on the Group's business, financial condition, results of operations and prospects.

1.7 Failure by the Group to manage conflicts of interest could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects

The Group faces significant potential and actual conflicts of interest, including conflicts between: (i) the Group and its customers; (ii) the Group's customers; (iii) the Group's employees and its customers; and (iv) its businesses, including where Group employees carry out different roles in other business entities. In particular, the risk of such conflicts, whether actual or perceived, has increased as a result of the merger of M&G and Prudential UK and Europe, which has resulted in the Group's institutional asset management business being one of the key fund managers of monies invested by the Group's retail savings customers. Additionally, The Prudential Assurance Company Limited ("**PAC**"), one of the main operating entities in the Group's retail savings business, is a co-investor in a range of funds managed by the Group (e.g. the M&G Dividend Fund). These arrangements could lead to a number of conflicts, including issues relating to fee arrangements, cross-selling, inducements, adviser disclosures, advice, rebates and treating customers fairly.

While the Directors believe these potential and actual conflicts of interest have been adequately identified and the Group has policies and procedures to manage the risk of conflicts of interests, there remains a risk that the Group will suffer reputational damage or potential regulatory liability if its information barriers, procedures and systems to identify, record and manage potential and actual conflicts of interest fail or are insufficient. Any such failure could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.8 Sustained underperformance across a range of funds, or by one of the Group's larger funds or institutional asset management solutions, could have adverse effects on the Group's business, financial condition, results of operations and prospects

When financial advisers or institutional investors select investment products, or when retail customers select a wealth manager, an important consideration for such customers and/or such intermediaries and advisers is the ongoing investment performance of the products or solutions offered. If the Group were to fail to provide satisfactory investment returns in its portfolios or solutions, the Group may be unable to attract new customers and customers of such solutions (or customers generally) may decide to reduce their investments or withdraw assets altogether in favour of better performing services or competing investment managers. This would lead to a direct reduction in the level of the Group's assets under management and administration ("**AuMA**") and, as a result, lower fee income.

Any sustained period of actual or perceived underperformance across a range of the Group's funds, or by one of its larger funds or institutional asset management solutions, relative to peers, benchmarks or internal targets, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation and its ability to continue to attract new customers and advisers.

1.9 Failure by the Group to attract and retain the necessary personnel at all levels could have adverse effects on the Group's business, financial condition, results of operations and prospects

The Group relies heavily on the quality of key talent and management in each of the regions and countries in which it operates. The success of its operations is dependent on, among other things, the ability to attract and retain highly qualified professional people. It is important that key fund managers and other individuals identified as having key talents and skills critical to the success of the business are engaged and retained and, where necessary, in the event of any unexpected departures, are replaced with the best available talent from either internal or external sources in a timely manner, which may require substantial expense.

Competition for highly qualified professional people in most countries in which the Group operates is intense. The Group's ability to attract and retain key people and, in particular, directors and experienced investment managers and other specialists, is dependent on a number of factors, including prevailing market conditions, culture and working environment and compensation packages offered by companies competing for the same talent. In order to recruit and retain its principal managers and specialists, the Group must offer competitive compensation arrangements, the costs of which may be significant. It is also currently unclear how the UK's withdrawal from the EU, and possible restrictions on the movement of people, may impact the ease with which UK nationals can work in the Group's continental European locations and vice versa. The current political climate, combined with the Group's various strategic initiatives, including the changes required as a result of the Demerger, have the potential to significantly disrupt the Group's people and business activities.

In connection with the Group's various strategic initiatives, including the Demerger, it is, and will continue to be, necessary to ensure that the right people are recruited and retained in order to deliver the Group's transformational agenda. This will be made more difficult if the high demands placed on specialist and senior management resources leads to any unacceptable stretching of resources. See "*The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives*" above.

In connection with the Demerger, certain share-based incentives of members of the Group's senior management, awarded to them by Prudential plc in the normal cycle of incentive grants by Prudential plc, will be exchanged for equivalent awards over shares in the Company. The equivalence of the new awards (over shares in the Company) to the awards over shares in Prudential plc will be determined by reference to an average price for the shares in the Company and Prudential plc immediately before and after the Demerger. If the relative average prices used in establishing that equivalence are not, in the longer term, representative of the market price of shares in the Company or in Prudential plc, the ability of those particular share-based incentives to achieve their objectives may be affected.

Failure by the Group to adequately manage any of the foregoing risks could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation and its ability to attract the talent necessary for its business.

1.10 Litigation, disputes and regulatory investigations may adversely affect the Group's business, financial condition, results of operations and prospects

The Group is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of the Group's businesses and operations that are specific to the Group, or that are common to companies that operate in the Group's markets, and this risk may be enhanced in circumstances where the Group is operating in new markets. Legal actions and disputes may arise under contracts, regulations (including in relation to tax) or from a course of conduct taken by the Group, and may be class actions.

Given the large or indeterminate amounts of damages sometimes sought by claimants, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome to any litigation, dispute or regulatory investigation could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

1.11 The failure to understand and respond effectively to the risks associated with environmental, social or governance ("ESG") factors could adversely affect the Group's achievement of its long term strategy

The business environment in which the Group operates is continually changing. ESG-related issues may directly or indirectly impact key stakeholders, ranging from customers to institutional investors, employees, rating agencies, suppliers and regulators, all of whom have expectations in this area. A failure to manage those material risks which have ESG implications may adversely impact on the reputation of the Group, the results of its operations, its customers, and its ability to deliver on its long-term strategy and therefore its long-term success.

Climate change is one ESG theme that poses potentially significant long-term risks to the Group and its customers, not only from the physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term impacts, but also from transition risks associated with the shift to a low carbon economy. There is an increasing expectation from stakeholders for the Group to understand, manage and provide increased transparency of its exposure to climate-related risks. For example, the recommendations of the FSB's Task Force on Climate-related Financial Disclosures were published in 2017 to provide a voluntary framework on corporate climate-related financial disclosures following the FSB's concern that there may be systemic risk in the financial system related to climate change.

As governments and policymakers take action to reduce greenhouse gas emissions and limit global warming, the transition to a low carbon economy could have an adverse impact on global investment asset valuations whilst at the same time presenting investment opportunities which the Group will need to monitor. In particular, there is a risk that this transition could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. This could lead to an adverse impact on the value and the future performance of the investment assets of the Group. The potential broader economic impact from this may impact upon customer demand for the Group's products. Given that the Group's investment horizons are long term, it is potentially more exposed to the long-term impact of climate change risks. Additionally, the Group's stakeholders increasingly expect responsible investment principles to be adopted to demonstrate that ESG considerations (including climate change) are effectively integrated into investment decisions, fiduciary and stewardship duties and corporate values. Failure by the Group to have proper regard to ESG considerations in relation to its investment portfolios could lead to a loss of existing or potential customers and have an adverse effect on customer perceptions and, consequently, the Group's business, financial condition, results of operations and prospects.

1.12 Adverse experience relative to the assumptions used to price products and report business results could significantly affect the Group's results of operations

The Group needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that the Group makes about future expected levels of longevity is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive, and potentially also while a dependant is alive. The Group conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, the Group's UK business assumes that current rates of longevity continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Although the Group has withdrawn from selling annuities in the UK open market, the assumptions it makes about longevity rates remain key to the measurement of its insurance risk, given its significant annuity portfolio. If longevity improvement rates significantly exceed the improvement assumed (e.g., following a step change in cancer diagnostics or Alzheimer's treatment), the Group's results of operations could be adversely affected.

A further factor is the assumption that the Group makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business, although the persistency levels for the Group's legacy annuity products are consistently high as no surrender value (money paid to policyholders in the event they voluntarily terminate their policy) was available under these products. The Group's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected.

1.13 Breaches by the Group of investment mandates could lead to significant losses

The Group is generally required to invest in accordance with specific investment mandates or objectives established for the particular portfolio or product (or in the case of segregated mandates, set by the customer or its adviser). If investments are made in breach of an investment mandate, including with regard to the use of benchmark indices, the Group could be required to unwind the relevant transactions, could suffer reputational and brand damage and would likely be liable for any losses suffered by an affected party in doing so. Such losses could be significant and exceed amounts recoverable under the Group's insurance policies, if any. The potential reputational and brand damage and the obligation to compensate for such losses could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. See "*The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals*" above.

1.14 The Group's business is dependent on the strength of its brands and its reputation, which are vulnerable to adverse market perception

The Group operates in industries where integrity, trust and confidence are paramount. The Group's success and results are, to a certain extent, dependent on the strength of its brand and reputation. While the Group (including its constituent elements of M&G and Prudential UK and Europe) is well recognised, it is, or will be, vulnerable to adverse market or customer perception, including customer perception of the standalone business if the Demerger completes. The Group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential customer information, and inadequate services, among other factors, whether or not well founded, could impact its brand or reputation.

The Group's brand or reputation could also be affected if it (or any intermediaries) recommends products or services that do not perform in line with customers' expectations (whether or not the expectations are well founded). Furthermore, as part of its diversified investment strategy, the Group invests in a broad range of asset classes, including shares in other companies as well as real estate and other alternative assets. There is a risk that any adverse market or customer perception of the companies or assets in which the Group invests could impact the Group's brand or reputation.

Any of the foregoing could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.15 The Group's customers may withdraw assets under management at short notice

The Group derives significant revenue from management fees, the quantum of which is based on the value of AuMA. A proportion of the Group's products permit investors or customers to reduce the aggregate amount of their investment with no, or only short periods of, notice, or to withdraw altogether from such portfolios or contracts. If interest rates rise, stock markets decline or the Group's investment performance underperforms, the pace of redemptions and withdrawals could accelerate. A significant or systemic withdrawal of AuMA would result in lower management fees and therefore revenues and, depending on the extent of such withdrawals, could impact the Group's business, financial condition, results of operations and prospects.

Redemptions and withdrawals of investment assets may also be requested more quickly than assets can be sold to meet such redemptions and withdrawals. The Group may hold certain investments within investment portfolios on behalf of customers that may lack liquidity (such as property and private debt). If significant cash resources are required at short notice in excess of expected cash requirements, it may be difficult to sell illiquid investments held by the Group in a timely manner, or at all. Even in respect of more liquid investments, the Group is exposed to asset valuation uncertainty, arising due to the fact that a fair valuation of many assets can take a range of plausible values. Any such uncertainty, whether owing to illiquidity or valuation risk more generally, may lead to losses for the Group in the event of unanticipated customer withdrawals and/or redemptions.

In such circumstances, the Group may be forced to sell assets at significantly lower prices than the price at which they were initially recorded and/or suspend customer redemptions. These eventualities, individually or together, could also adversely affect the Group's reputation and, consequently, its business, financial condition, results of operations and prospects. See also "*Increased illiquidity in the Group's investments may mean that assets are not readily realisable to meet policyholder and third party payments as they fall due*" below.

1.16 Attempts by third parties or malicious insiders to disrupt or improperly access the Group's IT systems could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects

The Group is increasingly exposed to the risk that individuals or groups may attempt to disrupt the availability, confidentiality, integrity and resilience of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from the Group's customers, employees and other stakeholders, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance, particularly in light of the Group's growing digital footprint.

The Group's increasing digital profile in its current markets and those in which it is entering, growing customer interest in interacting with their savings and investments providers and asset managers through the internet and social media and improved brand awareness could all increase the likelihood of the Group being considered a target by cyber criminals. Further, there have been changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased. The Group has been, and likely will continue to be, exposed to attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Developments in data protection worldwide (such as the implementation of the General Data Protection Regulation ((EU) 2016/679) ("**GDPR**"), which entered into force on 24 May 2016 and has applied to all EU member states from 25 May 2018) may also increase the financial and reputational implications for the Group following a significant breach of its (or its third-party suppliers') IT systems. See "*The Group is subject to regulation regarding the use of personal customer data*" below.

The Group is continually enhancing its IT environment to improve its cyber security and operational resilience in order to remain secure against emerging threats and is continually upgrading its ability to detect system compromise and recover should such an incident occur.

However, there remains a risk that such events will take place which may have material adverse consequential effects on the Group's business, financial condition, results of operations and prospects.

1.17 The Group is rated by several rating agencies, and a decline in its financial strength or any credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

The Group's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder and counterparty obligations, are important factors affecting public confidence in the Group's products, and as a result its competitiveness. Downgrades in the Group's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or the Group's financial condition. The interest rates the Group pays on its current and future borrowings may also be affected by its credit ratings. These eventualities resulting from a decline in the Group's financial strength or credit ratings could adversely affect the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation

1.18 The Group's debt service obligations and leverage could have adverse effects on the Group's business, financial condition, results of operations and prospects

The Group has, and will continue to have, debt service obligations, and is subject to customary covenants under the terms of its debt. On 27 March, 2019, the Company entered into four unsecured revolving credit facilities with aggregate commitments of £1.5 billion (each a "**Revolving Credit Facility**" and, together, the "**Revolving Credit Facilities**"), which as at the date hereof are (and are expected to remain) undrawn. In addition, Prudential plc has in issue Tier 2 subordinated notes with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million which include in their respective terms a substitution mechanic permitting Prudential plc to substitute the Company as the issuer thereof at the point of Demerger. The Company has signed relevant agreements to become the issuer of such notes.

The Group's debt obligations may increase the Group's vulnerability to adverse general economic or industry conditions that are beyond its control, and may place the Group at a competitive disadvantage compared to its competitors that may have less debt. Any increase in the level of the Group's indebtedness may also negatively impact its credit rating. See "*The Group is rated by several rating agencies, and a decline in its financial strength or any credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties*" above. If the Group utilises its Revolving Credit Facilities, increased interest rates could also increase the Group's debt interest costs as these facilities have floating interest rates. A significant increase in the amount of interest payable by the Group could adversely affect the Group's business, financial condition, results of operations and prospects.

1.19 Inability of reinsurers or hedge counterparties of the Group to meet their obligations, or the unavailability of adequate reinsurance coverage, could have material adverse effects on the Group's business, financial condition, results of operations and prospects

The Group transfers exposure to certain risks to others through reinsurance and hedging arrangements. When the Group obtains reinsurance or enters into a hedging arrangement, it remains primarily liable for the reinsured or hedged risks, regardless of whether the reinsurer or hedge counterparty meets its reinsurance or hedging obligations. Therefore, the inability or unwillingness of the Group's reinsurers or hedge counterparties to meet their financial obligations or disputes on, and defects in, reinsurance or hedging contract wording or processes, could materially affect the Group's business, financial condition, results of operations and prospects.

Even if a reinsurer or hedge counterparty has a good credit rating at the time the relevant reinsurance or hedging arrangement is entered into, such reinsurer or hedge counterparty may become financially unsound by the time it is called upon to pay amounts due. If a catastrophic event or any inability to meet financial obligations caused these counterparties to default, the Group's business profitability could be significantly affected to the extent that any collateral mechanism, if any such mechanism is in place, also fails.

Furthermore, market conditions beyond the Group's control determine the availability and cost of the reinsurance or hedging protection purchased. Due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings, the Group is exposed to concentration risk with a small number of reinsurers. Accordingly, the Group may be forced to incur additional expenses for reinsurance or hedging or may not be able to obtain sufficient reinsurance or hedging on acceptable terms, or such reinsurance or hedging may prove inadequate to protect against losses, which could adversely affect the Group's business, financial condition, results of operations and prospects.

In particular, the Group has an exposure to Rothesay Life plc ("**Rothesay Life**") following the reinsurance of £12 billion of PAC's shareholder-backed annuity portfolio (the "**Annuity Portfolio**") to Rothesay Life. This transaction was implemented by way of a collateralised reinsurance arrangement, which is expected to be followed by an insurance business transfer scheme (the "**Scheme**") under Part VII of FSMA. On 16 August 2019, the High Court of England and Wales (the "**High Court**") declined to sanction the Scheme, despite the independent expert, who was appointed to report to the High Court, concluding that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. PAC and Rothesay Life have been granted leave to appeal the judgment. While the High Court's judgment has no direct impact on the reinsurance with Rothesay Life and is not expected to have any material impact on the financial position or prospects of the Group, the Group's exposure to Rothesay Life will continue until the Scheme is approved by the High Court.

1.20 As a holding company, the Company is dependent upon its subsidiaries to cover operating expenses, dividend payments and debt obligations

The Group's insurance and investment management operations are conducted through direct and indirect subsidiaries of the Company, which are subject to the risks discussed elsewhere in this "*Risk Factors*" section.

As a holding company, the Company's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of the Company's subsidiaries are or may become subject to applicable insurance, foreign exchange and tax laws, rules and regulations and other arrangements that can limit their ability to make remittances and/or require the Company to make capital or liquidity available to those subsidiaries. In some circumstances, this could limit the Company's ability to pay dividends to shareholders, to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group or, in the long term, to satisfy its debt obligations.

1.21 The Group's risk management policies and procedures may not adequately identify or anticipate all risks facing its businesses, which may result in the Group being exposed to unforeseen financial impacts or reputational damage

Management of risk requires, among other things, policies and procedures to anticipate, identify, assess, manage, control and report effectively on risks. Some risk exposures are quantified using mathematical models which are calibrated using a combination of historical data and expert judgement. As a result, these methods may not fully predict future exposures, which can be significantly greater than historical measures indicate, particularly in unusual markets and environments. Other risk management methods depend upon the evaluation of information, regarding markets, customers, catastrophe occurrence or other matters, that is, or will be, accessible to the Group. In respect of known risks, this information may not always be accurate, complete, up to date or properly evaluated and, in respect of unknown risks, no information may be available at all. Although the Group makes use of forward-looking risk indicators and other risk management tools across its business where appropriate, it is not possible for these indicators to precisely predict future outcomes which may result in the Group being exposed to unforeseen financial impacts or reputational damage.

2. RISKS RELATING TO THE GROUP'S INDUSTRY

2.1 The Group's business is inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on the Group's business and profitability and pose a material risk to the Group's shareholder and policyholder balance sheets. The Group operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, government interest rates in the UK and other countries in which the Group operates remain low relative to historical levels. New challenges related to market fluctuations and general economic conditions may also continue to emerge.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include monetary policy in the UK and other jurisdictions together with its impact on the valuation of all asset classes and effect on interest rates, inflation expectations, concerns over sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty (including the imposition of trade barriers) and potentially negative socio-political events.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for new insurance products may also be adversely affected. Similarly, the majority of PruFund business is written without guarantees and, although smoothing mechanisms provide some protection for policyholders, larger market changes could give rise to more significant outflows. In addition, there may be a higher incidence of counterparty failures. This environment could have a negative impact on the insurance sector over time and may consequently have a negative impact on the Group's business, financial condition, results of operations and prospects.

Economic uncertainty and volatility may also have a material adverse effect on the Group's asset management business, which is affected by customer behaviour, adviser views on suitability of investments, the performance of capital markets and financial market sentiment. This environment could lead to significant AuMA outflows for asset managers and could have a negative impact on the asset management sector and may consequently have a negative impact on the Group's business and profitability. In addition, the Group invests directly in a broad range of asset classes and, as a result, its income is subject to the price volatility of global financial and currency markets. Any material adverse effect on these investments could reduce the portion of the profits from the UK with-profits funds which M&G Shareholders are entitled to receive.

Any of the foregoing, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.2 Exposure to domestic and global political developments, including the UK's withdrawal from the EU, and their impact on financial markets may have a material adverse effect on the Group's business, financial condition, results of operations and prospects

Political change has the potential to impact the businesses of the Group directly through the introduction of new laws or regulations or indirectly by altering investor or customer sentiment.

Specific global political risks to which the Group is exposed include instability within Europe, the UK leaving the EU and shifts in the focus of some governments toward more protectionist or restrictive economic and trade policies, each of which could have an impact on the degree and nature of regulatory changes and the Group's competitive position in some geographic markets.

The UK's decision to leave the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The outcome of the negotiations on the UK's withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. As a result, there is ongoing uncertainty over the terms under which the UK will leave the EU, in particular after any agreed transitional period, and the potential for a disorderly exit by the UK without a negotiated agreement. Due to the geographic location of the Group's businesses and customers, the Group has particular scope to be affected.

In particular, depending on the nature of the UK's exit from the EU, some or all of the following risks may materialise, the extent of which may be more pronounced if the UK leaves the EU without a negotiated agreement and which may impact the Group's business, financial condition, results of operations and prospects:

- The UK and EU may experience a downturn in economic activity. The effect of any downturn is expected to be more pronounced for the UK particularly in the event of a disorderly exit by the UK from the EU. Market volatility and illiquidity may increase in the period leading up to, and following, the UK's withdrawal. A disorderly exit could also lead to potential downgrades in sovereign and corporate debt ratings in the UK and the EU and falls in UK property values. In a severe scenario where the UK's sovereign rating is downgraded by potentially more than one notch, this may also impact on the ratings of UK companies, including the Group. Further or prolonged interest rate reductions may occur due to monetary easing or adverse market sentiment. See "*The Group's business is inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects*" above.
- The UK's exit from the EU could result in significant changes to the legal and regulatory regime under which the Group operates, the nature and extent of which remain uncertain while the outcome of negotiations regarding the UK's withdrawal from the EU is unknown and the extent and terms of any future access to the single EU market remains to be agreed. There may be an increase in complexity and costs associated with operating in regulatory jurisdictions which could become less harmonised and the Group may become subject to differing capital or other requirements.
- There may be increased risk of operational disruption to the business. Access to the EU market or certain customers, and the ability to service EU customers, may be adversely impacted, although mitigation plans are in place to reduce the negative impact. Negative market sentiment towards the UK from investors may result in negative fund flows and EU service providers may be less willing, or unable to, service UK fund managers, both of which may negatively impact on the asset management business of the Group. The insurance business may experience higher product lapses and the ability to retain and attract appropriately skilled staff from the EU may be adversely impacted. Contractual documentation may also need to be renegotiated or redrafted in order to remain effective.

The precise impact of the current difficult political environment is uncertain. However, it is possible that the effects will include higher unemployment and inflation in the UK, continental Europe and the global economy, at least in the short to medium term. It could also create constraints on the ability of the Group to operate efficiently.

Any of the foregoing, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.3 A decline in equity or property markets or an increase in volatility in equity or property markets may adversely affect the investment portfolio and profitability of the Group

The Group is exposed to market risk arising from the valuation of the shareholders' proportion of the with-profits fund's future profits, which is, in turn, dependent on the value of the assets held therein (including equities and property).

The prices of the Group's holdings of equity and property investments can change depending on market conditions. Significant downturns and volatility in equity or property markets could have a material adverse effect on the Group's financial condition and financial results by impacting the investment portfolio, revenues and returns from insurance and fund management businesses.

Additionally, reduced investment returns arising on the Group's portfolios could reduce the Group's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, and/or have a negative impact on its AuMA and profit.

2.4 A prolonged period of low interest rates and interest rate volatility may adversely affect the Group

The Group is exposed to changes in the shape and level of yield curves and changes in the correlation of interest rates with different financial instruments (including debt obligations of the Group where these are determined or priced according to a floating interest rate). In particular, the Group is exposed to further falls in interest rates or a prolonged period of low interest rates.

A material fall in interest rates may increase the Group's technical provisions and/or the amount of regulatory capital that the Group is required to hold due to the impact on the Group's balance sheet risk margin and solvency capital requirements ("**SCR**"). In particular, interest rate risk arises in relation to the need for the Group to match cashflows to its annuity obligations with those from its investments, the requirement to include a balance sheet risk margin under Solvency II and the interest rate sensitivity of product guarantees in relation to the with-profits business. See "*The Group's business is inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects*" above and "*Market fluctuations could affect the levels of regulatory capital that the Group is required to hold, which could materially impact the Group's results and, in extreme circumstances, lead to enforcement action being taken against the Group*" below.

The Group's investment portfolios contain instruments which are sensitive to interest rates, such as fixed income securities, and which may be adversely affected by changes in interest rates. A decline in interest rates, or a prolonged low interest rate environment, may cause borrowers to prepay or redeem fixed income securities, commercial mortgages and mortgage-backed securities in the Group's investment portfolio with greater frequency in order to capitalise on lower rates. This could force the Group to reinvest proceeds from investments which have matured or been prepaid or sold at lower yields, reducing the Group's investment margin.

The Group also remains exposed to the risk that changes in interest rates will negatively impact the difference between the amounts required to be paid under annuity contracts and the rate of return the Group is able to earn on investments intended to support its obligations under those contracts (being the "spread"). Although the Group has withdrawn from selling annuities in the UK open market, and the importance of the spread as a component of adjusted operating profit before tax has lessened following UK pension reforms in 2015, this area remains a material risk.

Additionally, a significant part of the profit from the Group's insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as the Group's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment, which could, in turn, adversely affect the Group's business, financial condition, results of operations and prospects.

2.5 The Group is subject to the risk of exchange rate fluctuations as portfolios managed by the Group include a range of assets that are denominated in foreign currencies

Certain parts of the Group operate internationally and are exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies, including euros and US dollars. Customer portfolios managed by the Group include a range of assets that are denominated in foreign currencies, including foreign equities and bonds. The effect of exchange rate fluctuations on these assets could lead to significant fluctuations in the amount of fee income generated or the shareholder transfers from the with-profits fund. Exposure to foreign exchange risk is of particular concern in light of the uncertainty over the final terms of the UK's relationship with the EU. In the short to medium term, volatility of financial markets may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.6 Credit risk and counterparty risk could have adverse effects on the Group's business, financial condition, results of operations and prospects

The potential for a reduction in the value of investments which is driven by the market's perception of the likelihood of defaults of investment and other counterparties, or "credit risk", is a material financial risk for the Group's shareholder business. As a type of credit risk, counterparty risk (or the risk of a counterparty to a contract being unable to meet its obligations) may also have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is exposed to credit risk and counterparty risk throughout its business, through its investments, including those in fixed income assets (which provide cashflow needed to match policyholder payments), exposures through derivatives and reinsurance contracts, as well as in placing cash deposits at certain banks. See "*Inability of reinsurers or hedge counterparties of the Group to meet their obligations, or the unavailability of adequate reinsurance coverage, could have material adverse effects on the Group's business, financial condition, results of operations and prospects*" above.

The risks in these assets and exposures may be borne by the Group, by the policyholders whose policies the relevant assets back, or a mixture of the two. A counterparty default could create an immediate loss or a reduction in future profits, depending on where the loss occurred in the business.

2.7 A widening in credit spreads may adversely affect the profitability of the Group

Widening credit spreads may reduce the value of the Group's investment portfolio, which could impact the Group's profitability in several ways.

Profits from fees taken on unit-linked funds and other third party assets invested in corporate bonds would fall when spreads widen. Other areas where widening credit spreads could impact the Group's profitability are the valuation and matching of annuity and other long-term liabilities.

In addition, market volatility can make it difficult to value securities if trading becomes less frequent. Accordingly, valuations of investments may include assumptions or estimates that may have significant period-to-period changes due to market conditions, which could have a material adverse effect on the Group's profitability.

2.8 The Group is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and the Group may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cashflow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such event described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and the

Group might face additional risks relating to any debt held issued by financial institutions held in its investment portfolio or other contractual exposures to such financial institutions. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopted policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.9 Price and earnings inflation may adversely impact the Group's business, financial condition, results of operations and prospects

A significant proportion of the Group's cost base is fixed (including the large portion of operational costs associated with staffing) and, as such, the Group's profitability is geared to market performance, which may be adversely impacted by an inflationary environment. If such costs are not controlled, the profitability of the Group may be impacted. In addition, significant increases in inflation could impact the Group's unit costs in other ways and potentially impact profitability and capital position, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is also subject to inflation risk through its holdings of fixed interest and other investments and as a result of the potential for the cost of claims and expenses to rise faster than anticipated in the Group's pricing or reserving.

2.10 Increased illiquidity in the Group's investments may mean that assets are not readily realisable to meet policyholder payments as they fall due

As part of its diversified investment strategy, the Group invests in a broad range of asset classes and may from time to time hold certain investments that lack liquidity, such as real estate and privately placed fixed-maturity securities. This exposes the Group to liquidity risk arising from the need to have sufficient liquid assets to meet policyholder payments as they fall due.

If the illiquidity of the Group's investments increases and/or significant resources are required at short notice in excess of expected policyholder requirements, it may be difficult to sell illiquid investments held by the Group in a timely manner, or at all. In such circumstances, the Group may be forced to sell assets at significantly lower prices than the price at which they were initially recorded. If the Group is forced to sell assets at significantly lower prices than the price at which they were initially recorded and/or suspend policyholder payments, this could adversely affect the Group's reputation and, consequently, its business, financial condition, results of operations and prospects.

2.11 Market fluctuations could affect the levels of regulatory capital that the Group is required to hold, which could materially impact the Group's results and, in extreme circumstances, lead to enforcement action being taken against the Group

The Group is currently subject to the consolidated prudential supervision of the PRA as part of the Prudential Group and, with effect from the Demerger, will be subject to the consolidated prudential supervision of the PRA as a standalone group. As a result, the Group is and will be required to hold eligible Own Funds in excess of the group SCR, which is calculated by reference to the key risks faced by the Group. Individual entities within the Group are also subject to prudential supervision on a solo basis (including as regards regulatory capital). Regulated entities within the Group which are regulated by the FCA, including a number of entities in the Group's asset management business, or authorised or regulated in non-UK jurisdictions are required to hold regulatory capital on a solo basis in accordance with FCA or local regulatory capital requirements. Changes to requirements under any of the foregoing regimes may increase the overall regulatory capital requirements to which the Group is subject.

The Group's business is inherently subject to market fluctuations and general economic conditions. Fluctuations in the financial markets, particularly in interest rates, could potentially adversely affect the financial condition of the Group which could, in turn, have an adverse impact on its regulatory capital position, increase the regulatory capital requirements to which it is subject or otherwise affect its ability to meet its regulatory capital requirements. In addition, adverse economic conditions could influence the counterparty credit risks to which the Group is subject which could, in turn, increase the regulatory capital requirements to which the Group is subject. See "*Credit risk and counterparty risk could have adverse effects on the Group's business, financial condition, results of operations and prospects*" above.

Failure to meet applicable capital requirements could lead to regulatory enforcement action being taken against the Group by the PRA, FCA or another regulator. A potential result of any such action may be that the Group is required to restore its regulatory capital to acceptable levels which could materially impact the Group's results. See "*The Group conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates*" below.

3. RISKS RELATING TO REGULATION AND LEGISLATION

3.1 The Group conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the markets in which it operates

Changes in government policy, legislation (including in relation to tax), regulation, regulatory interpretation and capital control measures on companies and individuals may adversely affect the Group. Decisions taken by regulators in connection with their supervision of members of the Group (which in some circumstances may be applied retrospectively) may also adversely affect the Group. Any such changes or decisions affecting the Group's third party contractors, suppliers, agents and service providers may also adversely affect the Group.

Such changes or decisions may affect the Group's product range, distribution channels, handling and usage of data, competitiveness, reputation, profitability, capital requirements, investments, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which the Group operates may impose requirements affecting the allocation of capital and liquidity between different business segments of the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses, the regulation of selling practices and solvency requirements, and could introduce changes that impact the products sold. Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers. Any of the foregoing, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

A determination that the Group or any third party distributor or joint venture partner has failed to comply with applicable law or regulation could lead to regulatory action against the Group. This could in turn result in the suspension or revocation of regulatory authorisations, permissions or approvals, financial penalties, adverse publicity for, or negative perceptions regarding, the Group, or have a negative effect on its relationship with current and prospective customers. Regulatory action could also result in regulators subjecting the Group to closer scrutiny than would otherwise be the case, which in turn may result in higher costs, sanctions or fees for the Group. This could have a material adverse effect on the business, financial results and financial condition of the Group and divert management's attention from the day-to-day management of its business.

The EU's Solvency II Directive came into effect on 1 January 2016. The Prudential Group is, and following the Demerger the Group will continue to be, subject to the consolidated supervision of the PRA under UK rules and legislation implementing Solvency II. PAC, Prudential Pensions Limited ("**PPL**") and Prudential International Assurance plc ("**PIA**") are also subject to regulation under Solvency II on a solo basis. The European Commission began a review in late 2016 of some aspects of the Solvency II legislative package, which is expected to continue until 2021 and includes a review of the Long Term Guarantee measures. Regulatory policy may further evolve under the Solvency II regime. PAC and PPL (being the UK-authorised entities within the Group that are subject to the Solvency II regime) have been granted approval by the PRA to use certain measures when calculating the technical provisions of the Prudential Group and the Solvency II capital requirements that currently apply to the Prudential Group, including the use of an internal model, the 'matching adjustment' for UK annuities, and UK transitional measures on technical provisions. The Group has requested approval from the PRA to amend the group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from this point. If the approval is not granted, the Group would be required to use the standard formula under Solvency II to calculate its capital requirements, which could have a material impact on the Group's Solvency II capital position and, in turn, the business of the Group. Furthermore, for as long as the Group remains subject to Solvency II, or any domestic regime implementing Solvency II, there is a risk that other changes may be required to the Group's approved internal model or other Solvency II approvals. Such changes, or any delay or failure to obtain approval for such changes, could also have a material impact on the Group Solvency II capital position which may in turn have a material effect on the business of the Group.

Currently there are also a number of other global regulatory developments which could impact the Group's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank Act**") in the US, the EU Insurance Distribution Directive ("**IDD**"), which came into effect on 1 October 2018, the EU PRIIPs Regulation, which came into effect on 1 January 2018, the EU Markets in Financial Instruments Directive (the "**MiFID II Directive**") and associated implementing measures, which came into effect on 3 January 2018, the GDPR which has applied to all EU member states from 25 May 2018, and equivalent regulations in other jurisdictions. In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes, including potential future developments under Solvency II in the UK (as referred to above). There remains a high degree of uncertainty over the potential impact of these changes on the Group. In the UK, the domestication of EU law, regulation and supervisory competencies following the UK's withdrawal from the EU may lead to significant changes to the UK legal and regulatory framework. It is possible that deficiencies in the domestication of EU law and regulation, or changes in the approach of UK regulators to enforcing domesticated law and regulation, could expose the Group to risk and uncertainty, and may have an adverse effect on the business of the Group.

Prudential plc's designation by the Financial Stability Board ("**FSB**") as a Global Systemically Important Insurer ("**G-SII**") was last reaffirmed on 21 November 2016. Based on the quantitative thresholds used by the FSB in that assessment, it is not anticipated that the Group will be designated as a G-SII on completion of the Demerger. If, however, the Group is in the future designated as a G-SII or becomes subject to any measures that replace the current G-SII measures, it may be required to comply with enhanced supervisory measures and/or become subject to more extensive powers of intervention. This could have an adverse effect on the business of the Group.

The International Association of Insurance Supervisors ("**IAIS**") is also developing a new supervisory framework for the supervision of Internationally Active Insurance Groups ("**IAIGs**"), referred to as ComFrame. Based on the thresholds specified in the draft ComFrame proposals, it is not expected that the Group will qualify as an IAIG on completion of the Demerger. If the Group is designated as an IAIG in the future, it could become subject to enhanced capital and other regulatory requirements, which could have an adverse effect on the business of the Group.

There has in recent years been an increased focus in the UK and EU on the fair treatment of customers, in particular on the way in which the insurance industry and fund management industry sells and administers insurance policies, interests in investment funds and other products or services, including investment advice. UK rules implementing the IDD have applied since 1 October 2018, and the Group is subject to equivalent rules in the EU27 states in which it operates. The PRIIPs Regulation aims to harmonise pre-contractual disclosures and selling practices for packaged retail and insurance-based investment products, which has applied in the UK and EU since 1 January 2018. Furthermore, MiFID II also introduced extensive new rules on product disclosure and sales practices. There is a risk that these regimes and the rules or regulatory guidance introduced to implement them will restrict the Group's ability to distribute its products within the UK and EU and result in additional distribution and compliance costs, which could have a material adverse effect on its financial results, operations and costs or otherwise negatively impact its distribution arrangements. In the UK, the FCA continues to focus on the fair treatment of customers more generally, including in relation to the provision of investment advice.

More generally, conduct risk also remains the subject of close regulatory scrutiny across the UK financial services industry. There is an industry-wide risk that conduct-related issues could result in unexpected costs or losses for the Group.

On 27 July 2017, the FCA announced its intention to no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of the London Inter-bank Offered Rate ("**LIBOR**") after 2021. The discontinuation of LIBOR and other interbank offered rates in their current form and their expected replacement with alternative benchmark rates (such as the Sterling Overnight Index Average benchmark ("**SONIA**") that is expected to replace Sterling LIBOR in the UK) in the UK and other countries could, among other things, impact the Group through an adverse effect on the value of the Group's assets and liabilities which are linked to or which reference those rates, a reduction in market liquidity during any period of transition and increased costs and legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

Various jurisdictions in which the Group operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. Circumstances could arise in which the Group, along with other groups or companies, may be required to make such contributions, which could have an adverse effect on the business of the Group.

3.2 The resolution of several issues affecting the financial services industry could have a negative impact on the Group's business, financial condition, results of operations and prospects or on its relations with current and potential customers

The Group is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally on matters relevant to the delivery of customer outcomes. Such actions may relate to the application of current regulations such as the FCA principles and conduct of business rules or the failure to implement new regulations. In the UK, any such issues or disputes arising in relation to private individuals are typically resolved by the Financial Ombudsman Service (the "**FOS**") or by litigation. The regulator may intervene directly, however, where larger groups or matters of public policy are concerned. These interventions could involve a review of types of business sold under past market practices, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews of products sold and industry practices, including, in the latter case, lines of business it has closed. See "*The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals*" above.

As a result of TRASP, PAC is reviewing annuities sold without advice between 1 July 2008 and 30 September 2017 to its contract-based defined contribution pension customers, under the oversight of the FCA. The review is examining whether customers were given sufficient information about their potential eligibility for an enhanced annuity with PAC or another provider and about the possibility of obtaining a higher income from an enhanced annuity from another provider. PAC is in the process of contacting potentially affected customers and will provide redress, where appropriate. The Group has set aside £400 million to cover the costs of undertaking the review and any related redress. However, the ultimate amount that will be expended on the review will remain uncertain until the project is completed, and this provision could increase or decrease if the costs of undertaking the review or the population subject to redress increases or decreases.

Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. These interventions could involve a review of types of business sold under past market practices, changes to the tax regime affecting products, and regulatory reviews of products sold and industry practices, including, in the latter case, lines of business it has closed. Such interventions can, in turn, lead to enforcement action being taken against the firms concerned, or the implementation of consumer redress programmes, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies. Any regulatory action arising out of the Group's position as a product provider could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

3.3 The Group may fail to detect or prevent money laundering and other financial crime activities if financial crime risks are not correctly identified or if effective controls to mitigate such risks are not implemented, which could expose the Group to heavy fines, additional regulatory scrutiny and reputational harm

The Group is required to comply with applicable anti-money laundering ("**AML**"), anti-terrorism, sanctions, anti-bribery and corruption ("**ABC**"), insider dealing and other laws and regulations in the jurisdictions in which they operate, and has standards, policies and procedures in place to ensure that it does so. These laws and regulations require the Group, among other things, to conduct customer due diligence regarding sanctions and politically-exposed person screening, keep customer and supplier account and transaction information up to date and implement effective financial crime policies and procedures.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML, ABC and insider dealing and sanctions laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

Financial crime is continually evolving, and the expectations of regulators are increasing. This requires similarly proactive and adaptable responses from the Group so that it is able to effectively deter threats and criminality. Even known threats can never be fully eliminated, and there will be instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the Group also relies on its employees, partners, agents and external administrators to identify and report such activities. There is a risk that they will fail to do so or otherwise fail to comply with or implement the Group's policies and procedures relating to financial crime.

Where the Group is unable to comply with applicable laws, regulations and expectations, regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties, including requiring a complete review of business systems, day-to-day supervision by external consultants and ultimately the revocation of regulatory authorisations and licences. The reputational damage to the Group's business and global brand would be severe if they were found to have breached AML or ABC requirements. The Group's financial position and reputation could also suffer if they are unable to protect customers or prevent the business from being used by criminals for illegal or improper purposes.

While the Group has implemented comprehensive standards, policies and procedures designed to comply with ABC, AML and similar requirements, there remains a risk that such standards, policies and procedures are insufficient to prevent situations of financial crime, money laundering, bribery, fraud or corruption, including actions by the Group's employees, for which the Group might be held responsible. Any such event may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.4 The Group is subject to regulation regarding the use of personal customer data

The Group is subject to regulations in the jurisdictions in which it operates regarding the use of personal data. The Group collects and processes personal data from its customers, third party claimants, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws. Those laws generally impose certain requirements on the Group in respect of the collection, retention, use and processing of such personal information. Notwithstanding its efforts, the Group is exposed to the risk that this data could be wrongfully appropriated, lost, disclosed, retained, stolen or processed in breach of data protection laws. In addition, the Group may not have the appropriate controls in place today and may in future fail to ensure such controls are current and keep pace with the growing threat. See "*The Group has a high dependency on technology to operate effectively and to meet the needs of its business, customers and clients, the failure of which could disrupt the Group's business functions and have a negative impact on its business, financial condition, results of operations and prospects*" above. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potential inaccurate rating of policies or overpayment of claims.

The GDPR introduced the potential for significant new levels of fines for non-compliance based on turnover. The Group will continue to review and develop existing processes to ensure that customer personal data is processed in compliance with the GDPR's requirements, to the extent that they are applicable, and it may be required to expend significant capital or other resources and/or modify its operations to meet such requirements, any or a combination of which could have a material adverse effect on the Group's business, financial condition and financial results, or otherwise harm its reputation.

3.5 Changes in accounting standards in the markets in which the Group operates may impact the Group's profit recognition and profitability

The Group's accounts are prepared in accordance with current International Financial Reporting Standards ("**IFRS**") applicable to the insurance industry.

The International Accounting Standards Board ("**IASB**") introduced a framework under standard IFRS 4 which, permits insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to how insurance contracts are accounted for, and therefore to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard, including the deferral of the effective date by one year from 2021 to 2022. The comment deadline for the exposure draft is 25 September 2019. The EU will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement, but there is some uncertainty as to how this endorsement will impact companies in the UK due to UK's withdrawal from the EU. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently being considered, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to require significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

Any changes or modification of IFRS accounting policies, including those described above, may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

3.6 Changes in tax legislation may impact the demand for the Group's products or otherwise may result in adverse tax consequences for the Group's business, financial condition, results of operations and prospects

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which the Group operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect the Group's business, financial condition, results of operations and prospects.

4. RISKS RELATING TO THE DEMERGER

4.1 The Demerger may fail to realise its anticipated benefits

The realisation of the anticipated benefits of the Demerger is subject to a number of factors, including many which are outside the control of the Group. There can be no guarantee that the anticipated benefits of the Demerger will be realised in full or in part, or as to the timing when any such benefits may be realised.

The Group will face a number of challenges relating to the implementation of the Demerger. There may be adverse financial, operational, regulatory, customer and reputational implications if it fails (either wholly or in part) to meet these challenges. Such adverse implications could impact on the ordinary course business of the Group and, consequently, its financial condition, results of operations and prospects.

4.2 Following the Demerger, the Company will need to operate as an independent publicly listed company

Following the Demerger, the Company will need to operate as an independent publicly listed company. In preparation for the Demerger, the Group has enhanced its standalone arrangements in a wide range of areas including capital and liquidity management, finance and investor relations, which it either did not previously require or where it previously relied on support and services from the Prudential Group. However, there remains a risk that the Group could suffer operational difficulties without access to the support and services from the Prudential Group following the Demerger, which could have an adverse effect on the Group's business and result in the Group failing to realise any or all of the anticipated benefits of the Demerger. Furthermore, while the Group previously managed its capital and liquidity as part of the Prudential Group, there remains a risk that operating as an independent group may reduce the Group's flexibility to deal with unexpected events and require additional resources. In addition, there is a risk that the actual costs of the standalone arrangements could be higher than expected and/or that the Group will need to further invest in new services and functions. These risks, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

4.3 The agreements entered into by the Company with Prudential plc, other members of the Prudential Group and Prudential Financial, Inc. in connection with the Demerger expose the Group to risk with such entities

In anticipation of the Demerger, the Company and Prudential plc have entered, or will enter, into several agreements which together govern the post-Demerger obligations of the Company and Prudential plc, including a co-existence agreement governing the use of certain intellectual property following the Demerger and entered into between the Company, Prudential plc and Prudential Financial, Inc. Similarly to any contractual arrangement with a third party, there is a risk that any of Prudential plc, other members of the Prudential Group and/or Prudential Financial, Inc. may fail to comply with their respective contractual obligations, including in respect of any amounts due to the Company. Should any counterparty fail to comply with its obligations towards the Company this could have an adverse effect on the Group's business and profitability. See "*Credit risk and counterparty risk could have adverse effects on the Group's business, financial condition, results of operations and prospects*" above.

4.4 As a result of the Demerger, the Group's ability to attract and retain customers may be adversely affected, third parties may modify or terminate their relationships with the Group and the Group may be forced to reprice its products

The Demerger could impact customers' perceptions of the Group and, therefore, adversely affect the ability of the Group to attract and retain customers, which could result in reduced sales of its products. Additionally, the Demerger may prompt third parties to re-price, modify or terminate their contractual relationships with the Group, which may adversely affect the ability of the Group to retain a competitive network of agents, counterparties and distributors. In response to any of the foregoing, individually or together, the Group may be forced to lower its service levels or the prices of its products, reduce returns or bonus rates or take other actions to manage and/or maintain its relationships with customers and third parties.

Should any of the consequences set out above occur, individually or together, the Group may suffer an adverse impact on its business, financial condition, results of operations and prospects.

5. RISKS RELATING TO M&G SHARES

5.1 Significant trading volumes of M&G Shares in the period following the Demerger could impact the market price of M&G Shares

Following Admission there may be a period of relatively high volume trading in M&G Shares as the shareholder register of the Company finds its natural composition. The Directors are unable to predict whether substantial amounts of M&G Shares will be sold in the open market following Admission. Sales of a substantial number of M&G Shares after Admission, or the perception that these sales might occur, could depress the market price of M&G Shares or result in significant volatility.

5.2 There is no existing market for the M&G Shares and an active trading market for the M&G Shares may not develop or be sustained

Prior to Admission, there has been no public trading market for the M&G Shares. There can be no assurance that an active trading market will develop or, if it does develop, that it will be maintained. The trading price of the M&G Shares may be subject to wide fluctuations in response to many factors, including short-term selling pressures, equity market fluctuations, general economic conditions and regulatory changes which may adversely affect the market price of the M&G Shares, regardless of the Company's actual performance or conditions in its key markets.

The market price of the M&G Shares may fluctuate substantially due to various factors, some of which may be specific to the Company, and some of which may be related to the financial services industry and equity markets in general. The Company cannot guarantee that investors will be able to (re)sell their M&G Shares. An inactive market may also impair the Company's ability to raise equity capital by further issues of M&G Shares. If an active and liquid trading market does not develop or is not sustained, the liquidity and trading price of the M&G Shares could be materially and adversely affected and investors may have difficulty selling their M&G Shares.

5.3 There can be no assurance that dividends will be paid on M&G Shares

As a holding company, the Company's ability to pay dividends in the future will be affected by a number of factors, principally the receipt of sufficient dividends from its subsidiaries. The Company's direct and indirect subsidiaries may be precluded from paying dividends by various factors, including regulatory objection or non-approval, their own financial condition, restrictions in existing or future financing documents or other arrangements to which they are party or applicable law.

Under English law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. In addition, a company may not pay dividends if its directors believe this would cause the company to be inadequately capitalised or if, for any other reason, its directors conclude it would not be in the best interests of the company. The Company's ability to pay dividends will also depend on the Group continuing to meet the regulatory capital requirements to which it is subject. Any of the foregoing could limit the payment of dividends to M&G Shareholders or, if the Company does pay dividends, the amount of such dividend.

5.4 The M&G Shares will be subject to market price volatility and the market price of the M&G Shares may go down as well as up

M&G Shareholders should be aware that the value of an investment in the Group may go down as well as up and can be highly volatile. The price at which the M&G Shares may be quoted and the price which investors may realise for their M&G Shares will be influenced by a large number of factors, some specific to the Group and its operations, and some which may affect the savings and investment industry as a whole, other comparable companies or publicly traded companies as a whole.

The sentiments of the stock market regarding the Demerger will be one such factor and this, together with other factors including the actual or anticipated fluctuations in the financial performance of the Group and its competitors, market fluctuations, the actual or anticipated political, legal and economic ramifications of the UK's withdrawal from the EU and legislative or regulatory changes in the savings and investment industry or generally those affecting consumers could lead to the market price of M&G Shares going up or down.

5.5 The Company may decide to offer additional M&G Shares in the future, diluting the interests of existing M&G Shareholders and potentially adversely affecting the market price of M&G Shares

If the Company decides to offer additional M&G Shares or other securities convertible into M&G Shares in the future, including in order to serve as currency for any acquisitions and/or investments, this could dilute the interests of existing M&G Shareholders and/or have an adverse impact on the market price of M&G Shares. An additional offering by the Company, or the public perception that an offering may occur, could have an adverse impact on the market price of M&G Shares.

5.6 M&G Shareholders may not be able to exercise pre-emption rights or participate in certain future issues of M&G Shares and Overseas Shareholders may not be able to participate in future issues of M&G Shares

In the case of a future allotment of new M&G Shares for cash, existing M&G Shareholders have certain statutory pre-emption rights, unless those rights are disapplied by a special resolution of the M&G Shareholders at a general meeting. An issue of new M&G Shares not for cash or when pre-emption rights have been disapplied could dilute the interests of the then-existing M&G Shareholders.

Overseas Shareholders may not be able to exercise their pre-emption rights over M&G Shares unless the Company decides to comply with applicable local laws and regulations and, in the case of M&G Shareholders in the US, a registration statement under the US Securities Act is effective with respect to such rights and M&G Shares, or an exemption from the registration requirements of the US Securities Act is available. The Company cannot assure any Overseas Shareholder that steps will be taken to enable them to exercise their pre-emption rights, or to permit them to receive any proceeds or other amounts relating to their pre-emption rights.

5.7 The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or the Directors may be limited

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England and Wales. The rights of holders of the M&G Shares are governed by English law and by the Articles of Association. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations.

An Overseas Shareholder may not be able to enforce a judgment against some or all the Directors and executive officers. All the Directors and executive officers are residents of the UK or the US. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or executive officers who are residents of countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries. This could have an adverse impact on the market price of the M&G Shares.

IMPORTANT NOTICES

GENERAL

The contents of this Prospectus are not to be construed as legal, business or tax advice. Recipients of this Prospectus should consult their own lawyer, financial adviser or tax adviser for legal, financial or tax advice, as appropriate. Furthermore, the Company and the Directors accept no responsibility for the accuracy or completeness of any information reported by the press or other media, or the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Demerger, Admission, Prudential plc or the Group. The Company and the Directors make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

When considering what action you should take, you should seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under FSMA if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and PR 3.4.1 of the Prospectus Regulation Rules, neither the publication of this Prospectus nor any distribution of M&G Shares shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Group taken as a whole since the date of this Prospectus or that the information contained herein is correct as of any time subsequent to its date.

No person has been authorised to give any information or to make any representations in connection with Admission other than the information and representations contained in this Prospectus and, if any other information or representations is or are given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors or the Sponsor. No representation or warranty, express or implied, is made by the Sponsor as to the accuracy or completeness of such information, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Sponsor as to the past, present or future.

Recipients of this Prospectus may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering Admission. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

This Prospectus has been approved by the FCA in accordance with section 87A of FSMA. Admission to trading on the London Stock Exchange's main market for listed securities constitutes admission to trading on a regulated market.

US CONSIDERATIONS

The M&G Shares have not been, and will not be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offering in the United States for the purposes of the US Securities Act. At the time of the Demerger, M&G Shares will not be listed on any securities exchange in the United States, and the Group expects to rely on an exemption from registration under the US Securities Exchange Act of 1934, as amended, provided by Rule 12g 3-2(b) thereunder.

The M&G Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the M&G Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

NO INCORPORATION OF WEBSITES

The contents of the websites of any member of the Group or the Prudential Group do not form part of this Prospectus, and no one should rely on such websites.

FORWARD LOOKING STATEMENTS

Certain statements in this Prospectus relate to the future, including forward-looking statements relating to the Group's financial position and strategy. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue' or other similar words. These statements discuss future expectations concerning the Group's results of operations or financial condition, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, including the risk factors set out in the section entitled 'Risk Factors', many of which are beyond the Group's control, and which may cause the actual results to differ materially from those expressed in the statements contained in this Prospectus. The Group's actual results of operations, financial condition and the development of the business sectors in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this Prospectus due to certain factors including, but not limited to, domestic and global economic and business conditions, market-related risks pertaining to the insurance industry as a whole, the policies and actions of regulatory authorities, market developments regarding insurance products, the impact of competition, technological development, inflation, deflation, the timing, impact and other uncertainties of any future acquisitions, combinations or divestments within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group operates. In addition, even if the Group's actual results of operations, financial condition and the development of the business sectors in which it operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Recipients of this Prospectus are cautioned not to put undue reliance on forward-looking statements.

Other than as required by law, none of the Company, its officers, advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Prospectus will actually occur, in part or in whole.

Additionally, statements of the intentions of the Board and/or Directors reflect the present intentions of the Board and/or Directors, respectively, as at the date of this Prospectus and may be subject to change as the composition of the Board alters, or as circumstances require. Except as required by law, the Company disclaims any obligation or undertaking to update or revise any forward-looking statement in this Prospectus.

The forward-looking statements speak only as at the date of this Prospectus. To the extent required by applicable law or regulation (including as may be required by the Companies Act, Prospectus Rules, Listing Rules, MAR, Disclosure Guidance and Transparency Rules and FSMA), the Company will update or revise the information in this Prospectus. Otherwise, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Prospectus to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

FINANCIAL INFORMATION

Recipients of this Prospectus should consult their own professional advisers to gain an understanding of the financial information contained in this Prospectus. An overview of the basis for presentation of financial information in this Prospectus is set out below.

Presentation of financial information

Unless the context requires otherwise, in this Prospectus references to the "**Company**" are to M&G plc and references to the "**Group**" are to M&G plc and its subsidiaries. All financial information relating to the Group in this Prospectus, including the historical financial information set out in Schedule II (*Historical Financial Information*) of this Prospectus (the "**Historical Financial Information**"), is stated on a combined basis for the Company and its subsidiaries from time to time excluding Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited (the "**Excluded Subsidiaries**") for the entirety of the years ended 31 December 2016, 2017 and 2018 and half years ended 30 June 2018 and 2019.

Unless otherwise stated, the combined financial information in this Prospectus has been prepared in accordance with the requirements of the Prospectus Regulation, the Listing Rules and the basis of preparation included in Note 1, "Basis of preparation and significant accounting policies in the Group's historical financial information" in Historical Financial Information. The basis of preparation describes the extent to which the Historical Financial Information has been prepared in accordance with IFRS and the departures from IFRS.

IFRS does not provide for the preparation of combined financial information, and, accordingly, in preparing the Historical Financial Information certain accounting conventions commonly used for the preparation of financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the UK Auditing Practices Board have been applied. For more information on the departures from IFRS, see sections 1.2(C) to (F) in Note 1, "Basis of preparation and significant accounting policies in the Group's historical financial information" in the Historical Financial Information. As a result of the departures from IFRS, the combined financial information is not fully IFRS compliant and the Historical Financial Information does not constitute an IFRS 1 compliant set of financial statements. Pursuant to section 435 of the Companies Act, the Historical Financial Information does not constitute the Company's statutory accounts. The significant IFRS accounting policies applied in the combined financial information are applied consistently in this Prospectus.

The financial information presented in this Prospectus has been prepared for the Group, excluding the Excluded Subsidiaries. On 2 July 2018, Voyager Dallas Holding Company Limited, as the Company was known at the time, was incorporated as a subsidiary of Prudential plc. Voyager Dallas Holding Company Limited changed its name to M&G Prudential Limited on 3 July 2018. On 23 November 2018, the Company issued share capital to Prudential plc in consideration for the acquisition of PAC, M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited. On 24 July 2019, the Company was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Company changed its name to M&G plc. Prior to the incorporation of the Company, the business now carried out by the Group was not carried out by a separate legal entity or a separate group of entities.

Unless otherwise stated in this Prospectus, the combined financial information in relation to the Group referred to in this Prospectus has been extracted without material adjustment from the Historical Financial Information or has been extracted from those of the Group's accounting records and its financial reporting and management systems that have been used to prepare that combined financial information. Investors should ensure that they read the whole of this Prospectus and should not only rely on the key information or information summarised within it. The combined financial information included in the Historical Financial Information is covered by the Accountant's Report on the Historical Financial Information. Unless otherwise indicated, none of the other financial information relating to the Group or any operating data or key performance indicators relating to the Group have been reported on or audited.

Non-IFRS Financial Measures

This Prospectus contains certain financial measures that are not defined or recognised under IFRS, including adjusted operating profit before tax, net client flows and AuMA (together, the "**Non-IFRS Financial Measures**"). The Group presents these metrics because they are less affected than IFRS measures of performance by one-time impacts, and therefore, in the Group's view, provide a better basis for assessing trends in the operational performance of the Group over time.

The Non-IFRS Financial Measures are not defined under IFRS and other companies may calculate such measures differently or may use such measures for different purposes than the Group does, limiting the usefulness of such measures as comparative measures. Prospective investors should not consider the Non-IFRS Financial Measures in isolation, as an alternative to consolidated profit before tax, as an indication of operating performance, as an alternative to cash flows from operations or as a measure of the Company's profitability or liquidity.

Adjusted operating profit before tax

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure. Adjusted operating profit before tax is used by the Group for key decision making and the internal performance management of its operating segments as it is less affected by one-time impacts, and is therefore more representative of the normal, long-term performance of the business.

For the Group's fee based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses incurred to meet regulatory requirements and regular business development/structuring costs. Exceptional 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 the shareholders gross of attributable shareholder tax. Short term temporary movements in the fair value of instruments held to mitigate equity risk in the transfer are excluded from adjusted operating profit before tax. These hedges are matched to the statutory transfer on an economic basis rather than an IFRS basis, which may result in a mismatch between the movement in the instrument and the corresponding impact on the statutory transfer. Any such mismatch will be reflected in adjusted operating profit before tax.

For the Group's shareholder annuity and non-linked products written by the Heritage segment, adjusted operating profit before tax is calculated using long term investment assumptions which reflect the Group's expectation of investment returns over the lifetime of the relevant product, allowing for expected payments into and from the product. Adjusted operating profit before tax excludes impacts that are the result of short-term, unrealised market movements.

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.

Net client flows

Net client flows represents the difference between money received from customers and money returned to customers during the relevant period.

AuMA

The closing AuMA represents the total market value of all financial assets managed and/or administered on behalf of customers at the end of each financial period. The 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.

Capital generation

The level of surplus capital is an important financial consideration for the Group. Surplus capital is the amount by which Own Funds exceed SCR under Solvency II. 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 a period is analysed as follows:

- Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.

- Operating capital generation is the total capital generation before tax, adjusted for variances in market movements relative to assumptions and other non-operating items, including shareholder restructuring costs. It has two components:
  a) Underlying capital generation, which includes:
     – the underlying expected surplus capital from the asset management and in-force life insurance businesses;
     – the change in surplus capital as a result of writing new life insurance business; and
     – other items including head office expenses and debt interest costs.
  b) Other operating capital generation, which includes non-market related experience variances, assumption changes, modelling changes and other movements.

The expected surplus capital from the in-force life insurance business and changes in surplus capital as a result of writing new life insurance business are calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.30% for the six months ended 30 June 2019 and 4.25% for the year ended 31 December 2018. For annuity business, the assumed average return was 2.54% for the six months ended 30 June 2019 and 1.89% for the year ended 31 December 2018.

Capital generation is presented for the six months ended 30 June 2019 and the year ended 31 December 2018.

Abbreviations and rounding of figures

The Group's financial information is presented in Pounds Sterling. The abbreviations '£m' or '£ million' represent millions of Pounds Sterling, and references to 'pence' and 'p' represent pence in Pounds Sterling.

The financial information presented in a number of tables in this Prospectus has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this Prospectus reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company has been incorporated under the laws of England and Wales. The majority of the assets of the Group are located in the United Kingdom. As a result, it may not be possible for holders of M&G Shares to effect service of process within the United States upon the Company or such persons or to enforce outside the United States judgments obtained against the Company or such persons in US courts, including, without limitation, judgments based upon the civil liability provisions of the US securities laws or the laws of any state or territory within the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom. Holders of M&G Shares may also have difficulties bringing original actions in courts outside the United States to enforce liabilities based upon US securities laws or the laws of any state or territory within the United States.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Mike Evans (*Chair*) John Foley (*Chief Executive Officer*) Clare Bousfield (*Chief Financial Officer*) Caroline Silver (*Senior Independent Non-Executive Director*) Clive Adamson (*Non-Executive Director*) Robin Lawther (*Non-Executive Director*) Clare Thompson (*Non-Executive Director*)
Company Secretary	Alan Porter
Registered office	10 Fenchurch Avenue London EC3M 5AG United Kingdom
Sponsor	**Goldman Sachs International** Plumtree Court 25 Shoe Lane London EC4A 4AU United Kingdom
Reporting accountants and auditor	**KPMG LLP** 15 Canada Square London E14 5GL United Kingdom
Legal advisers to the Company	**Slaughter and May** One Bunhill Row London EC1Y 8YY United Kingdom
	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Legal advisers to the Sponsor	**Freshfields Bruckhaus Deringer LLP** 65 Fleet Street London EC4Y 1HS United Kingdom
Registrar	**Equiniti** Aspect House Spencer Road Lancing West Sussex BN99 6DA United Kingdom

PART I

BUSINESS AND MARKET OVERVIEW

1. OVERVIEW

The Group is a leading savings and investments business. It serves around 5.5 million retail customers, who want to build and protect their life savings, and provides investment solutions to more than 800 institutional clients. The Group's innovative asset management and customer solutions are supported by its extensive investment capabilities, an international distribution network and two strong brands: Prudential and M&G Investments. The Group operates internationally and distributes its products across 28 markets through a network of 20 offices. In the UK and continental Europe, the Group provides a range of long-term savings and investment solutions, including PruFund. In the Americas, Africa, Asia and Australia, the Group also provides asset management solutions. As at 30 June 2019, the Group's AuMA totalled £341.1 billion.

The Group operates across two operating segments: Savings & Asset Management and Heritage. The Savings & Asset Management segment, with £210.4 billion AuMA as at 30 June 2019, comprises the Group's retail savings (including PruFund) and asset management business as well as its institutional asset management business. The Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses.

2. DEVELOPMENT OF THE GROUP AND THE DEMERGER

2.1 Foundation and key milestones

The Group's savings business commenced operations in 1848, when "The Prudential Mutual Assurance, Investment and Loan Association" was founded in London to provide loans and life assurance products. The business grew rapidly and by the 1900s PAC, which was the main operating company at the time, insured a third of the UK population. Over the following decades the company broadened its product range, including the addition of corporate pensions in the 1920s, and its shares were listed on the London Stock Exchange in 1924. During the 1950s and 1960s – the heyday of "the Man from the Pru" – the focus was on life cover, long-term savings and retirement annuities.

M&G was established in 1931 when it launched the first unit trust in the UK, the First British Fixed Trust. Since then, M&G has pioneered many UK investment firsts, including the M&G Thrift Plan in 1954, which allowed savers to make monthly contributions for the first time. An independent company with a stock market listing for most of its history, M&G was acquired by Prudential plc in 1999.

2.2 The 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**"). The rationale for the Merger was to allow the combined business to leverage its complementary product and distribution capabilities on a greater scale, while improving the efficiency of its business operations. The Merger is also instrumental in strengthening the symbiotic relationship between the two merging businesses in order to enhance the development of investment capabilities and capital-efficient, customer-focused savings solutions.

In conjunction with the Merger, and as part of the execution of its business strategy, the Group's business is implementing a transformation programme, with a number of initiatives and programmes, which is expected to be completed in 2022 (the "**Transformation Programme**"). Parts of the Group's operational infrastructure, particularly in its Heritage business, are reliant on a large number of legacy systems with complex interdependencies and processes. This has limited the Group's ability to respond to changes in adviser and customer requirements and preferences, developments in industry and regulatory standards and the introduction of new technologies, as well as its ability to compete against more efficient competitors.

In particular, the Group operates in an increasingly complex and highly regulated industry, with constantly developing requirements and standards, which has resulted in a rise in regulatory scrutiny and enforcement action by regulators. The Group's systems and controls are integral to compliance with these developing requirements and standards. The Group is focused on improving its legacy systems and processes to enhance its control environment and, therefore, its ability to comply with these requirements and standards and position it to consistently deliver good outcomes for customers.

The Transformation Programme involves a fundamental overhaul of, and significant investment in, the Group's operational, outsourcing and IT environment, which is expected to improve the Group's ability to respond to customer, regulatory, industry and technological developments. This includes the following key initiatives, all of which underpin the Group's control environment:

- The digital transformation and consolidation of the legacy systems in the Group's Heritage business.
- The creation of a multi-channel, multi-wrapper digital platform for the distribution of the Group's savings solutions.
- An upgrade of the Group's investment capabilities to increase efficiency and reduce marginal costs.
- The modernisation and improvement of the Group's IT and operational processes, systems and controls.

The key aims of the Transformation Programme are to improve the experience and outcomes for customers, while strengthening the Group's resilience and control environment, and provide the Group with an efficient and scalable platform for future growth. The Merger and Transformation Programme are also expected to restructure the Group's cost base, with the full benefit of the anticipated shareholder cost savings for the programme of approximately £145 million per annum expected to be achieved by 2022. The total shareholder investment required to implement the Merger and Transformation Programme is expected to be approximately £250 million over the course of the five-year programme.

For further information regarding the recent developments relating to the Merger and Transformation Programme, see section 5.5 (*Recent Developments*) of this Part I (*Business and Market Overview*).

2.3 The Demerger

On 14 March 2018, Prudential plc announced its intention to demerge the Group, resulting in the Company becoming a separately listed entity, with its own distinct investment prospects. Following separation, the Group will have control over its strategy and capital management, supporting its transformation to a digitally-enabled, capital-efficient business and the continued development of its investment capabilities and international distribution.

Subject to the passing of the Demerger Resolution by Prudential Shareholders at the Prudential General Meeting, the following steps are expected to take place prior to the completion of the Demerger and Admission:

- the transfer of Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million from Prudential plc to the Company, in consideration for the payment from Prudential plc to the Company of an amount equal to the original proceeds of issuance less unamortised transaction costs associated with such issuance plus the Accrued Interest Amount (the "**Debt Substitution**"). For further information regarding the Debt Substitution and the Group's borrowings, see section 5.3 (*Capital Resources*) of Part III (*Operating and Financial Review*); and
- the Company will pay a pre-Demerger cash dividend of £2,968 million to Prudential plc (the "**Pre-Demerger Dividend**").

The Demerger is proposed to be implemented by Prudential plc making an in-specie distribution of M&G Shares, immediately prior to Admission, to Prudential Shareholders who are registered on the Prudential Share Register at the Record Time. As at the Latest Practicable Date, the entire issued share capital of the Company is held by Prudential plc. Immediately following the Demerger, the shareholders of the Company will be the same as the shareholders of Prudential plc as at the Record Time.

If the Demerger completes, Prudential Shareholders who are registered on the Prudential Share Register at the Record Time will receive:

one M&G Share for each Prudential Share

held by them at that time. Consequently, upon the Demerger becoming effective, immediately prior to Admission, all Prudential Shareholders will hold one M&G Share for each Prudential Share held at the Record Time. Prudential Shareholders will continue to own their existing Prudential Shares unless they sell or transfer them in the usual course.

Detailed information about how the Demerger will be effected is contained in the Prudential Shareholder Circular, and those considering the Demerger should only rely on the information in the Prudential Shareholder Circular.

3. MARKET OVERVIEW

The Group competes in selected segments of the international financial services market, primarily in the UK and continental Europe, with other operations in the Americas, Africa, Asia and Australia. In the UK, the Group primarily competes in the savings and investments market, through its Prudential and M&G Investments brands, providing a range of long-term savings and asset management solutions for retail customers and institutional clients. Outside the UK, the Group primarily competes in the retail and institutional asset management markets through its M&G brand.

The UK is one of the largest savings and investments markets globally, with an estimated £2.9 trillion of onshore liquid assets as at 31 December 2017.[1] Between 2012 and 2017, the total market has grown at a compound annual growth rate of almost 6 per cent.[2] Looking forward, the UK savings and investments market is expected to reach a total of £3.3 trillion of onshore liquid assets by 2020.[3] The European savings and investments market had a total of €25.2 trillion assets under management as at 31 December 2017, representing a 10 per cent increase over the course of 2017.[4]

After experiencing a 12 per cent gain in total assets under management in 2017, the total assets under management in the global asset management market fell by 4 per cent in 2018, from $77.3 trillion to $74.3 trillion.[5] This was led notably by net outflows of $2 trillion in North America and $700 billion in Europe.[6] Despite the challenging environment in 2018, the global asset management market is said to be on a fundamentally solid footing, with a predicted increase in the total assets under management to $111.2 trillion by 2020 and $145.4 trillion by 2025.[7]

An analysis of the Group's revenue by operating segment and by geographical location can be found in Note 3 of the Historical Financial Information.

3.1 Structural market trends

There are a number of long-term structural trends and regulatory drivers that are expected to continue to drive flows into the Group's major savings and investments markets and influence the way in which products and services in these markets are provided.

(A) Favourable demographic developments

The UK and most of the developed countries in continental Europe are characterised by an ageing population and the concentration of wealth in the mass affluent and high net worth

1 GlobalData, Wealth in the UK: Sizing the Market Opportunity (2017); The European Fund and Asset Management Association Asset Management Report (September 2018)
2 GlobalData, Wealth in the UK: Sizing the Market Opportunity (2017)
3 GlobalData, Wealth in the UK: Sizing the Market Opportunity (2017)
4 The European Fund and Asset Management Association, Asset Management Report (2018)
5 Boston Consulting Group, Global Asset Management 2019: Will these 20s roar? (2019)
6 Boston Consulting Group, Global Asset Management 2019: Will these 20s roar? (2019)
7 PwC, Asset & Wealth Management Revolution: Embracing Exponential Change (2017)

segments – a combination that positions the retirement and near-retirement segment as the fastest-growing in the marketplace. Subject to market fluctuations, economic factors and changes in consumer behaviour, the long-term trend of an increase in the saver population segment (aged 30 to 60) is expected to drive continued growth of savings and investments market flows.

According to the World Bank, the average life expectancy at birth (male and female) in the UK has increased from 74 years in 1980 to 81 years in 2017, and from 74 years in 1980 to 82 years in 2017 in the Euro area. These trends are extending the number of years that individuals are expected to spend in retirement, and therefore increasing the amount of savings required to fund living costs during this period.

In addition, governments are raising the age of statutory retirement to alleviate the public burden of state pensions, with further increases expected in line with the ongoing increase in life expectancy. Likewise, most employers have closed access to defined benefit pensions schemes in favour of defined contribution schemes in an effort to shift responsibility for retirement savings from corporates to the individual.

Together, these factors have generated a significant savings gap, defined as the difference between retirement income expectations and the cost of funding such projections. For example, in the UK, the savings gap is forecast to reach £350 billion by 2050. This means that the average adult in the UK would need to save an additional £10,000 per year between now and retirement to meet their retirement income expectations.[8]

As a result, there is a growing need among individuals for expert advice and appropriate products to help fund their long-term financial goals, which is expected to increase their propensity to utilise savings and investments products.

(B) Search for higher yield and financial solutions

The current persistence of low rates of return on bank cash deposits and traditional guaranteed life products, with negative real interest rates on many savings accounts, has exacerbated a search for better yields by investors and savers. As at September 2018, an estimated 24 per cent of financial assets in the UK were cash deposits, and in most of Europe it is even higher, with France at 28 per cent, Germany at 40 per cent and Italy at 33 per cent.[9] This is driving demand for investment solutions that deliver a higher risk-adjusted return, which has increased flows into mutual funds. It has also increased the popularity of real assets and alternative asset classes that generate a higher return to reflect rarity value and illiquidity.

(C) Government policy and regulation

Regulatory changes and government initiatives have also contributed to the growth in demand for financial advice and wealth management products. In the UK, the Pension Schemes Act 2015 represented a fundamental change to the structure of the UK pensions market, removing the legal requirement to buy an annuity with pension savings at retirement and allowing for a range of flexible, alternative solutions. While the UK Government has introduced some recent policies, such as the reduction in the money purchase annual allowance for the 2017-2018 tax year, which could reduce savings, it has also introduced a number of policies designed to stimulate and encourage higher savings, such as pensions auto-enrolment and increased Individual Savings Account ("**ISA**") subscription limits.

There have also been a number of regulatory changes in continental Europe. In Germany, the Occupational Pensions Strengthening Act (*Betriebsrentenstärkungsgesetz*), which came into force in January 2018, overhauled the rules governing corporate pension schemes and encouraged employers to improve and extend corporate pension benefits. France has introduced new types of investment vehicles to give greater flexibility to investment funds and reduced the tax advantages of life insurance products. Similarly, steps have been taken in Italy to broaden the scope of activities investment funds can undertake, such as permitting funds to engage in direct lending activities and introducing new structures aimed at investing in tax exempt shares and bonds issued by Italian small and medium enterprises.

[8] Deloitte, Funding our future: Meeting the long-term savings challenge (2015)
[9] Inverco, Cash deposit data (2018)

(D) Changing customer behaviour and preferences

Customer needs and expectations are changing rapidly and becoming more complex, with an increased need for advice and guidance, and a growing demand for innovative products and simplified service. Customers today value ease of access and interaction via an online or digital interface, including web-based browsers or applications on a mobile device.

Customers are also increasingly expecting innovative products which match their risk profile and mitigate volatility. This is driving a shift towards assets with less correlation to financial markets, an increase in the demand for multi-asset products and a convergence between the traditional insurance and asset management industries. This includes a migration away from benchmark-oriented fund strategies and towards goal-oriented investment solutions meeting a specific need.

Other factors are shaping the choice of products needed to meet customer preferences outside financial performance. For example, customers are increasingly paying attention to environmental, social and governance ("**ESG**") considerations when purchasing investment products. This has underpinned the growing integration of these factors into investment decision-making and the rise of specialised environmental, green and sustainability funds, collectively known as ESG or impact funds, which are expected to attract US$420 billion of assets under management in Europe from 2019 to 2023.[10]

Customers are also becoming more aware of the value that savings and investment products offer, which is driving a growing focus on the transparency and quantum of fees and commissions that industry providers charge for advice, administration and investment management. As a result, recent years have seen significant compression in margins across the industry, particularly among commoditised products, and a significant rise in the popularity of low-cost investment products such as passive funds and exchange-traded funds. Those with more differentiated product capabilities have been able to protect margins more successfully, given customers are more prepared to pay a premium for asset classes and asset strategies that meet their specific needs and where these strategies are difficult to replicate outside active management.

3.2 Customers and distribution

The Group's key markets cover both the retail and institutional savings and asset management markets, where products and services are provided to a wide range of individuals, corporations, public bodies and investment institutions such as pension funds.

(A) Retail customers

The need for individuals to fund their long-term financial goals is broad-based and covers a wide spectrum, from mass market and mass affluent to the wealthiest high net worth customers. Each of these customer groupings tend to exhibit different characteristics, which are further influenced by factors including the customer's age and personal circumstances. These customer groupings have preferences over the type of financial solutions required, the sophistication of service and advice, as well as the channel through which each product is researched and acquired.

As such, savings and investments products and services are provided or distributed by a number of different types of firms and are typically correlated to a customer segment and the complexity of the customer's financial needs:

- Private banks are more aligned to high net worth customer segments, with direct relationships to provide wealth management and advice, with more bespoke and sophisticated products covering banking, savings and investments.
- Wealth managers provide advice, platforms, investment management and wealth solutions, usually more focused on the mass affluent customer segment. Some firms target a specific segment of the value chain, while others pursue an integrated model with provision of services across all aspects of the value chain.

[10] Ignites Europe, Sustainable funds set to attract $420bn (2019)

- Retail independent advisers or brokers range from the large national or international networks to small local operations, generally targeting the mass affluent to lower mass affluent segments. Reflecting the needs of these segments, products and services tend to be more commoditised, and focused on collective savings and investments structures.
- Retail banks target the lower mass affluent segment of the market, typically through self-directed fund platforms or risk-based model portfolio services, with limited provision of financial advice.
- Direct-to-consumer platforms are self-directed services where limited or no advice or guidance is provided, and the focus is typically on ease of doing business and cost.

(B) Institutional clients

The institutional asset management market seeks to meet the growing need for differentiated investment solutions, as private sector and public sector pension schemes, sovereign wealth funds and insurers look for asset returns to help them meet the financial promises they have made to their scheme members, state owners or policyholders. The scale of the global pensions market, estimated to be worth $40 trillion in assets in 2018, having grown 31 per cent since 2012, represents a significant opportunity for institutional asset managers.[11] This is primarily accounted for by North America, with over $27 trillion, and certain European markets, including the UK, which hold pensions assets of over $6.5 trillion.[12] In addition, insurer balance sheets are worth $24 trillion, with sovereign wealth funds holding a further $8 trillion and foundations and endowments managing $1.5 trillion.[13] Overall, the European institutional asset management market is estimated to be worth more than $27 trillion, as at 31 December 2017.[14]

As many defined benefit pension schemes have closed to new members and contributions and a growing proportion of members are moving into the retirement payout phase, schemes are becoming increasingly mature and therefore are looking to de-risk and meet specific payment outcomes. Accordingly, there is increasing demand for asset managers that can offer bespoke solutions, through innovation and specific expertise, and a solid track record. These trends are also driving consolidation among schemes, and structures that enable schemes to pool the benefits of scale, such as master-trusts, are likely to become more important in meeting the need for greater operational efficiencies. As a result, institutional asset managers will also need to be able to offer solutions at scale and demonstrate the ability to source relevant assets in large volumes across multiple asset classes and investment strategies.

The sales process in institutional asset management tends to have a much longer timeframe than in retail savings and investments, typically involving proposals by a number of competing asset managers, particularly given the large scale nature of individual client mandates. Independent pensions consultants play an important part in this process, suggesting asset allocations for the scheme and acting as gatekeeper between the trustees of the pension scheme and the appropriate managers for each mandate. This gives an advantage to established asset managers as high quality standards are required and relationships between scheme trustees and asset managers, once appointed, are long-term. In some cases, more established asset managers may also develop direct relationships with long-term schemes and their trustees.

4. STRENGTHS AND STRATEGY

4.1 Strengths

The Group is a leading savings and investments business. It serves around 5.5 million retail customers, who want to build and protect their life savings, and provides investment solutions to more than 800 institutional clients. The Group's innovative asset management and customer solutions are supported by its extensive investment capabilities, an international distribution

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11 WTW Pensions & Investments, Thinking Ahead Institute world 300 (2019); Thinking Ahead Institute, Global Pension Asset Study (2018)

12 Thinking Ahead Institute, Global Pension Asset Study (2018)

13 IMF, Insurance Sector: Trends and Systematic Risk Implications (2016); NY Times, Sovereign Wealth Funds Embrace Their Growing Ambitions (2018); Pensions & Investments, Global foundation assets reach $1.5 trillion (2018)

14 EFAMA, Asset Management Report (2018)

network and two strong brands: Prudential and M&G Investments. In particular, the Directors believe that the Group benefits from the following key strengths:

(A) Unique and compelling business mix

The Group is an asset owner and asset manager, and therefore benefits from the symbiotic relationship between its businesses that gather assets from customers and its businesses that manage these assets. Being both an asset owner and manager is a key competitive advantage for the Group as this enables it to have a deep understanding of the needs of large and complex institutional clients and aligns the Group's incentives with those of its clients. It also allows the Group to rapidly deploy seed funding for new funds where it sees opportunities to generate superior returns and build a track record to attract third party funds. Furthermore, being both an asset owner and manager allows the Group to invest at scale and buy physical assets outright, while enabling it to maintain its long-term investment approach. Its large with-profits fund further enhances the Group's ability to invest at scale.

(B) Differentiated and high-value savings and investment solutions

The Group provides innovative, differentiated and high-value investment solutions to address customers' and clients' needs. It offers a comprehensive range of retail solutions which it makes available to its customers through their preferred channel, platform and tax wrapper. These solutions include a range of funds spanning the major asset classes as well as the new PruFolio range. The PruFolio range comprises a variety of active and passive funds and access to the largest open UK with-profits fund, the Risk Managed PruFund range, which offers individuals different rates of smoothed return aligned with their tolerance for risk. The Group's ability to provide good customer outcomes and bespoke solutions in line with risk appetites and time horizons, represents a compelling proposition.

The Group has a full set of diversified investment capabilities with expertise spanning a range of fixed income, equity, multi-asset, real estate and private asset classes. This enables the Group to offer differentiated and innovative customer and client solutions, such as the M&G Sustainable Allocation Fund and the Illiquid Credit Opportunity Fund.

(C) Proven track record for growing new businesses in the UK and internationally

The Group has a proven track record for growing new businesses, including PruFund and the institutional asset management business, and expanding them in the UK and internationally. PruFund was launched in the UK in 2004 and now comprises seven funds, each with its own risk profile. The AuMA in PruFund reached £49.6 billion as at 30 June 2019, with significant growth over the last three years (£8.5 billion, £9.0 billion and £6.5 billion of net inflows during 2018, 2017 and 2016 respectively).

Similarly, the Group has successfully developed and grown its institutional asset management business, first in the UK and then internationally, by offering innovative and bespoke solutions and building strong client relationships. Revenue from external institutional asset management services in the UK increased over 20 times over the 15 years to 31 December 2018 and the Group has also grown its institutional asset management business in the Netherlands, the Nordics, Switzerland and Japan.

(D) Proven investment capability

The Group has a long history and strong reputation for meeting the needs and expectation of its customers.

The Group is one of the largest asset managers in Europe, with £341.1 billion AuMA as at 30 June 2019. It is also one of the largest active fixed income managers in the UK and one of the largest managers of private assets in the world. This scale and capability is not easy to replicate and is well-matched to capturing value in the premium segments of the growing savings and investments market.

The Group has a strong investment performance track record, driving growth in AuMA and long-term customer relationships. The Group's largest with-profits sub-fund delivered annualised returns of 8.6 per cent between 2009 and 2018 compared to 6.1 per cent annualised returns of the ABI Mixed Investment 20-60 per cent Shares Sector Average. Similarly, the Group's retail asset management solutions have a strong and consistent track record, with 55 per cent of the Group's mutual funds performing in the top quartile of their respective peer group on a three-year basis in 2018. At the same time, the vast majority of the Group's institutional asset management solutions are consistently delivering for clients, with 86 per cent of solutions achieving their investment objectives over the three years ended 30 June 2019.

The Group has also been recognised for its investment performance through a number of awards. For the Group's retail business, these include Platinum awards for the Emerging Market Fixed Income and Developed Market Fixed Income categories in 2019 from the Portfolio Adviser Awards, Outstanding Fund Manager of the Year (Jim Leaviss) in 2019 from Morningstar Fund Manager of the Year Awards, as well as Best Asset Management House, Best Asset Management House in Asset Allocation and Best Investment Fund (for M&G Dynamic Allocation) in 2018 from Expansión & AllFunds Fund Awards. For the Group's institutional business, these include the Most Innovative Solution from an Asset Manager award in 2019 from the Insurance Investment Exchange Awards, the Infrastructure Manager of the Year award in 2018 from the Global Investor Magazine Awards, the Multi-Asset Manager of the Year and Real Estate Manager of the Year awards in 2018 from European Pensions, as well as Fixed Income Manager of the Year in 2018 Insurance Asset Risk Awards.

(E) Strong distribution and customer engagement

The Group has an established and growing multi-channel international distribution network and two strong brands: Prudential and M&G Investments. The Group's products are currently being sold in 28 different countries across six continents.

The Group's distribution channels provide customers with choice in the way they use the Group's services. The Directors believe that the Group's strong positions in each of its market segments also offer strategic flexibility to respond to and capitalise on changing market and regulatory conditions over time. Furthermore, the Directors expect the implementation of the Transformation Programme to enhance the Group's capabilities to engage with customers by building a scalable digital platform.

The Group benefits from various routes to market in the UK. Retail asset management and savings solutions are delivered to individual customers through independent financial advisers, via Prudential Financial Planners and directly to customers. Retail asset management solutions are also delivered on a wholesale basis to intermediaries (third party platforms, discretionary fund managers and wealth managers) for onward distribution to retail customers. Asset management solutions are delivered to institutional investors directly and on the recommendation of investment consultants.

In Europe, the Group benefits from a strong distribution network to serve its retail customers and institutional clients. The routes to market include strategic partnerships with global and local banks, distribution via wealth managers and institutional relationships with pension funds and insurers. Outside Europe, the Group operates through strategic partnerships with global banks and a number of relationships with local banks.

(F) Well positioned to capture opportunities

The trends across the markets in which the Group operates, particularly the favourable demographic developments, the search for yield in a low interest rate environment and the increasing demand for financial solutions, present significant opportunities for the Group. As welfare support from the state diminishes and employers retreat from guaranteed retirement provisions, more people need to make their own preparations for retirement and other life goals. This has caused an increase in defined contribution pension schemes and contribution levels as individuals increase their savings to reduce the growing savings gap. At the same time, many people with sizeable asset pools, who want to grow or protect their value, are hampered by persistently low interest rates. Across the EU, an estimated €10 trillion of cash and deposits were earning poor returns due to low interest rates in 2016.

The Directors believe that the Group offers modern, flexible solutions to take advantage of these trends, including long-term savings solutions that allow customers to save for their retirement, such as the largest open UK with-profits fund, which allows for the delivery of smoothed returns and outcome-oriented investment solutions. The Group also offers asset management products that have a strong investment performance track record. Furthermore, its increasingly digital, data-led and scalable distribution platform gives the Group the flexibility to provide innovative products to customers in the way customers prefer. The Group is therefore well positioned to serve growing customer needs and to take advantage of the structural trends impacting the Group's markets. For further information regarding structural trends impacting the Group's markets, see section 3.1 (*Structural Market Trends*) of this Part I (*Business and Market Overview*).

(G) Attractive financial profile

The Group's diverse and resilient earnings, as well as its strong cash generation and capital position give it an attractive financial profile.

(i) Diverse and resilient earnings

The Group benefits from a broad range of income sources, driven by its diverse mix of retail customers and institutional clients, geographic footprint and product types. Together with the long-term nature of the majority of the Group's business, this diversity of income helps to underpin the quality of its earnings and the resilience of its financial performance.

In the Savings & Asset Management segment, earnings are primarily driven by fees typically related to the level of AuMA net of expenses, and by the shareholder share of the returns allocated to policyholders in the PruFund range. The Group sees opportunity for earnings growth from both sources over time, both in the UK and internationally.

In the Heritage segment, the main sources of earnings are income from the book of shareholder annuities and the shareholder share of the returns allocated to traditional with-profits policyholders by means of bonuses. Both of these books are closed to new customers, but the run-off profiles are relatively long, and consequently, subject to financial market conditions, earnings are expected to remain resilient over the medium term.

(ii) Strong cash generation

The Group's strong cash generation supports its overall financial flexibility and its dividend policy. For further information regarding the Group's dividend policy, see section 7 (*Dividend Policy*) of this Part I (*Business and Market Overview*). In addition, the Heritage business may generate earnings and capital from other potentially less recurrent sources, for example changes to assumptions (especially longevity), and from asset trading and other asset related drivers. These sources of earnings have had a materially positive impact on the Group's annuity earnings over the three years ended 31 December 2018.

(iii) Well-capitalised

As at 30 June 2019 the Group's pro-forma shareholder Solvency II Own Funds were £9.6 billion, exceeding the Solvency Capital Requirement of £5.6 billion by £4.0 billion, and resulting in a shareholder Solvency II ratio of 170 per cent. At the same point in time, Own Funds in the with-profits fund stood at £11.1 billion, exceeding the Solvency Capital Requirement of £4.5 billion by £6.6 billion, and resulting in a Solvency II ratio of 249 per cent. For further information regarding the unaudited pro-forma solvency information of the Group, see Part VI (*Unaudited Pro Forma Financial Solvency Information of the Group*).

4.2 Strategy and objectives

The Group's aim is to maintain and further strengthen its position as a leading provider of differentiated, outcome-orientated investment solutions to retail customers and institutional clients. The Group's strategy is underpinned by its core purpose: to grow and manage its customers' savings with tailored solutions and to invest responsibly and with care.

The Directors believe that the Group's distinctive position as asset owner and asset manager is a powerful competitive advantage which underpins its leading savings and investments businesses. This has enabled the Group to, for example, develop unique propositions, such as PruFund, and rapidly deploy seed funding for new funds where it sees opportunities to generate superior returns.

The Directors also believe the Group is well positioned to capture growth from supportive demographic and economic long-term trends in the savings and investments market due to its focus on differentiated and high-value solutions, its proven track record for growing new businesses in the UK and internationally, its investment capability and its strong distribution and customer engagement. The Group intends to leverage these strengths to support its capital efficient and profitable growth, while upholding its core values of investing responsibly and with care.

The breadth of the Group's savings and investment solutions together with its strong distribution network allow it to attract funds from both retail customers and institutional clients in the UK, continental Europe and other international markets. Through the successful implementation of its strategy, the Group aims to continue to grow its businesses through its existing and new distribution channels, improving its market position and increasing AuMA.

The Directors believe that, based on its strategic focus and the product, capability and geographic expansion initiatives described below, the Group can deliver growth in AuMA over the medium term, subject to the broader market conditions. As demonstrated by its results in recent financial years, the Group has maintained a stable revenue margin notwithstanding the pricing pressures observed in the markets in which it operates. The Group expects these pricing pressures to persist and remains focussed on delivering its differentiated and high-value solutions to protect margins going forward.

The Group will be managed with a focus on delivering optimised capital generation over time. The Group is targeting cumulative total capital generation of £2.2 billion over the three years to 31 December 2022. For further information regarding the Group's capital generation, see section 4.3(A)(iv) (*Capital generation*) of Part III (*Operating and Financial Review*). The Group intends to achieve this goal while maintaining a disciplined approach to investment in its business and balancing its liquidity, regulatory capital and leverage position.

Specifically, the Group aims to pursue the strategic initiatives described below.

(A) Expand investment capabilities and broaden proposition

To support its ambition of serving customers and clients with the most appropriate solutions that meet their financial objectives, the Group will focus on building on its strong investment management capabilities, aiming to continue delivering consistent investment outperformance to its customers. The Group also intends to use its broad product capabilities and track record of innovation to grow its investment solutions and private asset offerings.

Specifically, the Group will continue to invest in its private asset origination capacity, with the aim of increasing the rate at which it can deploy capital raised from institutional clients seeking bespoke, long-term solutions.

The Group's position as an asset owner and asset manager is also expected to allow the Group to further utilise the quantum and longevity of assets within its with-profits fund and annuity portfolio to facilitate the scaling of its private and illiquid asset capabilities.

The Group will also continue to strengthen its capabilities in public asset classes and markets where it can provide value as an active asset manager. For example, the Group is enhancing its emerging market equity expertise in Asia and strengthening its emerging market debt team to broaden its proposition and to capitalise on its strong investment performance track record.

(B) Protect and enhance existing market positions whilst selectively growing internationally

The Group has a leading position in the UK advised savings and asset management market, and plans to protect and grow this position by investing in its digital platforms to improve adviser and customer experience and outcomes. This is expected to lead to an improvement in asset retention and a reduction in administration costs. Further, the Group is extending its capabilities to enable it to serve a wider array of customer and intermediary needs.

In Europe, the Group has a strong and established retail distribution presence, reputation and local infrastructure that enables it to serve its customers across the different territories in which it operates, with a broad range of investment solutions. The Group will leverage this infrastructure and its full range of investment capabilities with the aim of deepening and widening its established presence by capturing expected growth in demand for sub-advised solutions. Southern Europe has traditionally been a retail asset management market for the Group, and the Group intends to continue to leverage its retail distribution network there to cross-sell institutional products. For example, this has been a successful strategy in Italy where the Group increased its institutional AuMA by approximately £0.5 billion in 2017 and 2018.

Outside the UK and continental Europe, the Group aims to pursue disciplined expansion in retail and large institutional markets to take advantage of global growth opportunities. These opportunities include utilising the newly developed SICAV platform in Luxembourg to further leverage existing partnerships with global and local banks in international markets, as well as building on the Group's Asian, Australian and North American presence to reach new customers. The Group anticipates that this strategy, together with the opening of new distribution offices and an expansion of its institutional client servicing capabilities in select locations, will result in growth in AuMA in the medium term.

(C) Complete the Merger and Transformation Programme

The Group is implementing the Merger and Transformation Programme, which is expected to be completed in 2022 and aims to improve the experience and outcomes for customers, while strengthening the Group's resilience and control environment, and provide the Group with an efficient and scalable platform for future growth. The Transformation Programme involves a fundamental overhaul of, and significant investment in, the Group's operational, outsourcing and IT environment, which is expected to improve the Group's ability to respond to customer, regulatory, industry and technological developments.

Through the Merger and Transformation Programme, the Group is expected to have the platform to support its growth ambitions in the Savings & Asset Management segment, while improving efficiency, creating greater variability in the cost base and consistently delivering good outcomes for customers.

(D) Optimise the Group's capital generation and financial flexibility

The Group is targeting cumulative total capital generation of £2.2 billion over the three years to 31 December 2022. For further information regarding the Group's capital generation, see section 4.3(A)(iv) (*Capital generation*) of Part III (*Operating and Financial Review*). The Group intends to be disciplined in its use of capital, balancing the maintenance of financial strength and flexibility, investment in growing the business, and attractive returns to shareholders. Dividends declared each year will take into account this strategy so as to deliver stable or increasing dividends to shareholders over time.

5. BUSINESS OVERVIEW

The Group is a leading savings and investments business. It serves around 5.5 million retail customers, who want to build and protect their life savings, and provides investment solutions to more than 800 institutional clients. The Group's innovative asset management and customer solutions are supported by its extensive investment capabilities, an international distribution network and two strong brands: Prudential and M&G Investments. The Group operates internationally and distributes its products across 28 markets through a network of 20 offices. In the UK and continental Europe, the Group provides a range of long-term savings and investment solutions, including PruFund. In the Americas, Africa, Asia and Australia, the Group also provides asset management solutions. As at 30 June 2019, the Group's AuMA totalled £341.1 billion.

The Group operates across two operating segments: Savings & Asset Management and Heritage. The Savings & Asset Management segment, with £210.4 billion AuMA as at 30 June 2019, comprises the Group's retail savings (including PruFund) and asset management business as well as its institutional asset management business. The Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses.

5.1 The Group as asset owner and asset manager

As at 30 June 2019, the Group holds £188.0 billion of assets which back its retail savings solutions, legacy annuity products, with-profits policies and unit-linked solutions (the "**Prudential UK&E Assets**"). The Group has an in-house fiduciary manager, the Investment Office, which manages these assets and aims to provide policyholders and customers with the best returns in the most efficient manner in line with their risk appetite. The Investment Office takes a dynamic approach to strategic asset allocation, which takes into account material shifts in capital market valuations. The investment philosophy of the Investment Office is underpinned by the following key strategies:

- Taking a long-term approach.
- Diversification across a variety of asset classes.
- Realising the importance of value and valuation.
- Seeking appropriate illiquidity and credit risk premiums.
- Investing in attractive new asset classes and developing the overall asset mix.
- Taking into account ESG issues.

The Investment Office comprises a team of economists, investment strategists and analysts. The fiduciary management activities of the Investment Office are undertaken within a governance framework for which the PAC board (which contains a majority of independent directors) is responsible.

The Prudential UK&E Assets are invested with M&G and a number of third party asset managers. As at 30 June 2019, £123.7 billion of the Prudential UK&E Assets were invested with M&G and £64.3 billion were invested with other asset managers. The majority of the other asset managers are asset managers in the Prudential Group.

The Group is an investment manager for retail customers, institutional clients and the Prudential UK&E Assets. As at 30 June 2019, it had £276.8 billion AuMA, of which £78.6 billion originated from external retail customers and £74.5 billion originated from external institutional clients. The Group's asset management business is specialised in active solutions with an opportunity to add significant value, with strengths in the less commoditised segments of the asset management market.

5.2 Savings & Asset Management: Retail

(A) Overview

The retail part of the Savings & Asset Management segment, with £135.9 billion AuMA as at 30 June 2019, provides a range of long-term savings and asset management solutions to the Group's retail customers.

(B) Solutions

The Group offers a comprehensive range of savings and asset management solutions to its retail customers, including tax wrappers such as the Retirement Account (an online account-based plan that contains both a savings and drawdown feature), Prudential ISAs and a variety of bonds, as well as a broad range of investment funds. Most of the Group's retail savings solutions allow retail customers to invest in the Group's PruFund propositions, investment funds which offer individuals different rates of smoothed return aligned with their tolerance for risk. For further information regarding the Group's PruFund products, see section 5.2(B)(ii) (*PruFolio and PruFund*) of this Part I (*Business and Market Overview*).

The Group also offers a diversified range of actively managed mutual funds spanning the public markets, including cash, fixed income, international equities and real estate. These mutual funds are made available to retail customers through either UK domiciled Open Ended Investment Companies ("**OEICs**") or Luxembourg domiciled SICAVs. They are distributed to retail customers using the Group's many business-to-business relationships in the UK, Europe, the Middle East & Africa, Asia-Pacific and the Americas.

(i) Tax wrappers

Retirement Account

Launched in September 2016, the Retirement Account is a pension tax wrapper that allows customers to accumulate assets through flexible savings for their retirement and drawdown on assets to generate an income in retirement. Investors are able to save into the pension component in a tax efficient manner and drawdown income on a flexible basis on retirement. Policyholders are able to choose their investments with access to PruFund and other external funds.

The Retirement Account has proven extremely popular, with AuMA of £16.1 billion as at 30 June 2019, just under three years since its launch. The net inflows for the Retirement Account product in the year ended 31 December 2018 amounted to £5,827 million (£5,829 million for the year ended 31 December 2017).

Prudential ISA

The Prudential ISA is a tax efficient savings account where income and capital gains are tax-exempt, subject to the annual ISA limits set by the UK Government. Investors are able to invest in the PruFund range of funds and a range of other M&G funds and external funds. Since its launch in 2015, sales have benefited from the low interest rate environment, increasing ISA limits and the continued success of the underlying PruFund range of funds. The net inflows for the Prudential ISA in the year ended 31 December 2018 amounted to £1,107 million (£1,115 million for the year ended 31 December 2017).

Bonds

The Group offers a range of varying term bonds. The bonds can be invested in a suite of PruFund holdings, M&G funds and external funds. The bonds are offered in a variety of different tax wrappers, including Dublin-based offshore bonds which offer further tax incentives to investors. The net inflows for the bonds in the year ended 31 December 2018 amounted to £1,502 million (£1,619 million for the year ended 31 December 2017).

(ii) PruFolio and PruFund

The Group updated and extended its range of investment funds, the PruFolio Risk Managed fund range, in January 2019 to enable financial advisers to better match investments to their customers' risk profile. The PruFolio range consists of five active funds, the Risk Managed Active range, five passive funds, the Risk Managed Passive range, and seven smoothed funds, the PruFund Protected Growth Fund, the PruFund Protected Cautious Fund and the Risk Managed PruFund range. The funds in each range have different investment objectives based on volatility ceilings rather than maximum equity content thresholds, giving fund managers more flexibility in how they manage their funds.

Strategic asset allocation decisions for the PruFolio Risk Managed funds are made by the Group's Investment Office and the majority of the investment portfolios of the PruFolio Risk Managed fund range are managed by M&G. For further information regarding the Investment Office, see section 5.1 (*The Group as asset owner and asset manager*) of this Part I (*Business and Market Overview*).

Risk Managed Active range

The Group's Risk Managed Active range includes five risk-managed multi-asset funds, each with its own risk profile and managed to meet an expected long-term volatility ceiling limit. These funds are actively managed and invest globally in a range of assets including equities, property, fixed interest, alternative assets and cash. The funds in the

Risk Managed Active range are available to customers through the Group's savings solutions, including the Retirement Account and the Prudential ISA, as well as third party fund managers.

Risk Managed Passive range

Like the Risk Managed Active range, the Group's Risk Managed Passive range includes five risk-managed multi-asset funds, each with its own risk profile and managed to meet an expected long-term volatility ceiling limit. These funds are not actively managed and invest in a narrower range of asset classes than the Risk Managed Active funds. However, the indices and asset classes in which the Risk Managed Passive funds invest are reviewed regularly. The Risk Managed Passive range offers customers a lower cost investment option and is available to customers through the Group's savings solutions, including the Retirement Account and the Prudential ISA, as well as through third party fund managers.

Risk Managed PruFund range

Launched in 2004, PruFund is a transparent and modern way of with-profits investing in the UK, which offers individuals different rates of smoothed return aligned with their tolerance for risk. The PruFund range has expanded since it was launched, with the newest Risk Managed PruFund 5 having launched in January 2019. It now comprises seven funds, including Risk Managed PruFund 1 – 5, each with its own risk profile. PruFund has experienced significant growth over the last three years, largely driven by the success of the Retirement Account and the increase in PruFund risk ranges. As at 30 June 2019, the AuMA in PruFund amounted to £49.6 billion after attracting £8.5 billion, £9.0 billion and £6.5 billion of net inflows during 2018, 2017 and 2016 respectively.

The PruFund is a 90:10 with-profits product where shareholders accrue 1/9th of the smoothed investment returns realised by PruFund customers. This accrual pattern is consistent with the vast majority of the Group's with-profits business, with the only exceptions currently being the Scottish Amicable Insurance Fund, the Defined Charge Participating Sub-Fund (both 100:0 funds which are now closed to new customers) and certain other business reinsured into the main with-profits fund on 100:0 terms. However, unlike traditional with-profits products, no regular or final bonuses are declared for PruFund and policyholder return is instead determined by an expected growth rate which is declared quarterly. A different expected growth rate is used for each of the five different Risk Managed PruFund funds based on the investment profile of each fund. PruFund is predominately written in the With-Profits Sub-Fund with some business written in the Defined Charge Participating Sub-Fund. For further information regarding the Group's traditional with-profits fund, see section 5.4(B) (*Traditional with-profits fund*) of this Part I (*Business and Market Overview*).

The PruFund funds aim to achieve long-term total return (the combination of income and growth of capital). The funds are actively managed and aim to limit fluctuations, after allowing for smoothing, to certain percentage limits over the medium to long term. The smoothing mechanism of the PruFund funds provides attractive stability for investors as they approach and reach pensionable age.

As part of the Transformation Programme, the Group is enhancing advisers' access to PruFund by significantly upgrading its digital services across a range of tax wrappers. The Group is also exploring with European distributors how it might make the benefits of PruFund available to savers in their markets.

For the year ended 31 December 2018, PruFund's contribution to the Group's IFRS profit was £55 million, up 30 per cent from £42 million for the year ended 31 December 2017.

(iii) Asset management solutions

The Group has a range of more than 60 open-ended funds domiciled in the UK and on its new Luxembourg-domiciled SICAV platform, which aim to offer customers a broad choice of products across diverse geographies, asset classes and strategies. The Group's funds generally aim to deliver a rising income stream, long-term capital growth or a mixture of both. Almost all of the Group's funds are managed actively for the long term.

During 2019, the Group continued to expand its range of funds for retail investors. Recent new funds include the innovative M&G Positive Impact Fund, which widens access to impact investing for customers who want to invest in companies that aim to have a positive impact on society, and the M&G Sustainable Allocation Fund, a multi-asset fund incorporating ESG factors. The Group also launched an investment trust, the M&G Credit Income Investment Trust, which for the first time allows UK retail investors to put their money into a combined portfolio of public and private debt.

The Group's retail asset management capabilities are as follows:

- Equities: The Group actively invests in listed securities across international stock markets with a variety of strategies including dividend growth, value and recovery. The equities AuMA are spread across 29 funds, the largest fund being the Global Dividend Fund (27.5 per cent of Equities AuMA as at 30 June 2019) which invests in stocks across a number of regions.
- Fixed income: The Group is one of Europe's largest fixed income investors and offers a range of fixed income products from sovereign debt to private loans. The fixed income AuMA are spread across 21 funds, including the Optimal Income Fund, the largest fund managed by the Group (57.6 per cent of Fixed Income AuMA as at 30 June 2019).
- Multi-asset: The Group manages a range of multi-asset funds, designed for investors seeking to spread risk across a mix of asset classes. The largest multi-asset fund is the Dynamic Allocation Fund (42.6 per cent of multi-asset AuMA as at 30 June 2019) which invests in bonds, currencies, cash, near cash and deposits in any denomination or region.
- Real estate: The Group invests in, and manages, property around the world. Its £26.3 billion portfolio, as at 30 June 2019, covers the four sectors of retail, office, industrial and residential.

(C) Performance

Delivering strong investment performance remains critical and is the key determinant of success for a savings and investments business. The Group's retail savings and asset management solutions delivered strong results in 2018. The Group's largest with-profits sub-fund delivered annualised returns of 8.6 per cent between 2009 and 2018 compared to 6.1 per cent annualised returns of the ABI Mixed Investment 20-60 per cent Shares Sector Average. Similarly, the Group's retail asset management solutions have a strong and consistent track record, with 55 per cent of the Group's mutual funds performing in the top quartile of their respective peer group on a three-year basis in 2018.

The Group has been recognised for its retail investment performance through a number of awards. These include Platinum awards for the Emerging Market Fixed Income and Developed Market Fixed Income categories in 2019 from the Portfolio Adviser Awards, Outstanding Fund Manager of the Year (Jim Leaviss) in 2019 from Morningstar Fund Manager of the Year Awards, as well as Best Asset Management House, Best Asset Management House in Asset Allocation and Best Investment Fund (for M&G Dynamic Allocation) in 2018 from Expansión & AllFunds Fund Awards.

(D) Distribution

(i) Savings

Savings solutions are made available to customers through the Group's multi-channel distribution network, based on strong relationships with advisers and intermediaries, and direct-to-customer franchises. The majority of savings solutions sales are made through intermediaries. These include thousands of independent financial advisers, most of the high-street banks, wealth managers, institutional investment managers and pension funds. Sales through Prudential Financial Planning, the Group's in-house advisers, have grown in volume since its launch in 2012.

Intermediaries

Intermediaries are financial advisers who are qualified to provide advice and guidance on long term investment products. Intermediaries charge their clients directly for advice, typically offer products from a range of providers, and, since the introduction of the Retail Distribution Review in 2012, do not receive commission from the product provider. The Group's intermediaries distribution network is well diversified, with more than 5,000 licensed intermediaries distributing savings solutions.

Prudential Financial Planning

Prudential Financial Planning is the Group's in-house adviser business that was established in 2012 in response to the Retail Distribution Review. Prudential Financial Planning's advisers are qualified and experienced in financial planning and provide access to the growing pensions and savings advice market. The products offered by the advisers include the Group's own products and products from a selected range of other providers. The Prudential Financial Planning AuMA have grown significantly over the last few years, from £3.6 billion as at 31 December 2016 to £8.3 billion as at 30 June 2019.

The Group is progressively integrating technology into its Prudential Financial Planning business with a view to offering digital guidance and advice to its customers. This is being enabled by the upgrades to the Group's IT environment as part of the Transformation Programme.

(ii) Asset management

The Group has an international distribution network for its asset management products and to support customers in 28 markets, with key distribution centres in Europe and Asia, and new offices most recently opened in Australia and North America. In its retail asset management business, the Group distributes its products through wholesale relationships with intermediaries such as advisers, wealth managers and platforms as well as direct-to-customer channels.

In the UK, the products are distributed direct to customers (mail, phone and online) and through wholesale intermediaries (platforms, independent financial advisers, wealth managers and funds of funds). The vast majority of funds are available in the UK in ISA or Junior ISA wrappers. In Europe, the distribution is primarily via dedicated teams targeting platforms, advisers, banks, insurers, wealth managers and funds of funds. In the Americas, a dedicated team in Miami (established in 2018) targets the US offshore market and products are distributed to the wider Latin American market via a distribution partnership with Credicorp Ltd. In Asia-Pacific, the products are distributed by dedicated teams in Hong Kong and Singapore, primarily targeting global and regional banks. Funds are also distributed in Taiwan via a partnership with Eastspring Investments.

(E) Transformation Programme

In order to attract new customers and increase the amount existing customers invest with the Group, the retail savings and asset management business is one of the key areas of focus for the Transformation Programme. The Transformation Programme is expected to create a multi-channel, multi-wrapper, digital environment to improve the experience and outcomes for customers of the Group's savings solutions. For further information regarding the Transformation Programme, see section 2.2 (*The Merger and the Transformation Programme*) of this Part I (*Business and Market Overview*).

5.3 Savings & Asset Management: Institutional

(A) Overview

The Group's institutional asset management business offers clients access to a diverse range of fixed income and real estate investment products and services through segregated mandates and pooled funds. The institutional asset management business aims to help pension funds, sovereign wealth funds and other large institutional investors match liabilities and achieve their growth targets. It has a client-centric approach which focuses on offering bespoke solutions to solve clients' problems and on building and maintaining client trust by delivering on performance expectations. This approach has seen the AuMA from external institutional clients increase significantly over the last decade, from £22 billion as at 31 December 2008 to nearly £75 billion as at 30 June 2019.

The institutional asset management business has more than 800 clients and also provides active asset management services for the Investment Office. As at 30 June 2019, £123.7 billion of the AuMA of the institutional asset management business related to Prudential UK&E Assets managed by the Investment Office.

(B) Products

The Group's institutional asset management solutions deliver innovative and competitive investment strategies to meet institutional clients' specific needs. The Group's key institutional asset management capabilities are as follows:

(i) Fixed income

The Group provides actively managed fixed income investment products to institutional clients, and its internal funds, through segregated mandates and mutual funds. The Group's institutional fixed income capabilities are organised into four distinct teams: public debt, private debt (alternative credit, leveraged finance and infrastructure), real estate finance and fixed income restructuring, each with a dedicated team of investment professionals.

The Group's Life Fund makes up a significant proportion of the fixed income AuMA. The AuMA in fixed income as at 30 June 2019 amounted to £120.6 billion, £66.9 billion of which related to internal funds and £53.7 billion to external funds.

(ii) Real estate

The real estate business unit is the property investment arm of the Group, actively investing in and managing real estate assets internationally. Real estate has capabilities in the four core sectors (retail, office, industrial and residential) and is guided by five distinct investment strategies (UK commercial, Asia institutional, long income, continental Europe and residential), each with a dedicated team of investment professionals.

The AuMA in real estate as at 30 June 2019 amounted to £26.3 billion, £17.2 billion of which related to internal funds and £9.0 billion to external funds.

(iii) Alternative assets

The Group is a leading investor in a diverse range of private and illiquid assets. These are attractive options for institutional investors looking to match long-term liabilities with long-term returns, either at fixed or floating rates. They are also a key source of funding for public and private infrastructure projects and businesses that might otherwise struggle to access competitive financing.

The AuMA in alternative assets as at 30 June 2019 amounted to £5.3 billion, £2.1 billion of which related to internal funds and £3.2 billion to external funds.

Reflecting growing demand from institutional clients for investments which make a positive societal and environmental impact, in 2017 the Group seeded its first Impact Financing Fund with investment from the Group's Life Fund and two third-party investors. Through private and illiquid debt transactions, the fund is already financing projects including a regeneration scheme, green energy and social housing developments. The Group has also recently launched its first Greenfield Infrastructure Fund, which invests in the later stage development, construction and expansion stages of projects and companies across a variety of sectors including communications, energy, renewables, social infrastructure, transport and utilities, and has proven popular with pension funds and insurance companies.

(C) Performance

The Group's institutional asset management products have delivered strong results in 2018. The vast majority of the Group's institutional asset management solutions consistently delivering for clients, with 86 per cent of solutions achieving their investment objectives over the three years ended 30 June 2019.

The Group has been recognised for its institutional investment performance through a number of awards. These include the Most Innovative Solution from an Asset Manager award in 2019 from the Insurance Investment Exchange Awards, the Infrastructure Manager of the Year award in 2018 from the Global Investor Magazine Awards, the Multi-Asset Manager of the Year and Real Estate Manager of the Year awards in 2018 from European Pensions, as well as Fixed Income Manager of the Year in 2018 Insurance Asset Risk Awards.

(D) Distribution

The Group's institutional asset management products are distributed to third parties through long-term established relationships with investing institutions and third party relationships with advisers and consultants.

In the UK, the products are distributed to institutional clients, including pension funds and insurance companies, through direct relationships. In the Nordics, the Netherlands, Germany and Switzerland, the products are distributed via dedicated resource targeting pension schemes, insurance companies and other institutional investors. Sales teams target institutional clients in other European countries. In the Americas, a dedicated team was established in New York in 2018 to distribute to a range of institutional investors including foundations, pension funds and insurers. In Asia-Pacific, dedicated teams in Australia and Japan, who distribute to local institutional investors, were established in 2018 and 2016 respectively. Prior to this, the Group used the services of introducers. In Korea, distribution is carried out through a partnership with Eastspring Investments.

The Group sometimes uses placement agents to distribute its products in geographies in which it does not have dedicated teams.

5.4 Heritage

(A) Overview

The Group's Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses. It also includes a number of smaller legacy businesses such as individual pensions and income drawdowns. In response to regulatory and market changes over the past decade, the Group has shifted new business sales away from the capital-intensive annuity business and corporate pensions to focus on other products. The majority of the products in the Group's Heritage segment are therefore closed to new customers, although top-ups from existing policyholders are permitted. Furthermore, these products still generate significant cash flow and adjusted operating profit before tax (£1,162 million of adjusted operating profit before tax in the year ended 31 December 2018 (£847 million in the year ended 31 December 2017)).

The Heritage business is one of the key areas of focus for the Transformation Programme as many of the products in this business are supported by legacy systems. Improving the Group's ability to ensure that its Heritage customers receive the best possible outcomes is an important focus of the programme.

(B) Traditional with-profits fund

Many of the Group's legacy life and pensions products are supported by the Group's with-profits fund. The traditional with-profits fund is a pooled investment which invests in a broad range of assets, including equities, real estate, fixed interest securities and deposits, both in the UK and abroad. In contrast to PruFund, for traditional with-profits policies, policyholders receive bonuses from the fund through annually declared bonuses (reversionary bonuses) and/or bonuses on maturity, surrender or death (terminal bonuses).

The with-profits fund is divided into three parts: With-Profits Sub-Fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund. The With-Profits Sub-Fund, where shareholders accrue 1/9th of the returns credited to policyholders by way of reversionary or terminal bonuses, is the largest of these parts. In contrast, the shareholder has no financial interest in the Scottish Amicable Insurance Fund or the Defined Charge Participating Sub-Fund beyond ongoing management fees.

Strategic asset allocation recommendations for the traditional with-profits fund are made by the Group's Investment Office and agreed by the PAC or Scottish Amicable Life Assurance Company board, as relevant. The majority of the traditional with-profits fund is managed by M&G. For further information regarding the Investment Office, section 5.1 (*The Group as asset owner and asset manager*) of this Part I (*Business and Market Overview*).

Over the last few years, the Group has focused on its popular PruFund products for new with-profits business, which has led to a decline of the AuMA in the traditional with-profits fund. For further information regarding the Group's PruFund products, see section 5.2(B)(ii) (*PruFolio and PruFund*) of this Part I (*Business and Market Overview*). As at 30 June 2019, the AuMA in the traditional with-profits business amounted to £90.6 billion, with net outflows of £5.3 billion, £5.5 billion and £5.4 billion during 2018, 2017 and 2016 respectively. Nonetheless, the traditional with-profits fund remains an important part of the Group's business, providing the Group with scale and the ability to rapidly deploy seed funding where it sees opportunities to generate superior returns.

(C) Annuities

(i) The Group's legacy annuity products

The Group previously sold individual conventional immediate annuities that were either fixed or retail price indexed, where annuity payments are guaranteed from the outset, or with-profits annuities, where annuity payments are variable dependent on the investment performance of underlying assets. The Group also offered bulk annuities, whereby it managed the assets and accepted the liabilities of a company pension scheme, usually when it was being wound up by the employer.

The Group's immediate annuity products provided guaranteed income for a specified period, usually the lifetime of the policyholder, in exchange for a lump sum capital payment. No surrender value (money paid to policyholders in the event they voluntarily terminate their policy) was available under any of these products and no value transfer to beneficiaries on death.

As at 30 June 2019, the Group's shareholder annuities business had £25.5 billion AuMA.

(ii) Withdrawal from selling annuities in the UK open market

The regulatory landscape for annuities has undergone significant change over the past few years. The Pension Schemes Act 2015, which gave pension savers greater flexibility on withdrawing their pension savings as they were no longer required to buy an annuity at retirement, fundamentally changed the UK pensions market and significantly reduced the demand for retail annuities. Furthermore, the Solvency II regulatory regime has made writing annuities more capital intensive. These regulatory changes led to the Group's decision to withdraw from selling annuities in the UK open market in 2016. As a result, the in-force annuity portfolio is being run-off.

The Group considers and implements different strategic measures to manage the run-off of the annuity business, including the de-risking of the portfolio to reduce the capital strain on the business, the reinsurance of tranches of liabilities and investment strategies designed to make the management of the annuity book more capital efficient. In March 2018, Prudential plc announced the reinsurance of the Annuity Portfolio to Rothesay Life. For further information regarding the Rothesay Life transaction, see section 5.5 (*Recent Developments*) of this Part I (*Business and Market Overview*).

(D) Corporate pensions and other legacy products

The Group has offered pension solutions to companies and organisations since 1929. The Group's corporate pension products are tax-advantaged long-term savings products designed to comply with rules established by HMRC and to supplement state-provided pensions. Prior to retirement, these products typically have minimal mortality risk to the Group and are primarily considered investment products. Many of the Group's corporate pension products are with-profits products or offer the option to have all or part of the contributions allocated to a with-profits fund. The remaining pension products are non-participating products, which include unit-linked products. The Group's corporate pensions customer base ranges from small unlisted companies to well-known UK household names, as well as a number of customers in the public sector.

Due to low margins and significant competition in the corporate pensions market, the Group has adopted a maintain strategy in respect of its corporate pensions business. As a result, new sales of corporate pension products represent top-ups to existing plans, new employees joining the corporate pension plan of an existing customer or sales to public sector customers. New sales are therefore expected to decline.

The Group also has a number of smaller legacy businesses such as individual pensions and income drawdowns. As at 30 June 2019, the corporate pensions and other legacy businesses had £14.6 billion AuMA.

5.5 Recent developments

(A) AuMA

Total AuMA at 30 June 2019 were £341.1 billion compared to £321.2 billion as at 31 December 2018, which represents a 6 per cent increase. This reflects £3.5 billion positive net flows to PruFund and favourable investment markets.

(B) Reinsurance of Annuity Portfolio to Rothesay Life

In March 2018, Prudential plc announced the reinsurance of the Annuity Portfolio to Rothesay Life, one of the largest specialist annuity providers in the UK market, with over £36 billion assets under management and insuring the annuities of over 770,000 individuals (as at 31 December 2018), by way of a collateralised reinsurance arrangement followed by the Scheme. The terms of the reinsurance arrangement transferred substantially all of the economic risk and capital requirements associated with the Annuity Portfolio to Rothesay Life, subject to a residual counterparty credit risk attaching to residual reinsurance receivables.

On 16 August 2019, the High Court declined to sanction the Scheme, despite the independent expert, who was appointed to report to the High Court, concluding that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. PAC and Rothesay Life have been granted leave to appeal the judgment. The High Court's judgment has no direct impact on the reinsurance with Rothesay Life and is not expected to have any material impact on the financial position or prospects of the Group.

(C) Merger and Transformation Programme

In August 2017, Prudential plc announced the Merger and Transformation Programme. The Transformation Programme involves a fundamental overhaul of, and significant investment in, the Group's operational, outsourcing and IT environment, which is expected to improve the Group's ability to respond to customer, regulatory, industry and technological developments. This includes the digital transformation and consolidation of the legacy systems in the Group's Heritage business, the creation of a multi-channel, multi-wrapper digital platform for the distribution of the Group's savings solutions, an upgrade of the Group's investment capabilities to increase efficiency and reduce marginal costs and the modernisation and improvement of the processes and systems that underpin the Group's control environment.

The Transformation Programme involves a number of initiatives, some of which have been completed and many of which are ongoing. These include:

- The outsourcing of the operation, monitoring and maintenance of the Group's core data centres and networks to Diligenta, a subsidiary of Tata Consultancy Services, which was completed in the second quarter of 2018. More than 2,400 employees have transferred to Diligenta as part of the outsourcing arrangement, and the scope of activities now undertaken by Diligenta includes customer service functions, distribution and finance services and IT services.

- The upgrade of the Group's asset management systems to the simplified and scalable Aladdin platform to increase efficiency and reduce marginal costs, which was completed in the second quarter of 2019.
- The consolidation and migration of the 14 legacy systems underpinning the Group's Heritage business to a single digital platform, which is expected to complete in 2021, but which is already leading to improved customer service and outcomes.
- The creation of a multi-channel, multi-wrapper digital platform for the distribution of the Group's savings products, which is expected to complete in 2020.
- The modernisation and improvement of the processes and systems which underpin the Group's control environment, including the IT infrastructure, actuarial modelling, finance and HR systems and the Group's support functions, which is expected to materially complete in 2022.

The Merger and Transformation Programme remains on track to deliver the full benefit of the total anticipated shareholder cost savings for the programme of approximately £145 million per annum by 2022. The total shareholder investment required to implement the Merger and Transformation Programme is expected to be approximately £250 million over the course of the five-year programme. For further information regarding the Merger and Transformation Programme, see section 2.2 (*The Merger and the Transformation Programme*) of this Part I (*Business and Market Overview*).

5.6 IT and support functions

As part of the Merger and Transformation Programme, the Group has built a set of unified corporate support services, including dedicated IT, finance, risk, legal and HR teams.

(A) IT

The Group maintains an IT environment tailored to its needs, as well as industry standard settlement and portfolio management systems which allow the business to operate efficiently. The Group's IT systems are a key area of focus of the Transformation Programme, which includes a fundamental overhaul of, and significant investment in, the IT environment. This is expected to strengthen the Group's control environment and improve the stability, performance and resilience of its IT systems. The Transformation Programme's key IT-related projects include:

- The outsourcing of the operation, monitoring and maintenance of the Group's core data centres and networks to Diligenta, a subsidiary of Tata Consultancy Services, which was completed in the second quarter of 2018.
- The upgrade of the Group's asset management systems to the simplified and scalable Aladdin platform to increase efficiency and reduce marginal costs, which was completed in the second quarter of 2019.
- The consolidation and migration of the 14 legacy systems underpinning the Group's Heritage business to a single digital platform, which is expected to complete in 2021, but is already leading to improved customer service and outcomes.
- The creation of a multi-channel, multi-wrapper digital platform for the distribution of the Group's savings products, which is expected to complete in 2020.

The Group believes that the platforms underpinning the majority of the key services provided by the Group have sufficient capacity to meet the business' near-term requirements.

The Group has also recognised that the risk of cyber-crime is increasing and that there is an increased expectation of IT resilience by the Group's regulators and customers. The Group has responded to this by increasing investment in the mitigation of these risks.

(B) Risk management and internal control

(i) Board ownership

The Board is responsible for establishing appropriate systems of risk management and internal control within the Group and for reviewing their effectiveness.

To discharge this responsibility, the Board has established a system of governance as well as a Group Risk Framework ("**GRF**") using the 'three lines of defence' model, which is designed to establish clear accountabilities and to protect the interests of the Group's customers, shareholders and other stakeholders. The Board also has a dedicated Risk Committee which assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite and limits, risk strategy, and risk culture. For further information regarding the Company's Risk Committee, see section 3.3 (*Board Committees)* in Part II (*Directors, Senior Managers, Corporate Governance and Remuneration*).

(ii) Internal control

The Board aims to maintain a sound system of internal control. The Group has established a Group Governance Framework as an integral part of meeting this objective and complying with the various regulatory regimes under which the Group operates.

The Group Governance Framework sets out the Group's approach to governance, sets out the rules and procedures for making decisions on corporate affairs and demonstrates the Group's internal control processes.

The Transformation Programme is expected to strengthen the Group's control environment. Parts of the Group's operational infrastructure, particularly in its Heritage business, are reliant on a large number of legacy systems spread over a complex supply chain. This has in the past limited the Group's ability to respond to changes in adviser and customer requirements and preferences, the introduction of new technologies and the emergence of new industry standards. The Transformation Programme involves a fundamental overhaul of, and significant investment in, the Group's operational, outsourcing and IT environment, which is expected to address these limitations. For further information regarding the Merger and Transformation Programme, see section 2.2 (*The Merger and the Transformation Programme*) of this Part I (*Business and Market Overview*).

(iii) Risk framework

The Board has developed the GRF. The GRF has been designed to identify, assess, measure, manage, monitor and report on the principal risks of the Group. Risk management is designed to increase the Group's understanding of the risks inherent in the business, improve decision-making and prevent the Group from failing to achieve its business objectives, including delivery of fair customer outcomes.

The GRF is codified through risk policies and business standards which set out the management framework for key risk types, including risk appetite, and minimum standards for the Group's operations. To ensure completeness and consistency when comparing risk information across the Group, a common methodology for categorising risk has been adopted.

Risk appetite is the amount and type of risk that is acceptable to the Group, as determined by the Board, and is a function of the Group's strategic and business objectives and its capital resources. Risk appetite therefore refers to the Group's attitude towards risk-taking and whether it is willing and able to tolerate either a high or a low level of specific risks or risk groups. As a result, risk appetite has a central role in informing decision-making across the Group and assisting in the optimisation of return on capital invested.

The Board delegates responsibility for day-to-day risk management to the Group's Chief Risk & Resilience Officer. This includes ensuring that the Group is aware of its key risks, defining an appropriate risk appetite with respect to the risks, and cascading this down into the Group through an appropriate risk management framework to define and embed a risk-aware culture. In turn, this enables management to take risks in a manner that is transparent and in line with the Group's business and risk strategy.

6. BRANDS

6.1 Operating brands

The Group markets its propositions through its two well established operating brands: Prudential and M&G Investments.

The Prudential brand is a key part of the Group's heritage, with its origins tracing back to 1848. The Directors believe that the Prudential brand stands for integrity, security and trust – values which remain central to the Group's business today. The Group uses the Prudential brand to sell its retail savings solutions in the UK and continental Europe, including the Retirement Account and the Prudential ISA.

The Company is party to a co-existence agreement with Prudential plc and Prudential Financial, Inc. ("**PFI**"), which sets out the terms of use of the PRUDENTIAL/PRU names and marks by Prudential plc, the Company and PFI (the "**Co-existence Agreement**"). Subject to Admission, the Co-existence Agreement gives the Company exclusive rights in the UK and Europe to the PRUDENTIAL/PRU names and marks, and restricts the Company's rights to use such names and marks outside of those territories to limited communications. In addition, and subject to transitional arrangements, the Co-existence Agreement requires the Company to adopt a new colour and logo for its Prudential brand and the parties agree to maintain distinctive branding. For further details about the Co-existence Agreement and related arrangements, see section 15 (*Material Contracts*) of Part IX (*Additional Information*).

The M&G brand was first used more than 80 years ago, when M&G launched the first unit trust in the UK in 1931. The Directors believe that the M&G Investments brand stands for conviction, energy and originality – values which underpin the Group's asset management offering. The Group uses the M&G Investments brand to sell its retail and institutional asset management products. The M&G Investments brand is well established in its core European markets; remaining in the top 10 Fund Buyer Focus brands in Europe since 2011.

6.2 Corporate brand

The M&GPrudential corporate name was adopted as part of the Merger in early 2018, followed by an update to the Group's corporate identity in November 2018 to reflect the M&GPrudential corporate name.

In anticipation of the Demerger, the Group changed its corporate name to M&G plc on 16 September 2019, building on an already powerful international financial brand and helping to further distinguish the Group. The name M&G plc will also make it easier for the Group's key stakeholders to search and follow the Group online, enabling the Group to optimise its digital engagement globally. The Group is updating its corporate identity to reflect the M&G plc corporate identity in conjunction with the Demerger.

7. DIVIDEND POLICY

The Board considers dividends to be an important component of total shareholder return. Dividends will be set by the Directors taking into account the Company's overall financial position, including its level of regulatory surplus, liquidity position, leverage position, level of interest cover and quality of capital.

Subject to the Company's overall financial position, the Directors would typically expect:

(A) dividends to be stable or increasing in absolute terms over time; and

(B) interim dividends to be formulaic and calculated as one third of the previous year's full year dividend.

Over the longer term, the level of dividend is expected to develop broadly in line with the Company's ability to generate capital.

At the Directors' discretion, special dividends may be paid to M&G Shareholders in addition to ordinary dividends. Any such special dividends would be expected to be paid only if the Directors consider that the Company's overall financial position, as defined above, was stronger than necessary to support its business and financial needs.

The Board currently expects to declare a 2019 ordinary dividend of around £310 million, subject to the Company's financial performance and overall financial position remaining in line with expectations. Based on the expected number of M&G Shares at Admission, this is equivalent to about 11.92 pence per share. The dividend is expected to be paid to M&G Shareholders in May 2020, in accordance with the Company's proposed financial calendar. The expected 2019 ordinary dividend is consistent with the Board's dividend policy, as described above, being broadly two thirds of the amount that the Board would have anticipated paying in respect of 2019 on a standalone basis under its new dividend policy.

At the same time and subject to the same conditions, the Board expects to declare a one off demerger related dividend of around £100 million. Based on the expected number of M&G Shares at Admission, this is equivalent to about 3.85 pence per share. This is in recognition that, for the majority of the 2019 financial year, the Company was operating without incurring certain costs, e.g. debt interest costs, which it would expect to bear in future and which have been allowed for in determining the initial level of ordinary dividend.

PART II

DIRECTORS, SENIOR MANAGERS, CORPORATE GOVERNANCE AND REMUNERATION

1. DIRECTORS

The Directors and their principal functions within the Company, together with a brief description of their management experience and expertise and principal business activities outside the Company, are set out below. The business address of each of the Directors (in such capacity) is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.

Name	Position	Age
Mike Evans	Chair	58
John Foley	Chief Executive Officer	62
Clare Bousfield	Chief Financial Officer	51
Caroline Silver	Senior Independent Non-Executive Director	56
Clive Adamson	Non-Executive Director	63
Robin Lawther	Non-Executive Director	58
Clare Thompson	Non-Executive Director	64

The management experience and expertise of each of the Directors is set out below.

Mike Evans

Mike Evans was appointed as Chair in October 2018. Mr Evans has over 36 years of savings and investments experience, including more than 11 years on the board of Hargreaves Lansdown plc, eight of which as chair. He was previously chair of ZPG plc until July 2018, and served as non-executive director of Chesnara plc, esure plc and CBRE Global Investors UK. He is also non-executive chair of Just Eat plc. A qualified actuary, Mr Evans spent 20 years at Skandia UK earlier in his career, rising to become Chief Operating Officer.

John Foley

John Foley was appointed Chief Executive in August 2017, having spent 17 years within the Prudential Group in a number of senior roles, including Chief Executive Officer of Prudential Capital and Group Chief Risk Officer, Group Investment Director and, most recently, Chief Executive Officer of Prudential UK & Europe. In January 2016 he re-joined the Prudential Board, having already served a previous term while Group Chief Risk Officer. Prior to joining the Prudential Group, Mr Foley spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury for the combined TSB and Hill Samuel Bank. Before joining the Prudential Group, Mr Foley also spent three years as general manager, global capital markets, at National Australia Bank.

Clare Bousfield

Clare Bousfield was appointed Chief Financial Officer in August 2018. Ms Bousfield joined Prudential UK and Europe as Chief Executive Officer of PAC in November 2016. She was previously Chief Financial Officer at Aegon UK and led the strategic review and transformation of Aegon's UK business. Ms Bousfield has over 25 years' experience in the insurance and financial services industries, including serving as Chief Financial Officer of Swiss Re's UK & Ireland and Africa business units. She is a qualified accountant, having trained and worked at PwC.

Caroline Silver

Caroline Silver was appointed as the Senior Independent Non-Executive Director in March 2019. An investment banker with an executive career spanning over 30 years, most recently as a Managing Director at Moelis & Company, Ms Silver has extensive experience of advising global financial institutions and regulators across Europe. She is non-executive chair of PZ Cussons plc, a non-executive director of Bupa and Meggitt plc and a trustee of the Victoria & Albert Museum. She started her career as a chartered accountant at PwC.

Clive Adamson

Clive Adamson was appointed as an independent non-executive Director and chair of the Risk Committee in March 2019. Mr Adamson has considerable experience of UK and global economic, banking and regulatory matters gained from an extensive career in banking, and financial services regulation, including senior executive and advisory positions with the FCA and its predecessor, the Financial Services Authority. He is a non-executive director of PAC, J.P. Morgan Securities plc, CYBG plc and Ashmore Group plc and a Senior Advisor at McKinsey & Company.

Robin Lawther

Robin Lawther was appointed as an independent non-executive Director and chair of the Remuneration Committee in March 2019. Ms Lawther is an international investment banker with extensive experience of global markets and financial institutions, having previously worked at J.P. Morgan for over 20 years, specialising in mergers and acquisitions and capital raising. She is a non-executive director of Nordea Bank ABP, UK Government Investments, Ashurst LLP and Oras Invest Oy.

Clare Thompson

Clare Thompson was appointed as an independent non-executive Director and chair of the Audit Committee in May 2019. Ms Thompson is an experienced non-executive director with a deep understanding of the insurance sector. With extensive financial services and audit experience, Ms Thompson spent 23 years as lead audit partner on major financial services groups at PwC, predominantly in the insurance and investment sectors. She is a non-executive director of Bupa and a Fellow of the Institute of Chartered Accountants in England and Wales.

2. SENIOR MANAGERS

In addition to the Directors, the current members of the senior executive team with responsibility for day-to-day management of the Group's business are set out below. The business address of each of the Senior Managers (in such capacity) is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.

Name	Position	Age
John Foley	Chief Executive Officer	62
Clare Bousfield	Chief Financial Officer	51
Keith Davies	Chief Risk & Resilience Officer	51
Jonathan (Jack) Daniels	Chief Investment Officer	56
Roddy Thomson	Chief Operating Officer	39
Graham Mason	Chief International Officer	57
Irene McDermott Brown	Chief HR Officer	59
Alan Porter	General Counsel and Company Secretary	56
Julian Adams	Director, Public Policy and Regulation	54
David Macmillan	Chief Customer & Distribution Officer	51

The management experience and expertise of each of the Senior Managers is set out below.

John Foley

See section 1 (*Directors*) of this Part II (*Directors, Senior Managers, Corporate Governance and Remuneration*) for John Foley's biography.

Clare Bousfield

See section 1 (*Directors*) of this Part II (*Directors, Senior Managers, Corporate Governance and Remuneration*) for Clare Bousfield's biography.

Keith Davies

Keith Davies was appointed as Chief Risk & Resilience Officer in July 2019, having served as Chief Risk and Compliance Officer since November 2017. Mr Davies joined Prudential plc in 2011 as Audit Director for Risk, before becoming Chief Risk Officer for Prudential Capital plc and Prudential Portfolio Management Group Limited in early 2014 and Director of Prudential Group-wide Internal Audit in September 2015. Prior to joining the Prudential Group, Mr Davies initially worked as a management consultant, before starting a 20-year career in financial services, including spells at Standard Chartered, Standard Bank and Deutsche Bank in risk management and internal audit, the role of Lead Economist for the Americas for Standard Chartered, and two years in the policy team at the Financial Services Authority.

Jonathan (Jack) Daniels

Jack Daniels was appointed as Chief Investment Officer in March 2019. Mr Daniels joined M&G in 2001 to help establish Prudential Capital, the in-house treasury and investment arm of Prudential plc, before becoming Chief Investment Officer of Prudential UK. He has over 30 years of treasury and investment experience, beginning his career with Hill Samuel in 1985, before going on to run the Treasury and Investment functions at National Australia Bank in Europe. He has also been Group Treasurer for Prudential plc.

Roddy Thomson

Roddy Thomson was appointed as Chief Operating Officer in March 2019, having joined Prudential UK in August 2017 as Chief Operating Officer and Managing Director of the Heritage business. Mr Thomson was previously Chief Operating Officer at BT Openreach. He has also worked with many leading FTSE and global organisations specialising in operationally-led customer service transformations, having previously worked in consulting for over a decade at Ernst & Young and Accenture.

Graham Mason

Graham Mason was appointed as Chief International Officer in March 2019. Mr Mason joined the Prudential Group in 1990, going on to undertake a number of asset management roles, including Chief Investment Officer, Equities, Multi-Asset, Retail Fixed Income, and Chief Executive, Equities at M&G Investments, Chief Executive of Eastspring Investments (Prudential's Asian fund management business), and Chief Executive of Prudential Portfolio Managers South Africa. Mr Mason has broad experience in asset management across both geography and asset class. As an investment professional, he has managed equity, fixed income and multi asset portfolios, and as an executive, has in addition to these three asset classes, had responsibility for real estate, private equity and alternative assets. Prior to joining the Prudential Group, he worked at Old Mutual and Norwich Union.

Irene McDermott Brown

Irene McDermott Brown was appointed as Chief Human Resources Officer in September 2017. Ms McDermott Brown joined Prudential UK & Europe in October 2016 from Barclays, where she was Group Human Resources Director. She has also held senior roles at BP and Cable & Wireless, as well as running her own consultancy business.

Alan Porter

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

Julian Adams

Julian Adams was appointed Director, Public Policy and Regulation in July 2019. He previously held the role of Group Regulatory & Government Relations Director at Prudential plc, having joined the Prudential Group in January 2015 after a career at the Bank of England and the Financial Services Authority. He held a senior role in banking supervision during the financial crisis and served as Executive Director of Insurance Supervision for the Bank of England. During that time he also chaired the Financial Stability Committee of the International Association of Insurance Supervisors and sat on its Executive Committee. He was also the UK's board member of The European Insurance and Occupational Pensions Authority as well as a member of its managing board. He sits on the board of the Association of British Insurers and between 2014 and 2017 was also a member of the CASS Building School's Strategy and Advisory Board.

David Macmillan

David Macmillan was appointed Chief Customer and Distribution Officer in June 2019. Prior to that Mr Macmillan was Managing Director, Prudential UK & Offshore, having joined the business in May 2017 from Transamerica, part of the Aegon Group, where he was Chief Marketing Officer. He has over 25 years' financial services experience spanning life, pensions, retail investment and retail banking with 18 years' spent in senior management.

3. THE BOARD AND CORPORATE GOVERNANCE

The Company is firmly committed to high standards of corporate governance and maintaining a sound framework for the control and management of the Group's business. In anticipation of Admission, the Board has appointed new Directors and adopted a number of measures with regard to its governance arrangements in order to be in a position to comply with the principles and provisions of the UK Corporate Governance Code on Admission.

3.1 The Board

The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the Group's business and its strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place), and for the approval of any changes to the capital, corporate and/or management structure of the Group.

3.2 Compliance with corporate governance requirements

(A) Compliance with UK Corporate Governance Code

From Admission, the UK Corporate Governance Code will apply to the Group and the Group will comply, and intends to continue to comply, with the UK Corporate Governance Code.

(B) Board and Committee independence

The UK Corporate Governance Code recommends that at least half the board of directors of a UK listed company (excluding the chair) should comprise 'independent' non-executive directors, being individuals determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. It also recommends that a UK listed company should establish remuneration and audit committees of independent non-executive directors, each comprising at least three members, as well as a nomination committee, the majority of members of which should be independent non-executive directors.

From Admission, the Board will comprise seven members: the Chair, two executive Directors and four non-executive Directors. The Board considers Mike Evans, Caroline Silver, Clive Adamson, Robin Lawther and Clare Thompson to be independent for the purposes of the UK Corporate Governance Code. The Board therefore considers that the Company complies with the relevant requirements of the UK Corporate Governance Code in relation to the balance of executive and independent non-executive Directors on the Board and with the requirements for the composition of the Company's Audit Committee, Remuneration Committee and Nomination Committee.

(C) Senior Independent Non-Executive Director

The UK Corporate Governance Code also recommends that the board of directors of a UK listed company should appoint one of its independent non-executive directors to be the senior independent non-executive director. The senior independent non-executive director should provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. He or she should be available to shareholders if they have concerns that the normal channels of chair, chief executive officer or other executive directors have failed to resolve or for which such channel of communication is inappropriate. Caroline Silver has been appointed as the Company's Senior Independent Non-Executive Director.

(D) Re-election

The UK Corporate Governance Code recommends that all directors of UK listed companies should be subject to annual re-election. The Directors therefore intend to put themselves up for election at the Company's next annual general meeting (expected to be held in the second quarter of 2020). It is also intended that the Directors will continue to put themselves up for annual re-election voluntarily at each further annual general meeting of the Company. In addition, prior to recommending their re-election to M&G Shareholders, the Board intends to carry out an annual re-assessment of the ongoing independence of each of the non-executive Directors and to make an appropriate statement disclosing their status in the Company's annual report.

3.3 Board Committees

The Board has established a number of committees, whose terms of reference are documented formally and updated as necessary. If the need should arise, the Board may set up additional committees as appropriate.

(A) Audit Committee

The Audit Committee is chaired by Clare Thompson, and its other members are Clive Adamson and Caroline Silver. The Audit Committee meets at least four times a year, and otherwise as the Audit Committee's role and responsibilities require.

The Audit Committee's terms of reference state that the Audit Committee must comprise a minimum of three members all of which must be independent non-executive Directors, of whom at least one must have significant, recent and relevant financial experience and one must also be the Chair of the Risk Committee. The Chair is not eligible to be a member. Appointments to the Audit Committee are made by the Board, on recommendation by the Nomination Committee in consultation with the chair of the Audit Committee. The Audit Committee as a whole should have competence and relevant management experience in investment management and insurance savings. The Board considers Clare Thompson, Clive Adamson and Caroline Silver to have such experience.

The responsibilities of the Audit Committee include but are not limited to: (i) receiving and reviewing reports from the Company's external auditors, monitoring their effectiveness and independence and making recommendations to the Board in respect of their remuneration, appointment and dismissal; (ii) monitoring and reviewing internal audit activities, reports and findings; (iii) reviewing the financial statements of the Company; and (iv) reviewing, on behalf of the Board, the effectiveness of the Group's system of internal financial controls and internal control systems.

Only members of the Audit Committee have the right to attend Audit Committee meetings. However, other individuals such as Chief Financial Officer, Chief Auditor and the External Auditor may be invited to attend. Other non-members may be invited to attend all or any part of any meetings as and when the chair of the Audit Committee considers it appropriate.

When appropriate, the Audit Committee will meet with the Group's senior managers and/or internal or external auditors in attendance. The Audit Committee will also meet separately at least once a year with the Group's external and internal auditors without management present.

The Audit Committee will also prepare a report describing the activities of the Audit Committee to be included in the Company's annual report. The chair of the Audit Committee will be available at annual general meetings of the Company to make a statement on the Audit Committee's activities and to respond to questions from M&G Shareholders on matters within the Audit Committee's area of responsibility.

The Audit Committee has considered and adopted a policy on the provision of non-audit services by external auditors and procedures to protect auditors' independence and objectivity.

(B) Risk Committee

The Risk Committee is chaired by Clive Adamson, and its other members are Clare Thompson, Caroline Silver and Robin Lawther. The Risk Committee meets at least four times a year, and otherwise as the Risk Committee's role and responsibilities require.

The Risk Committee's terms of reference state that the Risk Committee must comprise at least three members, including the Chair of the Audit Committee, all of whom must be independent non-executive Directors. The Chair is not eligible to be a member. Appointments to the Risk Committee are made by the Board, on recommendation by the Nomination Committee in consultation with the chair of the Risk Committee. All members must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and risk appetite of the Company and the Group.

The responsibilities of the Risk Committee include but are not limited to: (i) advising the Board on the Company's risk strategy, risk policies and current risk exposures, including any prudential risks; (ii) overseeing the implementation and maintenance of the overall risk management framework and systems; (iii) overseeing the Company's procedures for detecting fraud, preventing bribery and non-compliance; and (iv) reviewing the Company's risk assessment processes and capability to identify and manage new risks.

Only members of the Risk Committee have the right to attend Risk Committee meetings. However, other individuals such as the Chief Financial Officer and the Chief Risk & Resilience Officer may be invited to attend. Other non-members may be invited to attend all or any part of any meetings as and when the chair of the Risk Committee considers it appropriate.

The Risk Committee will also prepare a report describing the activities of the Risk Committee to be included in the Company's annual report. The chair of the Risk Committee will be available at annual general meetings of the Company to respond to questions from M&G Shareholders on the Risk Committee's activities.

(C) Remuneration Committee

The Remuneration Committee is chaired by Robin Lawther, and its other members are Caroline Silver and Clare Thompson. The Remuneration Committee meets at least four times a year, and otherwise as the Remuneration Committee's role and responsibilities require.

The Remuneration Committee's terms of reference state that the Remuneration Committee must comprise at least three independent non-executive Directors. The Chair may be a member of the Remuneration Committee (but may not chair the Remuneration Committee) provided he or she was considered independent on appointment as Chair. Appointments to the Remuneration Committee are made by the Board, on recommendation by the Nomination Committee in consultation with the chair of the Remuneration Committee.

The chair of the Remuneration Committee is appointed by the Board, on recommendation by the Nomination Committee. In accordance with the UK Corporate Governance Code, the chair should have served on a remuneration committee for at least 12 months. On Admission, Robin Lawther will satisfy this provision of the UK Corporate Governance Code, having served as the chair of the Remuneration Committee at Nordea Bank since 2017.

The responsibilities of the Remuneration Committee include but are not limited to: (i) establishing, approving and maintaining the principles and framework of the remuneration policies of the Group and ensuring compliance with those policies; and (ii) determining the design, implementation and operation of remuneration arrangements, including, where relevant, benefits and pension arrangements, for the Chair, the Directors, members of senior management, individuals identified as Solvency II staff and material risk takers and other individuals whose total annual remuneration exceeds £1 million or another amount determined by the Remuneration Committee from time to time.

The Remuneration Committee will also prepare a report describing the activities of the Remuneration Committee to be included in the Company's annual report. The chair of the Remuneration Committee will be available at annual general meetings of the Company to respond to questions from M&G Shareholders on the Remuneration Committee's activities.

(D) Nomination Committee

The Nomination Committee is chaired by Mike Evans, and its other members are Robin Lawther and Caroline Silver. The Nomination Committee meets at least two times a year, and otherwise as the Nomination Committee's role and responsibilities require.

The Nomination Committee's terms of reference state that the Nomination Committee must comprise at least three members, the majority of whom are independent non-executive Directors. The Chair may be a member of the Nomination Committee but may not chair the Nomination Committee when it is dealing with the appointment of his or her successor. Appointments to the Nomination Committee are made by the Board.

The responsibilities of the Nomination Committee include but are not limited to: (i) reviewing the size, structure and composition of the Board and ensuring that the Board comprises the right balance of skills, knowledge, diversity and experience; (ii) identifying and nominating for approval candidates to fill any vacancies on the Board; (iii) giving full consideration to succession planning for the Group; and (iv) making recommendations to the Board concerning membership of the Audit Committee, the Risk Committee and the Remuneration Committee.

Only members of the Nomination Committee have the right to attend Nomination Committee meetings. However, other individuals such as the Chief Executive Officer, the Chief HR Officer and external advisers (including specialist search consultants) may be invited to attend all or any part of meetings as and when the chair of the Nomination Committee considers it appropriate.

The Nomination Committee will also prepare a report describing the activities of the Nomination Committee to be included in the Company's annual report. The chair of the Nomination Committee will be available at annual general meetings of the Company to respond to questions from M&G Shareholders on matters within the Nomination Committee's area of responsibility.

4. REMUNERATION AND PENSION BENEFITS

Details regarding remuneration of Directors are set out in section 9 (*Directors' service contracts and letters of appointment*) of Part IX (*Additional Information*).

PART III
OPERATING AND FINANCIAL REVIEW

This Part III (Operating and Financial Review) should be read in conjunction with the section entitled "Important Notices", as well as Part I (Business and Market Overview) and Schedule II (Historical Financial Information). The financial information contained in this Part III (Operating and Financial Review) is extracted from the financial information set out in the Historical Financial Information.

The following discussion of the Group's results of operations and financial condition contains certain forward-looking statements. The Group's actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed elsewhere in this Prospectus, particularly in the section entitled "Risk Factors".

This discussion and analysis contains forward-looking statements that are subject to known and unknown risks and uncertainties. The Group's actual results and the timing of events could differ materially from those expressed or implied by such forward looking statements as a result of various factors, including those discussed elsewhere in this Prospectus. The Group does not undertake any obligation to revise or publicly release the results of any revision to these forward-looking statements.

1. OVERVIEW

The Group is a leading savings and investments business. It serves around 5.5 million retail customers, who want to build and protect their life savings, and provides investment solutions to more than 800 institutional clients. The Group's innovative asset management and customer solutions are supported by its extensive investment capabilities, an international distribution network and two strong brands: Prudential and M&G Investments. The Group operates internationally and distributes its products across 28 markets through a network of 20 offices. In the UK and continental Europe, the Group provides a range of long-term savings and investment solutions, including PruFund. In the Americas, Africa, Asia and Australia, the Group also provides asset management solutions. As at 30 June 2019, the Group's AuMA totalled £341.1 billion.

The Group operates across two operating segments: Savings & Asset Management and Heritage. The Savings & Asset Management segment, with £210.4 billion AuMA as at 30 June 2019, comprises the Group's retail savings (including PruFund) and asset management business as well as its institutional asset management business. The Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses.

1.1 Savings & Asset Management

The Group offers a variety of savings and asset management solutions to its retail customers, including the Retirement Account (an online account-based plan that contains both a savings and drawdown feature), ISAs, bonds and a broad range of investment funds. Most of the Group's retail savings solutions allow retail customers to invest in the Group's PruFund propositions, investment funds which offer individuals different rates of smoothed return aligned with their tolerance for risk.

The Group also offers a diversified range of actively managed mutual funds spanning the public markets, including cash, fixed income, international equities and real estate. These mutual funds are made available to retail customers through either UK domiciled OEICs or Luxembourg domiciled SICAVs. They are distributed to retail customers using the Group's many business-to-business relationships in the UK, Europe, the Middle East & Africa, Asia-Pacific and the Americas.

The Group's institutional asset management business offers clients access to a diverse range of fixed income and real estate investment products and services through segregated mandates and pooled funds. The institutional asset management business aims to help pension funds, sovereign wealth funds and other large institutional investors match liabilities and achieve their growth targets. It has a client-centric approach which focuses on offering solutions to solve clients' problems and on building and maintaining client trust by delivering on performance expectations. This approach has seen the AuMA from external institutional clients increase significantly over the last decade, from £22 billion as at 31 December 2008 to nearly £75 billion as at 30 June 2019.

1.2 Heritage

The Group's Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses. It also includes a number of smaller legacy businesses such as individual pensions and income drawdowns. In response to regulatory and market changes over the past decade, the Group has shifted new business sales away from the capital-intensive annuity business and corporate pensions to focus on other products. The majority of the products in the Group's Heritage segment are therefore closed to new customers, although top-ups from existing policyholders are permitted. Furthermore, these products still generate significant cash flow and adjusted operating profit before tax (£474 million of adjusted profit before tax for the six months ended 30 June 2019, £1,162 million of adjusted operating profit before tax in the year ended 31 December 2018, £483 million of adjusted operating profit for the six months ended 30 June 2018 and £847 million in the year ended 31 December 2017).

2. CURRENT TRADING AND PROSPECTS

Since 30 June 2019, the Group has continued to trade in line with the Directors' expectations. Overall the Directors continue to remain confident in the Group's prospects.

The Group is an asset owner and asset manager, operating in attractive markets underpinned by long-term favourable trends and strong growth prospects, in particular ageing populations and the shift of responsibility for retirement to the individual. Total AuMA grew by 6 per cent in the six months ended 30 June 2019 to £341.1 billion. The Group's savings and asset management operations are well positioned in with-profits savings, retail asset management and institutional asset management, while its annuity and other insurance operations have a large customer base with long duration products.

Since 30 June 2019, equity markets have remained volatile, with significant investor risk aversion amid political uncertainties, which is impacting asset management flows. The Group's Savings & Asset Management segment experienced net client outflows of £1.4 billion in the six months ended 30 June 2019 and these outflows have continued since 30 June 2019. The Group continues to focus on growth initiatives, including strengthening its sub-advisory offering, which is expected to improve the stability of flows. At the same time, the Group's PruFund proposition has continued to experience positive net flows and the profitability on this business is expected to increase as the book matures.

Interest rates have also been volatile and are currently lower than at 30 June 2019. While this has impacted the Group's capital position, it has remained well within risk appetite.

The Group has continued to see outflows in its Heritage business since 30 June 2019 as payments are made to annuity policyholders and withdrawals are made from traditional with-profits policies. The profitability of the Heritage business is expected to remain stable in the medium term, with a gradual reduction in the longer term as this business runs off.

The Group has continued to drive transformation to improve customer experience, enable growth and capture efficiencies.

3. KEY FACTORS AFFECTING THE GROUP'S RESULTS

The Group's results of operations and financial condition are affected by a variety of factors, a number of which are outside the control of the Group. Set out below is a discussion of the most significant factors that have affected the Group's financial results during the periods under review and which the Group currently expects to affect its financial results in the future. Factors other than those presented below could also have a significant impact on the Group's results of operations and financial condition in the future.

3.1 Market conditions

The Group's business is inherently subject to market fluctuations and general economic conditions. Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on the Group's business and profitability. Market risk exposure arises from the valuation of the shareholder's proportion of future policyholder bonus payments which depend on equity, property and bond values as further described in Note 28 in the Historical Financial Information.

The Group's annuity contracts are subject to interest rate risk which arises from the requirement to match the cash flows of annuity obligations with those from investments. Falling interest rates may also increase the amount of regulatory capital that the Group is required to hold. Interest rates in the UK, and other countries in which the Group operates, remain close to historical low levels. While the Group no longer sells annuities in the UK open market and has taken a number of steps to reduce the risk to in-force annuities, interest rates remain a risk to the capital strength and profitability of the Group.

Market changes and fluctuations may affect general levels of economic activity, employment and customer behaviour. As a result, the Group may experience an elevated incidence of claims, lapses or surrenders of policies and some policyholders may choose to defer or stop paying premiums. Economic uncertainty and volatility may also have a material adverse effect on the Group's asset management business, which is affected by customer behaviour, adviser views on suitability of investments and the performance of capital markets. This environment could lead to significant capital outflows for asset managers and could have a negative impact on the asset management sector and may consequently have a negative impact on the Group's business and profitability.

While the Group has benefitted from favourable equity markets in 2016 and 2017, IFRS profit before tax was impacted by volatile financial markets in 2018. The long-term nature of much of the Group's operations means that the effects of short-term economic volatility are treated as adjusting items. The impact of short-term investment fluctuations on an IFRS basis was a £3 million loss for the year ended 31 December 2018 and a £364 million profit for the six months ended 30 June 2019. For further information, see section 4.3(B) (*Reconciliation of total profit after tax to adjusted operating profit before tax*) of this Part III (*Operating and Financial Review*).

3.2 Brexit

The UK's decision to leave the EU may adversely impact economic conditions, increase market volatility, increase political and regulatory uncertainty and cause operational disruption (including reduced access to EU markets), which could have adverse effects on the Group's business and profitability.

The terms under which the UK will leave the EU and the nature of the future relationship between the UK and EU remains a key political uncertainty. If no formal withdrawal agreement is reached between the UK and the EU, then it is currently expected that the UK's membership of the EU will automatically terminate on 31 October 2019 unless a further extension is agreed between the UK and EU. The Group has developed plans to mitigate business risks arising from Brexit and to engage with national bodies in order to ensure the Group's policyholders are not adversely impacted. The Group has also taken active steps to mitigate these business risks, including the transfer of £21 billion of the Group's key European fund offerings into new Luxembourg-based SICAVs in 2018. The Group is therefore well positioned to minimise any potential disruption for its European customers and clients stemming from Brexit, while also creating a more flexible and robust platform for international growth.

The Group incurred costs of £27 million in 2018 in preparing for Brexit, including the migration of fund assets to the Luxembourg-domiciled SICAV platform.

3.3 Developing trends and technological advances

The Group's businesses are conducted in highly competitive environments with developing demographic trends. Continued profitability depends upon management's ability to respond to these pressures and trends. The Group believes competition will intensify across all regions in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors.

The changes in the retail asset management market are a good example of the impact of these developments on the Group. Flexible, cheap, passive exchange-traded funds are expected to continue to grow, primarily led by demand from younger investors, and also as a result of the rising popularity of “robo-advisers” and other forms of digital advice, which are expected to further increase the take up of these inexpensive funds globally. This is leading to a level of margin compression across the whole asset management industry which the Group expects to continue, particularly over the next five years.

3.4 Investment performance

Investment performance can impact inflows and outflows of AuMA, because customers and intermediaries are generally attracted to asset management products with a consistent, strong investment performance track record. The Group’s largest with-profits sub-fund delivered annualised returns of 8.6 per cent between 2009 and 2018 compared to 6.1 per cent annualised returns of the ABI Mixed Investment 20-60 per cent Shares Sector Average. This is driven by diversification of the portfolio, investment capabilities, and the unconstrained asset allocation which is fundamentally driven by the strength and the size of the fund.

The with-profits fund has enabled the Group to develop new investment strategies based on private asset investments, such as real estate, infrastructure assets and private debt. These types of investment strategy remain comparatively resilient to fee pressure because they are not easy for passive investment managers to replicate as they involve securing real and private assets. The Group’s institutional asset management solutions are consistently delivering for clients, with 86 per cent of solutions achieving their investment objectives over the three years ended 30 June 2019. Mutual funds performance has been strong with 43 per cent of the Group’s AuMA in the first quartile and 32 per cent in the second quartile in the three years to June 2019.

3.5 Longevity/mortality rates

The Group needs to make assumptions about a number of factors in determining the pricing of its products, setting reserves and when reporting its capital levels and the results of its long-term business operations. Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect the Group’s operational results. For example, the assumption that the Group makes about future expected levels of mortality is particularly relevant for its annuities, where payments are guaranteed for at least as long as the policyholder is alive. The Group conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, the Group assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries.

The Group’s IFRS profit and adjusted operating profit before tax for the year ended 31 December 2018 and six months ended 30 June 2019 include the favourable impact of longevity assumption changes, contributing £441 million in the year ended 31 December 2018 and £127 million in the six months ended 30 June 2019. This has arisen due to changes to annuitant mortality assumptions reflecting recent mortality trends, which have shown a slowdown in life expectancy improvements in recent periods, and the adoption of an updated CMI model.

3.6 Government policy, legislation and regulation

The Group is subject to detailed and comprehensive regulation in each of the jurisdictions in which it conducts business. Changes in government policy, legislation or regulation applying to companies in the financial services industry in any of the jurisdictions in which the Group operates, particularly in the United Kingdom, has historically impacted and may continue to impact the Group’s results of operations.

Complying with regulatory changes has historically, and may in the future, lead to increased operating and administrative expenses. Recent and ongoing regulatory and accounting standards changes include MiFID II, Solvency II and IFRS 17 ('Insurance Contracts'). These changes could make it more expensive for the Group to conduct its business, require that the Group make changes to its business model, require that the Group satisfy increased capital requirements, necessitate time-consuming and costly implementation measures or subject the Group to greater regulatory scrutiny.

The Group is also subject to regulatory reviews, whether as part of an industry-wide review, a firm-specific assessment or otherwise. The outcome of such reviews, though difficult to predict, could have an impact on the Group's results of operations. For example, possible outcomes include a requirement to compensate customers for losses or certain costs they have incurred as a result of the products they were sold or services they received or the initiation of regulatory enforcement action against the Group, potentially including the imposition of a fine. Further, even if the Group is not named specifically, these reviews could negatively impact the Group's reputation or demand for the Group's products.

Following TRASP, PAC is reviewing annuities sold without advice between 1 July 2008 and 30 September 2017 to its contract-based defined contribution pension customers, under the oversight of the FCA. The review is examining whether customers were given sufficient information about their potential eligibility for an enhanced annuity with PAC or another provider and about the possibility of obtaining a higher income from an enhanced annuity from another provider. PAC is in the process of contacting potentially affected customers and will provide redress, where appropriate. A provision of £175 million was established to cover the costs of undertaking the review and any related redress in 2016 and increased by £225 million to £400 million in 2017. In 2018, income of £166 million was recognised, being the agreed recovery from the Group's professional indemnity insurers. The provision has been used to meet redress costs in the year ended 31 December 2018 and the six months ended 30 June 2019. The provision balance as at 30 June 2019 was £261 million. The ultimate amount that will be expended on the review will remain uncertain until the project is completed, and this provision could increase or decrease if the costs of undertaking the review or the population subject to redress increases or decreases. In addition, the FCA has been conducting an enforcement investigation in relation to historic non-advised annuity sales, which is currently in stage 1 (stage 1 is where the FCA seeks to resolve its findings by agreement in which case a discount of 30% is applied to any financial penalty imposed). This enforcement investigation may result in the Group agreeing to a financial penalty, however this is not expected to have a material impact on the Group's financial position or prospects.

The fundamentals underpinning the UK's retirement market are changing. Risk and responsibility for retirement provision continues to transfer away from the state and employers to individuals. The new flexible arrangements introduced by pensions freedoms in 2015 provide customers with significantly more control and flexibility over how their pensions are invested. There has been a shift away from a reliance on capital-intensive annuity business to a focus on bond, ISA, pension and income drawdown products across a range of tax-efficient solutions. The Retirement Account has proven extremely popular in the three years since its launch, with AuMA of £16 billion as at 30 June 2019.

3.7 The Demerger and becoming a publicly listed company

The Group has undertaken a number of actions as part of the Demerger to create the infrastructure necessary to operate as an independent publicly listed company. These actions include enhancing the independent corporate functions and governance following the completion of a number of separation initiatives, including a fully established Board, and building capability within head office functions to support a publicly listed group. As a consequence of the Demerger, the Group expects to incur recurring fixed costs of around £190 million per annum to service the Tier 2 subordinated debt to be transferred to the Company as part of the Debt Substitution and head office and group function costs in the range of £80 million to £100 million per annum. These additional head office costs have started to impact administrative and other expenses in the six months ended 30 June 2019 (see section 4.2(C) of this Part III (*Operating and Financial Review*)).

3.8 The Merger and Transformation Programme

In August 2017, the Group announced the Merger and Transformation Programme, which involves a fundamental overhaul of, and significant investment in, the Group's operational, outsourcing and IT environment. The key aims of the Transformation Programme are to improve the experience and outcomes for customers, while strengthening the Group's resilience and control environment, and positioning the Group for future growth. The Merger and Transformation Programme are also expected to restructure the Group's cost base, with the full benefit of the anticipated shareholder cost savings for the programme of approximately £145 million per annum expected to be achieved by 2022. The total shareholder investment required to implement the Merger and Transformation Programme is expected to be approximately £250 million over the course of the five-year programme.

The Transformation Programme involves a number of initiatives, some of which have been completed and many of which are ongoing. These include the outsourcing of the operation, monitoring and maintenance of the Group's core data centres and networks to Diligenta, a subsidiary of Tata Consultancy Services, which was completed in the second quarter of 2018. More than 2,400 employees have transferred to Diligenta as part of the outsourcing arrangement and the scope of activities now undertaken by Diligenta include customer service functions, distribution and finance services and IT services.

3.9 Withdrawal from selling annuities in the UK open market

The regulatory landscape for annuities has undergone significant change over the past few years. The Pension Schemes Act 2015 gave pension savers greater flexibility on withdrawing their pension savings as they were no longer required to buy an annuity at retirement. This fundamentally changed the UK pensions market and significantly reduced the demand for retail annuities. Furthermore, the Solvency II regulatory regime has made writing annuities more capital intensive. These regulatory changes led to the Group's decision to withdraw from selling annuities in the UK open market in June 2016. As a result, the in-force annuity portfolio is being run-off.

The Group considers and implements different strategic measures to manage the run-off of the annuity portfolio. These strategies include reinsurance of tranches of liabilities and investment strategies designed to make the management of the annuity portfolio more capital efficient. On 14 March 2018, PAC and Rothesay Life entered into a business transfer agreement (the "**Rothesay Life BTA**") pursuant to which PAC agreed to reinsure the Annuity Portfolio to Rothesay Life. This resulted in an IFRS loss before tax of £508 million and increased the Group's shareholder Solvency II capital position by around £1 billion.

3.10 Competition

The markets for financial services in the UK and the Group's other geographic markets are competitive. The Group's financial performance and its ability to maintain and grow its market share and generate an appropriate return depends upon its capacity to anticipate and respond appropriately to these competitive pressures and trends.

The Group's retail customers have access to one of the most diversified portfolios in the market. This underpins the reliability of the Group's returns. The scale of the with-profits fund, with £143.7 billion in AuMA as at 30 June 2019, enables the Group to achieve a level of scale and diversification not available to smaller funds. At the same time, external clients have been able to benefit from this scale and diversification and the Group offers institutional investors a variety of alternative strategies originally seeded by its with-profits fund.

Launched in 2004, PruFund is a transparent and modern way of with-profits investing in the UK, which offers individuals different rates of smoothed return aligned with their tolerance for risk. PruFund has experienced significant growth over the last three years, largely driven by the success of the Retirement Account and the increase in PruFund risk ranges. As at 30 June 2019, the AuMA in PruFund amounted to £49.6 billion after attracting £8.5 billion, £9 billion and £6.5 billion of net inflows during 2018, 2017 and 2016 respectively.

The Group's private asset capability is just over £60 billion of AuMA as at 30 June 2019, of which around £30 billion related to external funds, and ranges from real estate and private debt into infrastructure. Both the with-profits fund and the Group's annuity portfolio benefit from the Group's private asset capability, which has been a key driver of the underlying performance of the with-profits fund. Private assets are a high-margin, high-revenue product. They provide resilience; around 32 per cent of the AuMA related to external funds are in closed-end funds as at 30 June 2019 which typically have increased investment tenures.

The Group continues to expand its footprint, opening offices in New York, Miami, Melbourne and Sydney. It is also deepening its distribution presence in Europe, building on the Group's success under the M&G brand over the past 15 years. The Group sees a substantial opportunity in the growing savings gap across Europe and is exploring how it can bring the benefits of PruFund to European customers through M&G's established distribution network.

4. RESULTS OF OPERATIONS

4.1 Introduction

In section 4.2(B) (*IFRS income statement*) of this Part III (*Operating and Financial Review*), the Group presents its results of operation on an IFRS basis, which have been extracted from the Historical Financial Information. In section 4.3 (*Operating basis*) of this Part III (*Operating and Financial Review*), the Group presents certain non-IFRS financial measures, including adjusted operating profit before tax and certain key measures on a management view basis. The Group presents these metrics because they are less affected than IFRS measures of performance by one-time impacts, and thus in the Group's view provide a better basis for assessing trends in the operational performance of the Group over time. The Directors believe that adjusted operating profit before tax is a more accurate reflection of the normal operating performance and is consistent with how business performance is measured internally. Adjusted operating profit before tax and the management view basis metrics should not be viewed in isolation as an alternative to profit after tax or other data presented in the Group's financial statements as indicators of financial performance. Adjusted operating profit before tax is not determined in accordance with IFRS so may not be comparable to other similarly titled measures of performance of other companies.

4.2 IFRS financial statements

(A) Description of key line items

The following descriptions of key line items in the financial statements are relevant to the discussion of the Group's results of operations.

(i) Gross premiums earned

Gross premiums earned are amounts invested by the Group's customers in respect of the Group's insurance business. Premiums for conventional with-profits policies and other protection-type insurance policies are recognised when they are due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued.

(ii) Outward reinsurance premiums

The business seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Reinsurance premiums paid are recognised when the corresponding insurance premium is received from the policyholder.

(iii) Investment return

Investment return is income derived from market growth and principally comprises interest income, dividends, realised and unrealised gains and losses on investments designated at fair value through profit or loss, as well as realised gains and losses (including impairment losses) on items held at amortised cost. Interest income is recognised as it accrues on an effective interest basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

(iv) Fee income

Fee income is derived from investment management fees and performance fees.

(v) Other income

Other income comprises items of miscellaneous income, including the insurance recovery in 2018 relating to TRASP.

(vi) Benefits and claims

Claims paid include amounts paid to policyholders in respect of maturities, annuities, surrenders and deaths. Maturity claims are recorded as claims on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

(vii) Outward reinsurers' share of benefits and claims

Reinsurance recoveries on claims paid are recognised when the corresponding reinsurance claim is incurred.

(viii) Movement in unallocated divisible surplus of with-profits funds

The movement in unallocated divisible surplus of with-profits funds is the annual excess/shortfall of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders is transferred to/from the unallocated surplus each year through a charge/credit to the income statement.

(ix) Administrative and other expenses

Administrative and other expenses primarily relate to employee costs, acquisition costs, restructuring costs and investment management expenses.

(x) Movement in third party interest in consolidated funds

In accordance with IFRS, the Group consolidates the financial results of the investment funds deemed to be controlled by the Group. This represents the investment funds gains/losses that belong to the non-controlling interests in the investment funds.

(xi) Finance costs

Finance costs relate to interest on subordinated debt.

(xii) Share of profit from joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control over the net assets of the arrangement. Associates are entities over which the Group has significant influence, but it does not control. This line represents the share of profit or loss in the period from these joint ventures and associates.

(B) IFRS income statement

The table below sets out the Group's results of operations for the six months ended 30 June 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Gross premiums earned	5,907	6,555	13,061	13,126	10,290
Outward reinsurance premiums	(487)	(12,598)	(13,137)	(1,050)	(1,005)
Earned premiums, net of reinsurance	**5,420**	**(6,043)**	**(76)**	**12,076**	**9,285**
Investment return	13,384	(82)	(3,683)	14,565	22,180
Fee income	627	686	1,361	1,211	973
Other income	16	201	237	24	147
Total revenue, net of reinsurance	**19,447**	**(5,238)**	**(2,161)**	**27,876**	**32,585**
Benefits and claims	(14,824)	(5,563)	(7,322)	(22,261)	(28,184)
Outward reinsurers' share of benefit and claims	407	12,031	12,230	1,033	1,532
Movement in unallocated surplus of with-profits funds	(2,047)	(29)	162	(1,757)	(1,178)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(16,464)**	**6,439**	**5,070**	**(22,985)**	**(27,830)**
Administrative and other expenses	(1,161)	(1,193)	(2,657)	(2,532)	(2,223)
Movements in third party interest in consolidated funds	(428)	48	291	(715)	(377)
Finance costs	—	(4)	(4)	(9)	(9)
Total charges, net of reinsurance	**(18,053)**	**5,290**	**2,700**	**(26,241)**	**(30,439)**
Share of profit from joint ventures and associates	33	20	52	121	34
Profit before tax	**1,427**	**72**	**591**	**1,756**	**2,180**
Less tax credit/(charge) attributable to policyholders' returns	(430)	10	406	(425)	(782)
Profit before tax attributable to equity holders	**997**	**82**	**997**	**1,331**	**1,398**
Total tax credit/(charge)	(633)	(5)	215	(682)	(1,046)
Less tax (credit)/charge attributable to policyholders' returns	430	(10)	(406)	425	782
Tax charge attributable to equity holders' returns	(203)	(15)	(191)	(257)	(264)
Profit for the period attributable to equity holders	**794**	**67**	**806**	**1,074**	**1,134**

(C) IFRS analytical review

(i) Gross premiums earned

The Group's gross premiums earned decreased by £648 million, to £5,907 million for the six months ended 30 June 2019 from £6,555 million for the six months ended 30 June 2018. This decrease reflects a lower demand for the Retirement Account as the volume of defined benefit transfers in the market has decreased.

The Group's gross premiums earned decreased by £65 million, to £13,061 million for the year ended 31 December 2018 from £13,126 million for the year ended 31 December 2017. This decrease reflects the reduction in annuity premiums, which has largely been offset by the increased demand for the Retirement Account in 2017.

The Group's gross premiums earned increased by £2,836 million, to £13,126 million for the year ended 31 December 2017 from £10,290 million for the year ended 31 December 2016. This increase is largely driven by the demand for the Retirement Account following pension reforms in the UK.

(ii) Outward reinsurance premiums

The Group's outward reinsurance premiums decreased by £12,111 million, to £487 million for the six months ended 30 June 2019 from £12,598 million for the six months ended 30 June 2018. The six months ended 30 June 2018 includes the reinsurance of the Annuity Portfolio to Rothesay Life.

The Group's outward reinsurance premiums increased by £12,087 million, to £13,137 million for the year ended 31 December 2018 from £1,050 million for the year ended 31 December 2017. The year ended 31 December 2018 includes the reinsurance of the Annuity Portfolio to Rothesay Life.

The Group's outward reinsurance premiums increased by £45 million, to £1,050 million for the year ended 31 December 2017 from £1,005 million for the year ended 31 December 2016. This increase reflects the increase in annuity business reinsured in 2017.

(iii) Investment return

The Group's investment return increased by £13,466 million, to a gain of £13,384 million for the six months ended 30 June 2019 from a loss of £82 million for the six months ended 30 June 2018. This increase reflects the strong financial markets in the six months ended 30 June 2019 resulting in large gains on both debt and equity securities.

The Group's investment return decreased by £18,248 million, to a loss of £3,683 million for the year ended 31 December 2018 from a gain of £14,565 million for the year ended 31 December 2017. Volatile financial markets in 2018 resulted in fair value losses on equities compared to fair value gains on equities in 2017. They also resulted in fair value losses on debt securities and derivatives.

The Group's investment return decreased by £7,615 million, to £14,565 million for the year ended 31 December 2017 from £22,180 million for the year ended 31 December 2016. This decrease reflects lower fair value gains on debt securities in 2017 compared to 2016 due to increasing interest rates.

(iv) Fee income

The Group's fee income decreased by £59 million, to £627 million for the six months ended 30 June 2019 from £686 million for the six months ended 30 June 2018. This decrease reflects a reduction in retail asset management fee income due to market volatility and net outflows in 2018 and the six months ended 30 June 2019.

The Group's fee income increased by £150 million, to £1,361 million for the year ended 31 December 2018 from £1,211 million for the year ended 31 December 2017. This increase reflects the benefit from strong net inflows and positive market movements in 2017, increasing average AuMA in 2018 and therefore resulting in higher fees than 2017. This outweighed the negative impact of market movements in 2018 and net outflows late in 2018.

The Group's fee income increased by £238 million, to £1,211 million for the year ended 31 December 2017 from £973 million for the year ended 31 December 2016. This increase reflects the combination of net inflows and positive market movements in 2017 leading to higher AuMA and therefore higher fees.

(v) Other income

The Group's other income decreased by £185 million, to £16 million for the six months ended 30 June 2019 from £201 million for the six months ended 30 June 2018. The six months ended 30 June 2018 includes the insurance recovery of £166 million received in respect of TRASP.

The Group's other income increased by £213 million, to £237 million for the year ended 31 December 2018 from £24 million for the year ended 31 December 2017. The year ended 31 December 2018 includes the insurance recovery of £166 million received in respect of TRASP.

The Group's other income decreased by £123 million, to £24 million for the year ended 31 December 2017 from £147 million for the year ended 31 December 2016. This decrease reflects one-off items of income in 2016, including compensation in respect of the Royal Bank of Scotland plc rights issue in 2008.

(vi) Benefits and claims

The Group's benefits and claims increased by £9,261 million, to £14,824 million for the six months ended 30 June 2019 from £5,563 million for the six months ended 30 June 2018. This increase is largely driven by the movement in policyholder liabilities due to strong financial markets in the six months ended 30 June 2019.

The Group's benefits and claims decreased by £14,939 million, to £7,322 million for the year ended 31 December 2018 from £22,261 million for the year ended 31 December 2017. This decrease is largely driven by the movement in policyholder liabilities due to volatile financial markets in 2018.

The Group's benefits and claims decreased by £5,923 million, to £22,261 million for the year ended 31 December 2017 from £28,184 million for the year ended 31 December 2016. This decrease is largely driven by the movement in policyholder liabilities due to a reduction in investment return in 2017 compared to 2016.

(vii) Outward reinsurers' share of benefit and claims

The Group's outward reinsurers' share of benefits and claims decreased by £11,624 million, to £407 million for the six months ended 30 June 2019 from £12,031 million for the six months ended 30 June 2018. The six months ended 30 June 2018 includes the reinsurance of the Annuity Portfolio to Rothesay Life.

The Group's outward reinsurers' share of benefits and claims increased by £11,197 million, to £12,230 million for the year ended 31 December 2018 from £1,033 million for the year ended 31 December 2017. The year ended 31 December 2018 includes the reinsurance of the Annuity Portfolio to Rothesay Life.

The Group's outward reinsurers' share of benefits and claims decreased by £499 million, to £1,033 million for the year ended 31 December 2017 from £1,532 million for the year ended 31 December 2016. This decrease reflects the run-off of reinsured annuity business.

(viii) Movement in unallocated surplus of with-profits funds

The Group's movement in unallocated surplus of with-profits funds moved by £2,018 million, to a negative movement of £2,047 million for the six months ended 30 June 2019 from a negative movement of £29 million for the six months ended 30 June 2018. This movement reflects the increase in the net income of the with-profits funds in the six months ended 30 June 2019, compared to the six months ended 30 June 2018, driven by strong investment return in the first half of 2019.

The Group's movement in unallocated surplus of with-profits funds moved by £1,919 million, to a positive movement of £162 million for the year ended 31 December 2018 from a negative movement of £1,757 million for the year ended 31 December 2017.

This movement reflects the reduction in the net income of the with-profits funds in 2018 compared to 2017, driven by negative investment returns in 2018.

The Group's movement in unallocated surplus of with-profits funds moved by £579 million, to a negative movement of £1,757 million for the year ended 31 December 2017 from a negative movement of £1,178 million for the year ended 31 December 2016. This movement reflects the increase in the net income of the with-profits fund in 2017 compared to 2016.

(ix) Administrative and other expenses

The Group's administrative and other expenses decreased by £32 million, to £1,161 million for the six months ended 30 June 2019 from £1,193 million for the six months ended 30 June 2018. This decrease largely reflects a past service credit in the period recognised as a result of changes to defined benefit pension schemes, partly offset by an increase in interest expenses, impairment and additional costs incurred by the Group to create the infrastructure necessary to operate as an independent publicly listed company.

The Group's administrative and other expenses increased by £125 million, to £2,657 million for the year ended 31 December 2018 from £2,532 million for the year ended 31 December 2017. This increase largely reflects an increase in transformation and restructuring costs in 2018.

The Group's administrative and other expenses increased by £309 million, to £2,532 million for the year ended 31 December 2017 from £2,223 million for the year ended 31 December 2016. This increase largely reflects the increase in the provision for TRASP and an increase in transformation and restructuring costs in 2017.

(x) Movements in third party interest in consolidated funds

The Group's movements in third party interest in consolidated funds decreased by £476 million, to a negative movement of £428 million for the six months ended 30 June 2019 from a positive movement of £48 million for the six months ended 30 June 2018. This increase is primarily due to the impact of market movements on the underlying funds which resulted in an increase in the amount due to third parties.

The Group's movements in third party interest in consolidated funds increased by £1,006 million, to a positive movement of £291 million for the year ended 31 December 2018 from a negative movement of £715 million for the year ended 31 December 2017. This increase is primarily due to the impact of market movements on the underlying funds which resulted in an increase in the amount due to third parties.

The Group's movements in third party interest in consolidated funds decreased by £338 million, to a negative movement of £715 million for the year ended 31 December 2017 from a negative movement of £377 million for the year ended 31 December 2016. This decrease is primarily due to the impact of market movements on the underlying funds which resulted in a decrease in amounts due to third parties.

(xi) Finance costs

The Group's finance costs decreased by £4 million, to £0 for the six months ended 30 June 2019 from £4 million for the six months ended 30 June 2018. The Group does not hold any subordinated debt as at 30 June 2019 following the repayment of subordinated debt during 2018.

The Group's finance costs decreased by £5 million, to £4 million for the year ended 31 December 2018 from £9 million for the year ended 31 December 2017. This decrease reflects the repayment of subordinated debt during 2018.

The Group's finance costs remained unchanged at £9 million for the years ended 31 December 2017 and 31 December 2016 and relate to interest paid on the subordinated debt.

(xii) Share of profit from joint ventures and associates

The Group's share of profits from joint ventures and associates increased by £13 million, to £33 million for the six months ended 30 June 2019 from £20 million for the six months ended 30 June 2018. This increase largely reflects a revaluation gain in one of the Group's property fund joint ventures in 2019.

The Group's share of profits from joint ventures and associates decreased by £69 million, to £52 million for the year ended 31 December 2018 from £121 million for the year ended 31 December 2017. This decrease largely relates to a revaluation loss on completion of a development in one of the Group's property fund joint ventures in 2018.

The Group's share of profits from joint ventures and associates increased by £87 million, to £121 million for the year ended 31 December 2017 from £34 million for the year ended 31 December 2016. This increase relates to the revaluation of gains in several of the Group's UK property fund joint ventures in 2017.

(xiii) Tax charge attributable to equity holders' returns

The tax charge attributable to equity holders' returns increased by £188 million, to £203 million for the six months ended 30 June 2019 from £15 million for the six months ended 30 June 2018. This increase reflects the increase in profit before tax attributable to equity holders of £915 million from £82 million in the six months ended 30 June 2018 to £997 million in the six months ended 30 June 2019.

The tax charge attributable to equity holders' returns decreased by £66 million, to £191 million for the year ended 31 December 2018 from £257 million for the year ended 31 December 2017. This decrease reflects the reduction in profit before tax attributable to equity holders of £334 million from £1,331 million in 2017 million to £997 million in 2018.

The tax charge attributable to equity holders' returns for the year ended 31 December 2017 and 2016 remained largely unchanged at £257 million for the year ended 31 December 2017 and £264 million for the year ended 31 December 2016.

4.3 Operating basis

(A) Key performance measures

The Group measures its financial performance using the following key measures:

- adjusted operating profit before tax;
- net client flows;
- AuMA; and
- capital generation.

(i) Adjusted operating profit before tax

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure. In determining the adjusted operating profit before tax of the Group, certain adjustments that are considered to be non-recurring or strategic are made to profit before tax, including adjustments in respect of short-term fluctuations in investment returns, exceptional costs associated with fundamental one-off group-wide restructuring and transformation, and profits or losses arising on corporate transactions. Adjusted operating profit before tax is used by the Group for key decision making and the internal performance management of its operating segments. The Group considers adjusted operating profit to be more representative of the normal, long-term performance of the business, as it is less affected by one-time impacts. It therefore enhances comparability from period to period.

For the Group's fee-based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses incurred to meet regulatory requirements and regular business development/

structuring costs. Exceptional 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 the shareholders gross of attributable shareholder tax. Short-term temporary movements in the fair value of instruments held to mitigate equity risk in future years' transfers are excluded from adjusted operating profit before tax. These hedges are matched to the statutory transfer on an economic basis rather than an IFRS basis, which may result in a mismatch between the movement in the instrument and the corresponding impact on the statutory transfer. Any such mismatch will be reflected in adjusted operating profit before tax for the current year's shareholder transfer.

For the Group's shareholder annuity products written by the Heritage segment, adjusted operating profit before tax excludes impacts that are the result of credit experience variance relative to assumptions, including the impact of credit risk provisioning for actual upgrades and downgrades during the period, and the impact of defaults and other similar experience such as asset exchanges arising from debt restructuring. Total realised and unrealised fair value movements on surplus assets backing the shareholder annuity capital are also excluded from the adjusted operating profit before tax.

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

A reconciliation of total profit after tax to adjusted operating profit before tax is outlined in section 4.3(B) (*Reconciliation of total profit after tax to adjusted operating profit before tax*) of this Part III (*Operating and Financial Review*).

(ii) Net client flows

Net client flows represents the difference between money received from customers and money returned to customers during the relevant period.

Net client flows demonstrate how the business is growing and how successful the business is at retaining and attracting new customer investments in to its products and funds. Positive net client flows increase AuMA.

(iii) AuMA

The closing AuMA represents the total market value of all financial assets managed and/or administered on behalf of customers at the end of each financial period. The 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.

AuMA demonstrates the scale of the business. AuMA also provides an indicator of fee based revenue; a significant proportion of the Group's revenues are derived from management and administration fees, the quantum of which is predominantly based on the value of AuMA.

(iv) Capital generation

The level of surplus capital is an important financial consideration for the Group. Surplus capital is the amount by which Own Funds exceed SCR under Solvency II. 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 a period is analysed as follows:

- Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.
- Operating capital generation is the total capital generation before tax, adjusted for variances in market movements relative to assumptions and other non-operating items, including shareholder restructuring costs. It has two components:
  a) Underlying capital generation, which includes:
     - the underlying expected surplus capital from the asset management and in-force life insurance businesses;
     - the change in surplus capital as a result of writing new life insurance business; and
     - other items including head office expenses and debt interest costs.
  b) Other operating capital generation, which includes non-market related experience variances, assumption changes, modelling changes and other movements.

The expected surplus capital from the in-force life insurance business and changes in surplus capital as a result of writing new life insurance business are calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.30% for the six months ended 30 June 2019 and 4.25% for the year ended 31 December 2018. For annuity business, the assumed average return was 2.54% for the six months ended 30 June 2019 and 1.89% for the year ended 31 December 2018.

Capital generation is presented for the six months ended 30 June 2019 and the year ended 31 December 2018.

(B) Reconciliation of total profit after tax to adjusted operating profit before tax

Adjusted operating profit before tax is management's main measure of the ongoing profitability of the business, as shown in the reconciliation below.

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Profit for the period after tax	**794**	**67**	**806**	**1,074**	**1,134**
Adjustments:					
Tax charge attributable to equity holders' returns	203	15	191	257	264
Profit before tax attributable to equity holders	**997**	**82**	**997**	**1,331**	**1,398**
Short-term fluctuations in investment returns	(364)	136	3	(42)	(211)
Loss on disposal of businesses and corporate transactions	—	513	508	—	—
Restructuring costs	82	41	109	73	16
Adjusted operating profit before tax	**715**	**772**	**1,617**	**1,362**	**1,203**

The key adjustments in the reconciliation above are as follows:

(i) Short-term fluctuations in investment returns, representing:

- short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer that do not relate to the current year;

- total unrealised and realised fair value movements on surplus assets backing the shareholder annuity capital, and the difference between the assumed long-term credit experience used to determine adjusted operating profit before tax for the Group's shareholder annuity products and the actual credit experience over the period, specifically:
  - the impact of credit risk provisioning for actual upgrades and downgrades during the period. This is calculated by reference to current interest rates; and
  - credit experience variance relative to assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring.

(ii) Loss on disposal of businesses and corporate transactions

The adjusting item of £513 million for the six months ended 30 June 2018 and £508 million for the year ended 31 December 2018 resulted from the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018, which is considered to be non-recurring in nature and is therefore excluded from adjusted operating profit before tax. No adjusting item was incurred in the years ended 31 December 2017 and 2016.

(iii) Restructuring costs

Restructuring costs primarily reflect costs associated with the Merger and Transformation Programme and costs associated with the Demerger. These costs represent fundamental one-off group-wide restructuring and transformation and are therefore excluded from adjusted operating profit before tax.

(C) Group financial performance overview

The following tables set out the Group's key performance measures used by management, for the six months ended 30 June 2019 and 2018, and for the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June		For the year ended 31 December		
	2019	**2018**	**2018**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**	**£m**
Fee based revenues	637	693	1,353	1,311	1,164
Annuity margin	311	392	1,129	673	637
With-profits shareholder transfer net of hedging gains/losses	126	114	255	203	211
Total adjusted operating income	**1,074**	**1,199**	**2,737**	**2,187**	**2,012**
Adjusted operating expenses	(424)	(420)	(916)	(834)	(761)
Other shareholder profit/(loss)	57	(15)	(220)	(6)	(60)
Share of associates and joint ventures adjusted operating profit before tax	8	8	16	15	12
Total adjusted operating profit before tax	**715**	**772**	**1,617**	**1,362**	**1,203**
Net client flows (£bn)	(4.5)	4.1	(8.7)	18.4	(8.9)
AuMA (£bn)	341.1	341.9	321.2	350.7	310.8

£m	For the six months ended 30 June 2019 Own Funds	SCR	Total	For the year ended 31 December 2018 Own Funds	SCR	Total
Asset management	239	—	239	472	(75)	397
With-profits	110	(88)	22	303	(176)	127
Shareholder annuities and other	147	72	219	237	148	385
Corporate centre	(21)	—	(21)	(13)	—	(13)
Underlying capital generation	**475**	**(16)**	**459**	**999**	**(103)**	**896**
Other operating	49	246	295	623	328	951
Operating capital generation	**524**	**230**	**754**	**1,622**	**225**	**1,847**
Market movements	685	(323)	362	(391)	403	12
Tax	(202)	74	(128)	(225)	(74)	(299)
Restructuring costs	(82)	—	(82)	(109)	—	(109)
Total capital generation(i)	**925**	**(19)**	**906**	**897**	**554**	**1,451**
Dividends and capital movements	(1,108)	—	(1,108)	(405)	—	(405)
Change in Solvency II surplus	**(183)**	**(19)**	**(202)**	**492**	**554**	**1,046**

(i) Capital generation excludes the impact of the reinsurance of the Annuity Portfolio to Rothesay Life.

(i) Adjusted operating profit before tax

Half year results

Adjusted operating profit before tax was £715 million for the six months ended 30 June 2019, a decrease of 7 per cent compared to the six months ended 30 June 2018. Fee based revenues decreased 8 per cent to £637 million in the six months ended 30 June 2019, reflecting the lower average AuMA following net client outflows in 2018 and the first half of 2019.

Annuity margins decreased by 21 per cent to £311 million in the six months ended 30 June 2019, which included items which in aggregate are not expected to recur at similar levels in future. These items totalled £193 million in the six months ended 30 June 2019 compared with £282 million in the six months ended 30 June 2018. In the six months ended 30 June 2019, these items included a positive change to mortality assumptions of £127 million and £63 million arising from portfolio management and other asset related income. In the six months ended 30 June 2018 these items included £92 million arising from portfolio management and other asset related income, as well as an indemnity insurance recovery of £166 million associated with TRASP. Annuity margins excluding these items increased by 6 per cent to £118 million, with a higher return on surplus annuity assets offset by a lower annuity margin release, following the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018.

The with-profits shareholder transfer increased 3 per cent from £157 million for the six months ended 30 June 2018 to £161 million for the six months ended 30 June 2019, reflecting the underlying growth of the Group's business, and in particular its PruFund offering. The with-profits contribution net of the fair value losses on the derivative instruments used to mitigate the equity risk in this transfer increased 11 per cent from £114 million for the six months ended 30 June 2018 to £126 million for the six months ended 30 June 2019. Adjusted operating expenses were broadly flat at £424 million for the six months ended 30 June 2019, with higher staff costs and office costs in the businesses, and increased head office costs, offset by a £64 million past service credit following changes to the Group's defined benefit pension schemes during the period.

The other shareholder profit/loss of £57 million in the six months ended 30 June 2019 included:

- investment income earned by the Group on its seeding investments of £12 million, compared with a £2 million investment loss in the six months ended 30 June 2018;

- investment return on collateral held in respect of lifetime mortgages of £14 million, flat on the six months ended 30 June 2018; and
- the release of a number of small reserves in the insurance business, relating to mortality, data, expenses and guaranteed minimum pension benefits, totalling £23 million in the six months ended 30 June 2019 with no equivalent release in the six months ended 30 June 2018.

Full year results

Adjusted operating profit before tax was £1,617 million for the year ended 31 December 2018, an increase of 19 per cent compared to the year ended 31 December 2017. The with-profits contribution increased by 11 per cent from £288 million for the year ended 31 December 2017 to £320 million for the year ended 31 December 2018, reflecting the underlying growth of the Group's business, and in particular its PruFund offering. The with-profits contribution net of hedging increased by 26 per cent from £203 million for the year ended 31 December 2017 to £255 million for the year ended 31 December 2018.

Annuity margins increased by 68 per cent to £1,129 million in the year ended 31 December 2018, which includes items which in aggregate are not expected to recur at similar levels in future. These items totalled £878 million, including £441 million in respect of positive changes to mortality assumptions, an indemnity insurance recovery of £166 million associated with TRASP, £187 million arising from portfolio management and other asset related income and £43 million of other positive impacts. Annuity margins excluding these items decreased by 8 per cent to £251 million, reflecting the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018, offset by higher returns on surplus annuity assets.

Fee based revenue increased by 3 per cent to £1,353 million in the year ended 31 December 2018, despite the normalisation of asset management performance fees to £15 million compared with a high contribution of £53 million in the year ended 31 December 2017. Adjusted operating expenses increased by 10 per cent to £916 million. This included costs incurred in preparing the Group's business for Brexit and the associated migration of funds to the Luxembourg-domiciled SICAV platform, as well as higher staff costs to support product launches and distribution in the UK and overseas. The Other shareholder profit/loss of £220 million in the year ended 31 December 2018 included a cost of £56 million, which represented an estimated future shareholder payment to reimburse the with-profits fund for its contribution to the cost to set-up and grow the business written in Poland, £93 million of pension related costs including the cost of £55 million for equalising guaranteed minimum pension benefits,[15] investment return on collateral for the lifetime mortgage business of £22 million and £34 million in respect of a shareholder contribution to the expenses of with-profits corporate pensions covering a seven year period.

Adjusted operating profit before tax was £1,362 million for the year ended 31 December 2017, an increase of 13 per cent compared to the year ended 31 December 2016, with the with-profits contribution increasing 7 per cent to £288 million and the annuity margin (excluding items not expected to be repeated at similar levels in future years) increasing 11 per cent to £273 million. Fee based revenue increased 13 per cent to £1,311 million in the year ended 31 December 2017 from £1,164 million in the year ended 31 December 2016, reflecting increased asset management performance fees of £53 million in the year ended 31 December 2017 compared to £33 million in the year ended 31 December 2016, and higher average AuMA following record net client inflows and favourable financial markets.

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15 Rectification and redress costs of equalising retirement ages for males & females for pensions products sold by the UK insurance business and in respect of staff pensions.

(ii) Net client flows

Half year results

Net client outflows were £4.5 billion for the six months ended 30 June 2019 compared to net client inflows of £4.1 billion for the six months ended 30 June 2018, with retail asset management client flows impacted by negative investor sentiment, reflecting volatile markets and political uncertainty, and institutional asset management impacted by a single £1.6 billion redemption. The PruFund offering continued to see strong net inflows of £3.5 billion in the six months ended 30 June 2019. Net client outflows were in line with expectations in the Heritage business as the Group's customers access their savings and investments and the annuity customers receive their regular payments.

Full year results

Net client outflows of £8.7 billion for the year ended 31 December 2018, reflect the expected redemption of a single £6.5 billion low-margin institutional mandate and a market-wide reduction in retail flows. Net client inflows in the year ended 31 December 2017 were £18.4 billion compared to net outflows of £8.9 billion in the year ended 31 December 2016, with significant contributions from both retail and institutional investors. The Group's PruFund offering experienced strong net inflows of £6.5 billion, £9.0 billion and £8.5 billion in 2016, 2017 and 2018 respectively.

(iii) AuMA

Half year results

AuMA at 30 June 2019 increased by £19.9 billion from £321.2 billion at 31 December 2018 to £341.1 billion, with the impact of favourable financial markets offset by net client outflows.

Full year results

The AuMA reduced by £30 billion during the year ended 31 December 2018 to £321.2 billion reflecting the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018, the redemption of the £6.5 billion low-margin institutional mandate and negative market impacts. AuMA increased by £39.9 billion during the year ended 31 December 2017 to £350.7 billion from £310.8 billion as at 31 December 2016, reflecting significant net client inflows in to the Savings & Asset Management segment, supported by positive market impacts.

(iv) Capital generation

Half year results

The total capital generation for the six months ended 30 June 2019 was £906 million after tax of £128 million.

The total operating capital generation for the six months ended 30 June 2019 was £754 million and the contribution from non-operating items was £280 million. The non-operating items included a contribution to total capital generation of £362 million from variances in market movements compared to the Group's expectations, reflecting positive equity returns and reductions in yields over the period, and restructuring costs of £82 million.

The capital generated from the underlying business performance was £459 million and the capital generated by other operating items was £295 million. The underlying operating capital was predominately generated by the asset management business, which contributed £239 million reflecting its adjusted operating profit earned over the period, and the shareholder annuities and other business, which contributed £219 million. The with-profits business contributed £22 million. While Own Funds increased by £110 million, this was offset by an increase in SCR of £88 million, primarily as a result of changes in asset allocation and run-off of shareholder transfer equity hedges.

The capital generated by other operating items of £295 million predominately arose from the shareholder annuity business, with a £145 million increase in surplus capital due to assumption changes primarily relating to longevity improvements and a benefit of £105 million from efficient portfolio management.

Full year results

The total capital generation for the year ended 31 December 2018 was £1,451 million after tax of £299 million.

The total operating capital generation for the year was £1,847 million offset by capital consumed by non-operating items of £97 million. The non-operating items include restructuring costs of £109 million.

The capital generated from the underlying business performance was £896 million and the capital generated by other operating items was £951 million. The underlying capital was predominately generated by the asset management business, which contributed £397 million reflecting its adjusted operating profit over the period, and the shareholder annuities and other business, which contributed £385 million reflecting the run-off of this business. The with-profits business contributed £127 million to underlying capital generation due to an increase in expected future shareholder transfers. This was primarily as a result of investment returns exceeding risk-free returns, offset by initial capital requirements resulting in an overall reduction in surplus capital for new business written during the period.

The capital generated by other operating items of £951 million was predominantly from the Heritage business. This arose from assumption changes relating to longevity improvements of £378 million and expense assumption changes of £95 million, as well as increases of £166 million due to the insurance recovery in respect of TRASP, a benefit from efficient portfolio management of £80 million and a benefit from extending equity hedges in respect of shareholder transfers from the with-profits fund of £41 million.

(D) Segmental Overview

The following tables set out the Group's key performance measures used by management, for the Group's Savings & Asset Management and Heritage operating segments and the Group's Corporate Centre, for the six months ended 30 June 2019 and 2018, and for the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June 2019			
(£m)	Savings & Asset Management	Heritage	Corporate Centre	Total
Fee based revenue	590	47	—	637
Annuity margin	—	311	—	311
With-profit shareholder transfer net of hedging gains/losses	29	97	—	126
Total adjusted operating income	**619**	**455**	**—**	**1,074**
Adjusted operating expenses	(378)	(25)	(21)	(424)
Other shareholder profit	13	44	—	57
Share of associates and joint ventures adjusted operating profit before tax	8	—	—	8
Total adjusted operating profit before tax	**262**	**474**	**(21)**	**715**
Net client flows (£bn)	(1.4)	(3.1)	—	(4.5)
AuMA (£bn)	210.4	130.7	—	341.1
Underlying capital generation (£m)	224	256	(21)	459
Operating capital generation (£m)	136	677	(59)	754

(£m)	For the six months ended 30 June 2018 Savings & Asset Management	Heritage	Corporate Centre	Total
Fee based revenue	631	62	—	693
Annuity margin	—	392	—	392
With-profit shareholder transfer net of hedging gains/losses	23	91	—	114
Total adjusted operating income	**654**	**545**	**—**	**1,199**
Adjusted operating expenses	(361)	(52)	(7)	(420)
Other shareholder loss	(5)	(10)	—	(15)
Share of associates and joint ventures adjusted operating profit before tax	8	—	—	8
Total adjusted operating profit before tax	**296**	**483**	**(7)**	**772**
Net client flows (£bn)	7.8	(3.7)	—	4.1
AuMA (£bn)	213.8	128.1	—	341.9

(£m)	For the 12 months ended 31 December 2018 Savings & Asset Management	Heritage	Corporate Centre	Total
Fee based revenue	1,257	96	—	1,353
Annuity margin	—	1,129	—	1,129
With-profit shareholder transfer net of hedging gains/losses	54	201	—	255
Total adjusted operating income	**1,311**	**1,426**	**—**	**2,737**
Adjusted operating expenses	(778)	(125)	(13)	(916)
Other shareholder loss	(81)	(139)	—	(220)
Share of associates and joint ventures adjusted operating profit before tax	16	—	—	16
Total adjusted operating profit before tax	**468**	**1,162**	**(13)**	**1,617**
Net client flows (£bn)	(1.7)	(7.0)	—	(8.7)
AuMA (£bn)	197.7	123.5	—	321.2
Underlying cash generation (£m)	389	520	(13)	896
Operating cash generation (£m)	445	1,424	(22)	1,847

(£m)	For the 12 months ended 31 December 2017 Savings & Asset Management	Heritage	Corporate Centre	Total
Fee based revenue	1,205	106	—	1,311
Annuity margin	—	673	—	673
With-profit shareholder transfer net of hedging gains/losses	39	164	—	203
Total adjusted operating income	**1,244**	**943**	**—**	**2,187**
Adjusted operating expenses	(723)	(103)	(8)	(834)
Other shareholder profit/(loss)	(13)	7	—	(6)
Share of associates and joint ventures adjusted operating profit before tax	15	—	—	15
Total adjusted operating profit before tax	**523**	**847**	**(8)**	**1,362**
Net client flows (£bn)	26.1	(7.7)	—	18.4
AuMA (£bn)	208.1	142.6	—	350.7

(£m)	For the 12 months ended 31 December 2016			
	Savings & Asset Management	Heritage	Corporate Centre	Total
Fee based revenue	1,046	118	—	1,164
Annuity margin	—	637	—	637
With-profit shareholder transfer net of hedging gains/losses	32	179	—	211
Total adjusted operating income	**1,078**	**934**	**—**	**2,012**
Adjusted operating expenses	(644)	(112)	(5)	(761)
Other shareholder profit/(loss)	9	(69)	—	(60)
Share of associates and joint ventures adjusted operating profit before tax	12	—	—	12
Total adjusted operating profit before tax	**455**	**753**	**(5)**	**1,203**
Net client flows (£bn)	(1.8)	(7.1)	—	(8.9)
AuMA (£bn)	169.4	141.4	—	310.8

(i) Savings & Asset Management

The following tables set out the key performance measures used by management for the Group's Savings & Asset Management operating segment for the six months ended 30 June 2019 and 30 June 2018 and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016.

	For the six months ended 30 June		**For the year ended 31 December**		
Savings & Asset Management (£m)	**2019**	**2018**	**2018**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**	**£m**
Fee based revenue	590	631	1,257	1,205	1,046
- With-profit shareholder transfer	36	32	67	54	40
- Hedging losses on with-profit shareholder transfer	(7)	(9)	(13)	(15)	(8)
With-profit shareholder transfer net of hedging gains/losses	29	23	54	39	32
Total adjusted operating income	**619**	**654**	**1,311**	**1,244**	**1,078**
Adjusted operating expenses	(378)	(361)	(778)	(723)	(644)
Other shareholder profit/(loss)	13	(5)	(81)	(13)	9
Share of associates and joint ventures adjusted operating profit before tax	8	8	16	15	12
Total adjusted operating profit before tax	**262**	**296**	**468**	**523**	**455**
Net client flows (external only) (£bn)	(1.4)	7.8	(1.7)	26.1	(1.8)
AuMA (external only) (£bn)	210.4	213.8	197.7	208.1	169.4
Internal AuMA (£bn)	123.7	120.3	118.2	134.6	128.1
Operating capital generation (£m)	136		445		

Adjusted operating profit before tax

Half year results

Fee based revenue decreased 6 per cent to £590 million in the six months ended 30 June 2019 from £631 million in the six months ended 30 June 2018, mainly due to a reduction in asset management fees, which decreased 9 per cent to £514 million in the six months ended 30 June 2019 from £563 million in the six months ended 30 June 2018. The decrease reflected lower average AuMA, following client outflows in 2018 and the first half of 2019, which reduced retail asset management revenues. Institutional asset management revenue increased, with low margin client outflows offset by client inflows in to higher margin funds. Revenues in the Group's financial advice business, Prudential Financial Planning, continued to grow, increasing 38 per cent to £29 million in the six months ended 30 June 2019 from £21 million in the six months ended 30 June 2018.

The with-profits shareholder transfer net of hedging gains and losses primarily relates to products invested in PruFund. The gross with-profits transfer increased by 13 per cent to £36 million in the six months ended 30 June 2019 from £32 million in the six months ended 30 June 2018, reflecting the strong growth in PruFund AuMA. The profit from the with-profits shareholder transfer was partly offset by fair value losses on the derivative instruments used to mitigate the equity risk in this transfer which amounted to £7 million in the six months ended 30 June 2019 and £9 million in the six months ended 30 June 2018.

Adjusted operating expenses increased 5 per cent to £378 million in the six months ended 30 June 2019 from £361 million in the six months ended 30 June 2018, primarily as a result of higher property costs in relation to the new head office lease and higher staff costs. Adjusted operating expenses benefited from a £35 million past service credit following changes to the M&G defined benefit pension scheme during the period.

Full year results

Fee based revenue increased 4 per cent to £1,257 million in the year ended 31 December 2018 from £1,205 million in the year ended 31 December 2017, primarily as a result of higher asset management fees, which increased 3 per cent to £1,113 million in the year ended 31 December 2018 from £1,079 million in the year ended 31 December 2017, and higher revenues from Prudential Financial Planning, which increased 29 percent to £49 million in the year ended 31 December 2018 from £38 million in the year ended 31 December 2017.

Fee based revenue increased by 15 per cent to £1,205 million in the year ended 31 December 2017 from £1,046 million in the year ended 31 December 2016, reflecting higher asset management fees, which increased 16 per cent to £1,079 million in the year ended 31 December 2017 from £927 million in the year ended 31 December 2016. Fees from retail asset management increased 18 per cent to £647 million in the year ended 31 December 2017 from £547 million in the year ended 31 December 2016 reflecting the increase in average AuMA following strong net client inflows and positive market impacts in 2017. Institutional asset management earned higher performance fees of £48 million in the year ended 31 December 2017 compared to £22 million in the year ended 31 December 2016, and regular fee revenue earned also increased, benefiting from higher average AuMA following strong net inflows of £6.6 billion in the year ended 31 December 2017 as well as positive market impacts.

The gross with-profits transfer increased by 35 per cent in the year ended 31 December 2017 to £54 million from £40 million in the year ended 31 December 2016 and a further 24 per cent in the year ended 31 December 2018 to £67 million reflecting the strong growth in PruFund AuMA. The profits from the with-profits shareholder transfer were partly offset by fair value losses on the derivatives instruments used to mitigate the equity risk in this transfer which amounted to £13 million in the year ended 31 December 2018, £15 million in the year ended 31 December 2017 and £8 million in the year ended 31 December 2016.

Adjusted operating expenses increased by 8 per cent in the year ended 31 December 2018 to £778 million from £723 million in the year ended 31 December 2017, predominantly due to the costs incurred in preparing the business for Brexit and the associated migration of funds to the Luxembourg-domiciled SICAV platform, as well as higher staff costs to support product launches and distribution in the UK and overseas.

Adjusted operating expenses increased by 12 per cent to £723 million in the year ended 31 December 2017 from £644 million in the year ended 31 December 2016, primarily reflecting a 10 per cent increase in costs in the Group’s asset management business to £602 million in the year ended 31 December 2017 from £543 million in the year ended 31 December 2016. This increase was mainly due to higher staff costs reflecting increased headcount to support geographical growth, and higher data feed and software costs.

Other shareholder profit/loss included a cost of £56 million in the year ended 31 December 2018 which represents a future shareholder payment to reimburse the with-profits fund for a portion of the cost to set-up and grow the business written in Poland. It also included, in each year, shareholder contributions to expenses on some with-profits products.

The cost-income ratio[16] for the Group's asset management business across the three years from 2016 to 2018 has remained relatively constant at an average level of around 59 per cent.

Net client flows

Half year results

Net client outflows were £1.4 billion in the six months ended 30 June 2019 compared to net client inflows of £7.8 billion in the six months ended 30 June 2018, with retail asset management client flows impacted by negative investor sentiment, reflecting volatile markets and political uncertainty, and institutional asset management impacted by a single £1.6 billion redemption. The PruFund offering continued to see strong net inflows of £3.5 billion.

Full year results

Net client outflows of £1.7 billion in the year ended 31 December 2018 were a result of the expected redemption of a single £6.5 billion low-margin institutional mandate and retail outflows, reflecting a market-wide reduction in net flows, with short-term relative performance and investor confidence generating a higher degree of volatility in retail asset management. The Group continued to see strong net flows into its PruFund offering of £8.5 billion in the year ended 31 December 2018, with strong sales of the Retirement Account and the Prudential ISA. The Group's institutional asset management business saw strong net inflows into its public debt and illiquid credit strategies.

Net client inflows were £26.1 billion in the year ended 31 December 2017, compared to net outflows of £1.8 billion in the year ended 31 December 2016, with significant contributions from European retail investors into the Optimal Income Fund, Global Floating Rate High Yield Fund and multi-asset range and strong positive institutional net inflows, notably within the Group's public debt, illiquid credit strategies and infrastructure equity funds. The Group's Retirement Account and Prudential ISA products also experienced strong sales which lead to strong net inflows into PruFund.

AuMA

Half year results

External AuMA in the Savings & Asset Management business increased by £12.7 billion from £197.7 billion as at 31 December 2018 to £210.4 billion as at 30 June 2019, reflecting strong equity market growth, partially offset by net client outflows of £1.4 billion.

Internal AuMA increased by £5.5 billion from £118.2 billion as at 31 December 2018 to £123.7 billion as at 30 June 2019, benefiting from PruFund net inflows of £3.5 billion and equity market gains, offset by net outflows of internally managed client AuMA from the Heritage business, largely reflecting annuity payments to policyholders and maturing with-profits policies.

Full year results

External AuMA in the Savings & Asset Management business decreased by £10.4 billion during the year ended 31 December 2018 to £197.7 billion as at 31 December 2018, reflecting net client outflows of £1.7 billion over the course of 2018, which included the redemption of the single £6.5 billion low-margin institutional mandate and negative market movements. However, average balances, which have the most material impact on

[16] The cost-income ratio represents total operating costs (i.e. excluding any restructuring costs which qualify as non-operating) divided by total revenue, excluding performance fees and M&G's share of the profits of its South African joint venture.

the Group's fee-based earnings during the year, were in total higher, reflecting the concentration of equity market falls and credit spread widening in the fourth quarter of 2018.

Internal AuMA were 12 per cent lower at £118.2 billion as at 31 December 2018 from £134.6 billion as at 31 December 2017, benefiting from PruFund net inflows of £8.5 billion offset by the effect of the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018, net outflows of £7.0 billion from the Heritage business and negative market movements.

External AuMA in the Savings & Asset Management business increased by £38.7 billion during the year ended 31 December 2017 to £208.1 billion as at 31 December 2017, reflecting record net client inflows of £26.1 billion, and supported by favourable market movements.

Internal AuMA increased by 5 per cent to £134.6 billion as at 31 December 2017 from £128.1 billion as at 31 December 2016, benefiting from PruFund net flows of £9.0 billion and positive market movements partly offset by net outflows from the Heritage business of £7.7 billion.

Operating capital generation

		For the six months ended 30 June 2019		For the year ended 31 December 2018		
£m	**Own Funds**	**SCR**	**Total**	**Own Funds**	**SCR**	**Total**
Asset management	239	—	239	472	(75)	397
With-profits						
- *of which: in-force*	19	(18)	1	50	(23)	27
- *of which: new business*	15	(48)	(33)	75	(127)	(52)
Other	18	(1)	17	20	(3)	17
Underlying capital generation	**291**	**(67)**	**224**	**617**	**(228)**	**389**
Other operating items	(60)	(28)	(88)	(66)	122	56
Operating capital generation	231	(95)	136	551	(106)	445

Half year results

The operating capital generation for the six months ended 30 June 2019 was £136 million. The capital generated from the underlying business performance was £224 million, which was partly offset by capital consumed by other operating items of £88 million. The underlying capital was predominately generated from the asset management business, which contributed £239 million reflecting the adjusted operating profit earned over the period.

The underlying capital generation from existing with-profits business consists of a £19 million increase in Own Funds, offset by an £18 million increase in the SCR. The movement in Own Funds represents an increase in expected future shareholder transfers from business invested in PruFund as a result of assumed real-world investment returns. The increase in the SCR is the associated higher capital requirement from the increase in the expected future shareholder transfers and the impact from the run-off of the equity hedge in relation to those transfers. The £33 million net capital strain from new with-profits business consists of a £15 million increase in Own Funds and a £48 million increase in the SCR. The contribution to Own Funds of £15 million was impacted by the reduction in risk-free rates since 31 December 2018, reducing the expected future shareholder transfers which are calculated assuming risk-free growth.

The operating capital of £88 million consumed by other operating items was primarily due to an increase in the SCR due to changes in asset allocation (specifically, a higher proportion of the with-profits fund being invested in equities), and model refinements.

Full year results

The operating capital generation for the year ended 31 December 2018 was £445 million. The operating capital generated from the underlying business performance was £389 million and the operating capital generated by other operating items was £56 million. The underlying operating capital was predominately generated from the asset management business which contributed £397 million. This primarily reflects the adjusted operating profit over the period, which was partly offset by an increase in capital requirements related to higher operating expenses compared to the prior year, which were due to higher staff costs to support geographical growth, and higher data feed and software costs.

The underlying capital generation from the with-profits business, mainly relating to PruFund, was driven by a £27 million contribution from existing business, offset by capital strain from new business of £52 million. The underlying capital generation from existing with-profits business consisted of a £50 million increase in Own Funds, offset by a £23 million increase in the SCR. The growth in Own Funds relates to the increase in the present value of future expected shareholder transfers as a result of assumed real-world investment returns. The increase in the SCR comprises the increased capital requirement against those higher future transfers, and the run-off of equity hedges in place to protect them, before allowing for management actions taken to increase the hedges.

The £52 million reduction in surplus from with-profits new business consists of a £75 million increase in Own Funds and a £127 million increase in the SCR. The Own Funds contribution reflects the future expected shareholder transfers from this new business assuming risk-free growth in the funds and the increased SCR reflects the associated capital requirement from writing the new business.

The capital generated by other operating items of £56 million consists of a £66 million reduction in Own Funds and a reduction in the SCR of £122 million. The reduction in Own Funds was predominantly due to an estimated future shareholder payment of £56 million to reimburse the with-profits fund for its contribution to the cost to set-up and grow the business written in Poland. The reduction in Own Funds also includes amounts in respect of expenses for unmodelled business. The reduction in the SCR was primarily due to the benefit from extending the equity hedges in respect of shareholder transfers from the with-profits fund and model refinements.

(ii) Heritage

The following tables set out the key performance measures used by management for the Group's Heritage operating segment for the six months ended 30 June 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June		For the year ended 31 December		
Heritage (£m)	**2019**	**2018**	**2018**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**	**£m**
Fee based revenues	47	62	96	106	118
Annuity margin	311	392	1,129	673	637
- With-profit shareholder transfer	124	125	253	234	228
- Hedging losses on with-profit shareholder transfer	(27)	(34)	(52)	(70)	(49)
With-profit shareholder transfer net of hedging gains/losses	97	91	201	164	179
Total adjusted operating income	**455**	**545**	**1,426**	**943**	**934**
Adjusted operating expenses	(25)	(52)	(125)	(103)	(112)
Other shareholder profit/(loss)	44	(10)	(139)	7	(69)
Share of associates and joint ventures adjusted operating profit before tax	—	—	—	—	—
Total adjusted operating profit before tax	**474**	**483**	**1,162**	**847**	**753**
Net client flows (£bn)	(3.1)	(3.7)	(7.0)	(7.7)	(7.1)
AuMA (£bn)	130.7	128.1	123.5	142.6	141.4
Operating capital generation (£m)	677		1,424		

Adjusted operating profit before tax

There are a number of significant one-off items included in the total adjusted operating profit before tax. There were relatively stable contributions in each period from the shareholder transfer from the with-profits fund, annuity margins release and the income surplus on annuity assets.

Half year results

The total adjusted operating profit before tax of £474 million was 2 per cent lower for the six months ended 30 June 2019 compared to the six months ended 30 June 2018 in which the total adjusted operating profit before tax was £483 million. This was due to a number of factors which broadly offset each other, primarily the impact of one-off items.

The shareholder transfer from the with-profits fund, before hedging costs, was stable at £124 million in the six months ended 30 June 2019 compared to £125 million in the six months ended 30 June 2018 (transfers net of hedging costs were £97 million in the six months ended 30 June 2019 and £91 million in the six months ended 30 June 2018). The annuity margins release and the return on surplus annuity assets were £118 million in the six months ended 30 June 2019 and £111 million in the six months ended 30 June 2018. The reduction in the contribution from annuity margin release reflects the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018. Consequently, the margin release was £7 million lower in the six months ended 30 June 2019 compared to the six months ended 30 June 2018, although this was more than offset by a higher contribution from returns on surplus annuity assets.

There are a number of significant items included in the annuity margin that are not expected to occur at the same level in aggregate in future years, these include:

- Impacts from asset trading and allocation of £63 million in the six months ended 30 June 2019 and £92 million in the six months ended 30 June 2018.
- A release of short-term credit reserves of £24 million in the six months ended 30 June 2018, with no equivalent item in the six months ended 30 June 2019.
- Short-term movements between the long-term annuity assets and liabilities, resulting in a £30 million gain in the six months ended 30 June 2019 and £32 million loss in the six months ended 30 June 2018.
- Annuity assumption changes resulting in adjusted operating profit before tax of £114 million in the six months ended 30 June 2019 and a loss of £10 million in the six months ended 30 June 2018. The impact in the six months ended 30 June 2019 primarily reflects mortality assumption changes (£127 million profit), which reflect a recent slowdown in life expectancy improvements, and the adoption of the Continuous Mortality Investigation (CMI) 2017 model, albeit with an uplift to the calibration such that additional liabilities are held to cover potential differences in experience between the portfolio and the England and Wales population. There was no impact from mortality assumption changes in the six months ended 30 June 2018. The remainder of the assumption changes in both six month periods relate to expenses and credit defaults.
- The impact of reinsurance taken out in previous years resulting in a £16 million profit in the six months ended 30 June 2019 and a £28 million profit in the six months ended 30 June 2018.
- Experience variances on the annuity portfolio resulting in an £8 million profit in the six months ended 30 June 2019 and £16 million loss in the six months ended 30 June 2018, primarily reflecting expense and mortality experience variances.
- Annuity modelling updates to allow for spousal benefits on the protected rights elements of single life annuities resulting in a £44 million loss in the six months ended 30 June 2019.
- An insurance recovery of £166 million in the six months ended 30 June 2018, related to the costs of reviewing internally vesting annuities sold without advice after July 2008.

Other shareholder profit/loss was a £44 million profit in the six months ended 30 June 2019 and a £10 million loss in the six months ended 30 June 2018. These results include the release of a number of provisions relating to mortality, data, expenses and guaranteed minimum pension benefits totalling £23 million in the six months ended 30 June 2019 with no equivalent release in the six months ended 30 June 2018 and a number of one-off charges in the six months ended 30 June 2018 with no equivalent item in the six months ended 30 June 2019.

Adjusted operating expenses of £25 million for the six months ended 30 June 2019 are £27 million lower than the adjusted operating expenses of £52 million for the six months ended 30 June 2018. This was primarily due to a £29 million one-off benefit resulting from agreed changes to a defined benefit pension scheme.

Full year results

The total adjusted operating profit before tax increased by 37 per cent to £1,162 million in the year ended 31 December 2018 and by 12 per cent to £847 million in the year ended 31 December 2017 from £753 million in the year ended 31 December 2016.

The shareholder transfer from the with-profits fund was £253 million in the year ended 31 December 2018, £234 million in the year ended 31 December 2017 and £228 million in the year ended 31 December 2016, before hedging costs (transfers net of hedging were £201 million in the year ended 31 December 2018, £164 million in the year ended 31 December 2017 and £179 million in the year ended 31 December 2016). The annuity margins release and the return on surplus annuity assets were £251 million in the year ended 31 December 2018, £273 million in the year ended 31 December 2017 and £245 million in the year ended 31 December 2016. The contribution from annuity margin release reduced in the year ended 31 December 2018, reflecting the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018. Consequently, the margin release was £34 million lower in the year ended 31 December 2018 relative to the year ended 31 December 2017, which was partially offset by a higher contribution from returns on surplus annuity assets.

There are a number of significant items included in the annuity margin that are not expected to occur at the same level in aggregate in future years, these include:

- Impacts from asset trading and allocation of £187 million, £341 million and £166 million in the years ended 31 December 2018, 2017 and 2016, respectively, including a £74 million asset yield benefit from the retention of certain property assets following the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018, recognised in July 2018.
- A release of short-term credit reserves of £19 million in the year ended 31 December 2018 and £75 million in the year ended 31 December 2017, with no release in the year ended 31 December 2016.
- Short-term movements between the long-term annuity assets and liabilities, resulting in a £33 million loss in the year ended 31 December 2018, £33 million gain in the year ended 31 December 2017 and £60 million gain in the year ended 31 December 2016.
- Annuity assumption changes resulting in adjusted operating profit before tax of £482 million, £120 million and £154 million in the years ended 31 December 2018, 2017 and 2016 respectively. These impacts primarily reflect mortality assumption changes (£441 million profit, £204 million profit and £81 million profit in the years ended 31 December 2018, 2017 and 2016, respectively), reflecting recent mortality trends, which have shown a slowing in life expectancy improvements in recent periods, and adoption of the Continuous Mortality Investigation (CMI) 2016 model in 2018 and the 2015 model in 2017. The remainder of the assumption changes relate to expenses and credit defaults.
- Longevity reinsurance that was taken out in the year ended 31 December 2016 resulting in £197 million adjusted operating profit before tax in that year and a further tranche of reinsurance in the year ended 31 December 2017 resulting in £31 million

adjusted operating profit before tax in that year. There was a £23 million profit in the year ended 31 December 2018 resulting from reinsurance taken out in previous years.

- Experience variances on the annuity portfolio resulting in a £6 million profit in the year ended 31 December 2018, £11 million loss in the year ended 31 December 2017 and £21 million loss in the year ended 31 December 2016, primarily reflecting exceptional expenses and mortality experience variances.
- TRASP resulting in an adjusted operating loss of £175 million in the year ended 31 December 2016 due to the setting up of the redress provision, an additional £225 million adjusted operating loss in the year ended 31 December 2017 due to the increase in the redress provision, with an insurance recovery of £166 million in the year ended 31 December 2018.

Other shareholder profit/loss was a £139 million loss in the year ended 31 December 2018, £7 million profit in the year ended 31 December 2017 and a £69 million loss in the year ended 31 December 2016. This included £93 million in year ended 31 December 2018, £42 million in the year ended 31 December 2017 and £50 million in the year ended 31 December 2016 of pension related costs. In the year-ended 31 December 2018 these included the cost of equalising guaranteed minimum pension benefits of £55 million following a High Court ruling in October 2018 which applied across the UK life insurance industry. It also included investment return on collateral for the lifetime mortgage business of £22 million, £23 million and £17 million in the years ended 31 December 2018, 2017 and 2016, respectively, and £34 million in the year ended 31 December 2018 in respect of a shareholder contribution to the expenses on with-profits corporate pensions covering a seven year period. A profit of £15 million was recognised in the year ended 31 December 2017 for changes to outsourcing arrangements. Shareholder expenses in the year ended 31 December 2016 included a £20 million cost due to a payment made to the closed Scottish Amicable Insurance Fund with-profits fund to compensate for an investment mismatch.

Net client flows

Half year results

Net client outflows of £3.1 billion for the six months ended 30 June 2019 were lower than the net client outflows of £3.7 billion seen for the six months ended 30 June 2018. The net client outflows represent expected client outflows as the Group's customers access their savings and investments and the annuity customers receive their regular payments.

Full year results

Net client outflows were stable at between £7 billion to £8 billion from 2016 to 2018, representing between 5 per cent and 6 per cent of opening AuMA, in line with management expectations.

AuMA

Half year results

AuMA increased by £7.2 billion from 31 December 2018 to £130.7 billion as at 30 June 2019, reflecting favourable financial markets, partially offset by net client outflows.

Full year results

The £19.1 billion reduction in AuMA from £142.6 billion at 31 December 2017 to £123.5 billion at 31 December 2018 was a result of the reinsurance of the Annuity Portfolio to Rothesay Life in March 2018 and expected net client outflows of £7.7 billion, with the remainder of the change in AuMA being due to market movements.

AuMA increased by £1.2 billion from £141.4 billion at 31 December 2016 to £142.6 billion at 31 December 2017, with positive market movements more than offsetting net client outflows of £7.1 billion.

Operating capital generation

	For the six months ended 30 June 2019			For the year ended 31 December 2018		
£m	Own Funds	SCR	Total	Own Funds	SCR	Total
With-profits	76	(22)	54	178	(26)	152
Shareholder annuities and other	129	73	202	217	151	368
Underlying capital generation	**205**	**51**	**256**	**395**	**125**	**520**
Other operating	100	321	421	698	206	904
Operating capital generation	**305**	**372**	**677**	**1,093**	**331**	**1,424**

Half year results

The operating capital generation for the six months ended 30 June 2019 was £677 million. The capital generated from the underlying business performance was £256 million and the capital generated by other operating items was £421 million. The underlying capital was predominately generated from the shareholder annuities and other business which contributed £202 million, while the with-profits business contributed £54 million.

The with-profits business contribution consists of a £76 million increase in Own Funds offset by an £22 million increase in the SCR. The Own Funds reflect an increase in the expected future shareholder transfers from the with-profits business, which was primarily due to expected investment returns exceeding the risk-free returns. The increase in the SCR was primarily due to the associated increase in capital requirements due to higher expected future shareholder transfers and the impact from the run-off of the equity hedge in place to protect the transfers.

The underlying capital generation of £202 million from shareholder annuities and other business predominately reflects the run-off of this business with the resulting release of credit risk margins and expected investment returns exceeding the risk-free returns.

The capital generated by other operating items of £421 million consists of a £145 million increase in surplus capital due to assumption changes primarily relating to annuity longevity improvements, a £101 million increase in surplus capital due to model refinements, a benefit of £105 million from efficient portfolio management of the annuity portfolio and a £35 million increase in surplus due to a release of capital in relation to equalising guaranteed minimum pension benefits, partially offset by a reduction in surplus of £41 million primarily due to an increase in the proportion of the with-profits business invested in equities.

Full year results

The total operating capital generation for the year ended 31 December 2018 was £1,424 million. The capital generated from the underlying business performance was £520 million and the operating capital generated by other operating items was £904 million. The underlying capital was predominately generated from the shareholder annuities and other business, which contributed £368 million, while the with-profits business contributed £152 million.

The £152 million contribution to surplus from underlying capital generation from in-force with-profits business consists of a £178 million increase in Own Funds offset by an £26 million increase in the SCR. The Own Funds reflect an increase in the expected future shareholder transfers from the with-profits business, which was primarily due to expected investment returns exceeding the risk-free returns. The increase in the SCR was primarily due to the run-off of equity hedges in place to protect shareholder transfers, before allowing for management actions to increase these hedges.

The underlying capital generation of £368 million from annuities and other business predominately reflects the run-off of this business with the resulting release of credit risk margins and expected investment returns exceeding the risk-free returns.

The operating capital generated by other operating items of £904 million primarily arose from assumption changes relating to longevity improvements of £378 million and expense assumption changes of £95 million, as well as an increase of £166 million due to the insurance recovery in respect of TRASP, a benefit from efficient portfolio management of £80 million and a benefit from extending the equity hedges in respect of the shareholder transfers from the with-profits fund of £41 million

(iii) Corporate Centre

Adjusted operating profit

The Corporate Centre includes central corporate costs incurred by the Group. The increase in costs over the 2016 to 2018 period reflects the appointment of new senior management and increased head office costs due to the Demerger. In future, the Corporate Centre will include costs associated with operating as a standalone publicly listed company and interest costs associated with the Tier 2 subordinated debt to be transferred to the Company as part of the Debt Substitution.

Capital generation

The Corporate Centre reduced operating capital generation by £59 million over the six month period ended 30 June 2019. This predominantly consisted of central corporate costs of £21 million incurred by the Group and a £30 million reduction in surplus due to the establishment of an operational risk capital allowance at the holding company level.

The Corporate Centre reduced surplus operating capital generation by £22 million over the year ended 31 December 2018. This predominantly consisted of central corporate costs incurred by the Group of £13 million.

5. LIQUIDITY AND CAPITAL RESOURCES

5.1 Liquidity management and resources

The Group manages cash and capital allocation centrally with a focus on capital efficiency and effective risk management. The Group seeks to ensure that it has sufficient funds to:

- maintain flexibility, fund new opportunities and absorb shock events;
- meet liabilities to policyholders and other obligations;
- fund dividends; and
- cover central costs and debt payments.

Liquidity is managed such that certain target ratings are maintained in the normal course of events and minimum ratings are maintained in certain stressed conditions. The Group carries out regular liquidity planning, including forward-looking scenario analysis and liquidity stress tests.

The primary sources of liquidity available to the Group are:

- cash generated by its businesses;
- surplus shareholder assets;
- the Revolving Credit Facilities; and
- short-term commercial paper issued by the Group's treasury function (Prudential Capital plc) for short-term operational financing.

The core structural borrowings of the Group will be the subordinated notes, which are expected to transfer to the Group as part of the Debt Substitution.

5.2 Cash flow statement

The following table sets out the Group's consolidated cash flows, which includes policyholder and shareholder cash and has been extracted from the Historical Financial Information.

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	Unaudited 2018	2017	2016
	£m	£m	£m	£m	£m
Net cash flows from operating activities	414	(1,711)	3	249	2,175
Net cash flows from investing activities	(172)	(224)	(358)	1,023	(232)
Net cash flows from financing activities	(356)	(445)	(758)	(658)	(599)
Net increase in cash and cash equivalents	(114)	(2,380)	(1,113)	614	1,344

The required IFRS format for cash flow statements of a life insurance business includes both cash flows related to policyholders and those related to the shareholder. This makes it difficult to draw conclusions on the impact of these operating and investing activities specifically impacting the shareholder.

(A) Net cash flows from operating activities

The Group's net cash flows from operating activities increased by £2,125 million, to an inflow of £414 million for the six months ended 30 June 2019 from an outflow of £1,711 million for the six months ended 30 June 2018. This increase reflects the increase in profit before tax and movement in operational assets and liabilities.

The Group's net cash flows from operating activities decreased by £246 million, to an inflow of £3 million for the year ended 31 December 2018 from an inflow of £249 million for the year ended 31 December 2017. This decrease reflects the reduction in profit before tax and movements in operational assets and liabilities.

The Group's tax net cash flows from operating activities decreased £1,926 million, to £249 million for the year ended 31 December 2017 from £2,175 million for the year ended 31 December 2016. This decrease reflects the reduction in profit before tax and movements in operational assets and liabilities.

(B) Net cash flows from investing activities

The Group's net cash flows from investing activities increased by £52 million, to an outflow of £172 million for the six months ended 30 June 2019 from an outflow of £224 million for the six months ended 30 June 2018. This reduction in the net cash outflow reflects the decrease in purchases of intangible assets within the infrastructure capital private equity vehicles in the six months ended 30 June 2019 compared to the six months ended 30 June 2018.

The Group's net cash flows from investing activities reduced by £1,381 million from an inflow of £1,023 million in the year ended 31 December 2017 to an outflow of £358 million in the year ended 31 December 2018. This net cash outflow relates to the sale of investments in the Group's infrastructure capital private equity vehicles in 2017.

The Group's net cash flows from investing activities increased by £1,255 million, from an outflow of £232 million in the year ended 31 December 2016 to an inflow of £1,023 million in the year ended 31 December 2017. The net cash inflow was primarily due to the sale of underlying investments in the Group's infrastructure capital private equity vehicles during 2017.

(C) Net cash flows from financing activities

The Group's net cash flows from financing activities are primarily comprised of dividend payments, which had a cash outflow impact of £356 million in the six months ended 30 June 2019, £526 million during the year ended 31 December 2018, £649 million during the year ended 31 December 2017 and £590 million during the year ended 31 December 2016.

There was an outflow of £100 million due to the redemption of undated subordinated guaranteed bonds in the with-profits funds in 2018, although this was offset by an inflow of £88 million due to the issue of shares under share based schemes.

5.3 Capital resources

As at 30 June 2019, the Group had £4.6 billion in cash and cash equivalents and no outstanding indebtedness.

Following approval of the Demerger Resolution by Prudential Shareholders at the Prudential General Meeting, but prior to the approval of the Demerger Dividend by the Prudential Board, Prudential plc will transfer Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million to the Company. This debt consists of the following instruments:

Instrument	Principal Amount (£m)
GBP 750,000,000 5.625 per cent Resettable Dated Tier 2 Notes due 20 October 2051	750
GBP 500,000,000 6.25 per cent Resettable Dated Tier 2 Notes due 20 October 2068	500
USD 500,000,000 6.50 per cent Resettable Dated Tier 2 Notes due 20 October 2048	393
GBP 700,000,000 6.34 per cent Resettable Dated Tier 2 Notes due 19 December 2063	700
GBP 600,000,000 5.56 per cent Resettable Dated Tier 2 Notes due 20 July 2055	600
GBP 300,000,000 3.875 per cent Resettable Dated Tier 2 Notes due 20 July 2049	300
Total subordinated debt of the Company post Demerger	**3,243**

The transfer of the debt will be achieved by substituting the Company in the place of Prudential plc as issuer of such debt, as permitted under the terms and conditions of each applicable instrument. Further detail on the subordinated notes to be transferred is set out below.

In exchange for assuming the debt, Prudential plc will pay the Company an amount equal to the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing as at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc will also pay the Company the Accrued Interest Amount. Following the transfer of the debt, the Company will pay a dividend of £2,968 million to Prudential plc.

The transfer of the debt is expected to take place on 18 October 2019, following approval of the Demerger Resolution by Prudential Shareholders at the Prudential General Meeting but before completion of the Demerger.

All of the debt to be transferred has interest payable at a fixed rate. The annualised interest expense for the transferred debt is £188 million, comprising £162 million payable for the Pounds Sterling denominated debt and £26 million payable for US dollar denominated debt (translated using the closing exchange rate at 30 June 2019 of 1.2727).

The Group aims to reduce its leverage ratio gradually over time.

(A) Subordinated Notes

On 3 October 2018, Prudential plc issued three series of subordinated notes, in the form of dated tier 2 notes, the terms of each of which include a substitution mechanic permitting Prudential plc to substitute the Company as the issuer thereof (the "**Substitutable Notes**").

An overview of certain of the specific terms applicable to each series of Substitutable Notes is set out below:

- *USD 500,000,000 6.500 per cent Resettable Dated Tier 2 Notes due 20 October 2048 (the "**6.500 per cent Notes**")* – From their date of issue to but excluding 20 October 2028, the 6.500 per cent Notes bear interest at a rate of 6.500 per cent per annum, payable semi-annually in arrear. On 20 October 2028, and each fifth anniversary thereafter, the rate of interest payable on the 6.500 per cent Notes will be reset by reference to a reference bond specified in the terms of the 6.500 per cent Notes. Prudential plc (or, following substitution, the Company) may elect to redeem the 6.500 per cent Notes in full at 100 per cent of their nominal amount on 20 October 2028 and each semi-annual interest payment date thereafter. Unless previously redeemed, substituted, converted or purchased and cancelled, subject to certain conditions, the 6.500 per cent Notes will be redeemed by Prudential plc (or, following substitution, the Company) in full at 100 per cent of their nominal amount on 20 October 2048.

- *GBP 750,000,000 5.625 per cent Resettable Dated Tier 2 Notes due 20 October 2051 (the "**5.625 per cent Notes**")* – From their date of issue to but excluding 20 October 2031, the 5.625 per cent Notes bear interest at a rate of 5.625 per cent per annum, payable semi-annually in arrear. On 20 October 2031, and each fifth anniversary thereafter, the rate of interest payable on the 5.625 per cent Notes will be reset by reference to a reference bond specified in the terms of the 5.625 per cent Notes. Prudential plc (or, following substitution, the Company) may elect to redeem the 5.625 per cent Notes in full at 100 per cent of their nominal amount on 20 October 2031 and each semi-annual interest payment date thereafter. Unless previously redeemed, substituted, converted or purchased and cancelled, subject to certain conditions, the 5.625 per cent Notes will be redeemed by Prudential plc (or, following substitution, the Company) in full at 100 per cent of their nominal amount on 20 October 2051.
- *GBP 500,000,000 6.250 per cent Resettable Dated Tier 2 Notes due 20 October 2068 (the "**6.250 per cent Notes**")* – From their date of issue to but excluding 20 October 2048, the 6.250 per cent Notes bear interest at a rate of 6.250 per cent per annum, payable semi-annually in arrear. On 20 October 2048, and each fifth anniversary thereafter, the rate of interest payable on the 6.250 per cent Notes will be reset by reference to a reference bond specified in the terms of the 6.250 per cent Notes. Prudential plc (or, following substitution, the Company) may elect to redeem the 6.250 per cent Notes in full at 100 per cent of their nominal amount on 20 October 2048 and each semi-annual interest payment date thereafter. Unless previously redeemed, substituted, converted or purchased and cancelled, subject to certain conditions, the 6.250 per cent Notes will be redeemed by Prudential plc (or, following substitution, the Company) in full at 100 per cent of their nominal amount on 20 October 2068.

In addition, Prudential plc undertook a successful consent solicitation process to obtain the consent of a requisite majority of the respective holders of two existing series of subordinated notes to amend their respective terms to, among other things, incorporate a substitution mechanic equivalent to that found in the terms of the Substitutable Notes described above (such amended subordinated notes being the "**Amended Substitutable Notes**"). The relevant amendments were effected by way of supplemental trust deeds dated 10 June 2019.

An overview of certain of the specific terms applicable to each series of Amended Substitutable Notes is set out below:

- *GBP 700,000,000 6.34 per cent Dated Tier 2 Notes due 2063 (the "**6.34 per cent Notes**")* – The 6.34 per cent Notes were issued on 16 December 2013. From their date of issue to but excluding 14 June 2019, the 6.34 per cent Notes bore interest at a rate of 5.70 per cent, and (as amended) from 14 June 2019 to but excluding 19 December 2043, the 6.34 per cent Notes bear interest at a rate of 6.34 per cent per annum, in each case payable semi-annually in arrear. On 19 December 2043, and each fifth anniversary thereafter, the rate of interest payable on the 6.34 per cent Notes will be reset by reference to a reference bond specified in the terms of the 6.34 per cent Notes. Prudential plc (or, following substitution, the Company) may elect to redeem the 6.34 per cent Notes in full at 100 per cent of their nominal amount on 19 December 2043 and each semi-annual interest payment date thereafter. Unless previously redeemed, substituted, converted or purchased and cancelled, subject to certain conditions, the 6.34 per cent Notes will be redeemed by Prudential plc (or, following substitution, the Company) in full at 100 per cent of their nominal amount on 19 December 2063.

- *GBP 600,000,000 5.56 per cent Dated Tier 2 Notes due 2055 (the "**5.56 per cent Notes**")* – The 5.56 per cent Notes were issued on 9 June 2015. From their date of issue to but excluding 14 June 2019, the 5.56 per cent Notes bore interest at a rate of 5.00 per cent, and (as amended) from 14 June 2019 to but excluding 20 July 2035, the 5.56 per cent Notes bear interest at a rate of 5.56 per cent per annum, payable semi-annually in arrear. On 20 July 2035, and each fifth anniversary thereafter, the rate of interest payable on the 5.56 per cent Notes will be reset by reference to a reference bond specified in the terms of the 5.56 per cent Notes. Prudential plc (or, following substitution, the Company) may elect to redeem the 5.56 per cent Notes in full at 100 per cent of their nominal amount on 20 July 2035 and each semi-annual interest payment date thereafter. Unless previously redeemed, substituted, converted or purchased and cancelled, subject to certain conditions, the 5.56 per cent Notes will be redeemed by Prudential plc (or, following substitution, the Company) in full at 100 per cent of their nominal amount on 20 July 2055.

On 10 July 2019, Prudential plc issued the following subordinated note, in the form of dated tier 2 notes, the terms of which include a substitution mechanic permitting Prudential plc to substitute the Company as the issuer thereof at the point of Demerger:

- GBP 300,000,000 3.875 per cent Resettable Dated Tier 2 Notes due 20 July 2049 (the "**3.875 per cent Notes**" and, together with the Substitutable Notes and the Amended Substitutable Notes, the "**Notes**"). From their date of issue to but excluding 20 July 2024, the 3.875 per cent Notes bear interest at a rate of 3.875 per cent per annum, payable semi-annually in arrear. On 20 July 2024, and each fifth anniversary thereafter, the rate of interest payable on the 3.875 per cent Notes will be reset by reference to a reference bond specified in the terms of the 3.875 per cent Notes. Prudential plc (or, following substitution, the Company) may elect to redeem the 3.875 per cent Notes in full at 100 per cent of their nominal amount on 20 July 2024 and each semi-annual interest payment date thereafter. Unless previously redeemed, substituted, converted or purchased and cancelled, subject to certain conditions, the 3.875 per cent Notes will be redeemed by Prudential plc (or, following substitution, the Company) in full at 100 per cent of their nominal amount on 20 July 2049.

The Notes constitute direct, unsecured and subordinated obligations of Prudential plc (or, following substitution, the Company). All payments under the Notes are subject to, among other things, Prudential plc (or, following substitution, the Company) meeting both the SCR and the minimum capital requirement at the time of, and immediately after, such payment. The Notes have been admitted to trading on the regulated market of the London Stock Exchange.

(B) Revolving Credit Facilities

On 27 March 2019, the Company entered into the Revolving Credit Facilities.

The Revolving Credit Facilities consist of: (i) three bilateral revolving credit facilities; and (ii) one syndicated revolving credit facility. The commitments under the Revolving Credit Facilities are provided by various relationship banks of the Company.

The base currency of each Revolving Credit Facility is Pound Sterling, although each Revolving Credit Facility can be drawn in Pound Sterling, euro and US dollars and also incorporates a US dollar swingline facility. Loans under each Revolving Credit Facility bear interest at a rate equal to the aggregate of LIBOR (or EURIBOR, as applicable) and 0.23 per cent per annum. The proceeds of each Revolving Credit Facility are available for the general corporate purposes of the Company. As at the date of this Prospectus, the Revolving Credit Facilities are undrawn. Subject to certain early repayment triggers, each loan under a Revolving Credit Facility is repayable at the end of the interest period applicable to such loan.

The terms of each Revolving Credit Facility require the Company to make certain customary representations and warranties at various times throughout the term of the relevant Revolving Credit Facility. In addition, the terms of each Revolving Credit Facility include a customary set of positive and negative undertakings by which the Company is bound, including a negative pledge, "no disposals" undertaking and "no merger" undertaking. Although the Revolving Credit Facilities do not include any financial covenants, the Company is required to comply with certain information covenants, including a requirement to deliver periodic financial information to the relevant lender and/or agent. Each Revolving Credit Facility contains customary events of default, including cross-default provisions, the occurrence of which would permit the relevant lender and/or agent (acting on the instructions of a requisite majority of the relevant lenders), among other things, accelerate the Revolving Credit Facility in question.

Each Revolving Credit Facility terminates automatically upon the expiration of an initial five-year term, in each case subject to extension by up to two one-year periods upon mutual agreement between the relevant parties.

(C) Intra-Group Facility

On 28 March 2019, in connection with its entry into the Revolving Credit Facilities, the Company agreed to provide an unsecured revolving credit facility, incorporating a US dollar swingline facility, to Prudential plc (the "**Intra-Group Facility**"). The Company's commitments under the Intra-Group Facility equal £1.50 billion. The Intra-Group Facility is on substantially similar terms to the Revolving Credit Facilities. The commitments under the Intra-Group Facility will automatically terminate, and any amounts outstanding under the Intra-Group Facility will become immediately repayable, at the point of Demerger.

(D) Capital support arrangements

In 2013, Prudential plc and PAC put in place arrangements to formalise circumstances in which capital support would be made available to PAC by Prudential plc. While the Group considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders. These arrangements between Prudential plc and PAC will terminate at Admission, at which time arrangements formalising the circumstances in which the Company will make capital support available to PAC, and the circumstances in which Prudential Capital plc will guarantee and provide collateral with respect to a part of the Company's commitment, will become effective.

5.4 Capital management

The Group is currently subject to the supervision of the PRA on a consolidated basis under the Solvency II regime as part of the Prudential Group and, with effect from the Demerger, will be subject to the consolidated prudential supervision of the PRA under that regime as a standalone group. Individual insurance undertakings within the Group are also subject to the supervision of the PRA (or other EU competent authorities) on a solo basis under the Solvency II regime. Solvency II contains requirements for the calculation of the regulatory balance sheet and Own Funds requirements, the Own Risk and Solvency Assessment ("**ORSA**"), and public and private reporting requirements.

The Group manages its Solvency II Own Funds as its measure of capital. The Group ensures that sufficient Own Funds are available on an ongoing basis to meet the Group's SCR and this is achieved by targeting a capital buffer significantly in excess of the SCR. This buffer is intended to absorb the impact of stressed market conditions and therefore make the Group's balance sheet resilient to stresses that affect the Group's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the PRA. The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this influences the approach to asset/liability management.

In addition, projections are performed over three to five year time horizons to understand how the Own Funds and capital position is expected to develop and how this might be affected by adverse events. A number of actions are available to management to mitigate the impact of such events. Examples of these include additional hedging, changes in the asset mix, additional reinsurance and the issue of additional Solvency II capital instruments.

5.5 Regulatory capital

(A) Insurance undertakings' regulatory capital requirements

The insurance undertakings within the Group are required to maintain sufficient eligible Own Funds to cover their own solo SCRs and to ensure that there are sufficient Own Funds on a group-wide basis to cover the Group SCR. The SCR reflects the amount of Own Funds that an insurance undertaking (or, on a consolidated basis, an insurance group) is required to hold to ensure that there will be sufficient assets to cover its projected technical provisions, based on a confidence level of 99.5 per cent over a one year period. The SCR is calculated using the group internal model. The Group has requested approval from the PRA to amend the group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from that point.

The main insurance subsidiary in the Group is PAC, which also has two regulated insurance subsidiaries, Prudential International Assurance plc and Prudential Pensions Limited. All regulated insurance entities within the Group have met their respective capital requirements over the period covered by the Historical Financial Information.

(B) Asset management undertakings' regulatory capital requirements

M&G Group Limited is the holding company of the group that contains the Group's main asset management subsidiaries (the "**Asset Management Group**"). M&G Group Limited and its subsidiaries that are regulated entities authorised by the FCA are subject to minimum capital requirements set by the FCA. The Asset Management Group is also subject to a consolidated capital requirement calculated under the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**"). The minimum Pillar 1 consolidated capital requirement that applies to the Asset Management Group is equal to the higher of a fixed overhead requirement and the sum of the credit risk and market risk capital requirements.

In addition, the Asset Management Group is required to maintain a minimum level of Pillar 2 capital on a consolidated basis, which is set in relation to the Asset Management Group's actual risk profile and its own determination of whether capital is required to cover these risks. This is achieved through the Internal Capital Adequacy Assessment Process ("**ICAAP**") undertaken by the Asset Management Group and the Supervisory Review and Evaluation Process performed by the FCA.

The Asset Management Group's consolidated capital requirements must be met with capital instruments and reserves that meet certain eligibility criteria prescribed in BIPRU.

M&G Group Limited and its subsidiaries have met their respective capital requirements over the period covered by the Historical Financial Information.

5.6 Illustrative Group capital position

The basis on which the main operating entities and intra-group holding companies in the Group are included in the Group Solvency II position are shown below:

Entity	Regulatory Framework	Inclusion in Group Solvency II position
The Prudential Assurance Company Limited	Solvency II	Solvency II Internal Model(1)
Prudential International Assurance plc	Solvency II	Solvency II Internal Model(1,2)
Prudential Pensions Limited	Solvency II	Solvency II Internal Model(1,2)
M&G Group Limited	BIPRU	Included on sectoral basis

1 The Group has requested approval from the PRA to amend the Prudential Group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from that point.

2 Subsidiary of PAC.

(A) Illustrative Group regulatory capital position

The regulatory capital position of the Group will take into account both shareholder and with-profits funds. This view of capital recognises the ring-fenced nature of the with-profits funds and on consolidation surplus in those funds can only be recognised to the level of associated solvency capital requirement with any excess surplus being eliminated as a ring-fenced fund restriction.

The following illustrative regulatory capital position for the Group has been prepared as at 30 June 2019. The illustrative position reflects the perimeter of the Group set out in Note 1.2(B) of the Historical Financial Information.

The results include transitional measures which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date, which at 30 June 2019 differed from the approved regulatory position for PAC.

The Group has requested approval from the PRA to amend the group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from that point. The results set out below should not be interpreted as representing the Pillar I output from an approved Solvency II internal model for the Group and are subject to change.

As at 30 June 2019	**£m[(1)]**	
Assets	205,855	Audited[(2)]
Technical provisions		
Best Estimate Liabilities	170,492	Audited
Risk Margin	4,730	Unaudited
Transitional Measures	(3,019)	Unaudited
Other liabilities	13,079	Audited
Excess of assets over liabilities	20,573	
Subordinated debt	0	Audited
Ring-fenced fund restriction	6,640	Unaudited
Group illustrative Own Funds	13,933	Unaudited
Group illustrative SCR	10,074	Unaudited
Group illustrative surplus	3,859	Unaudited
Regulatory coverage ratio	138%	Unaudited

1 Based on outputs from the Group's proposed internal model. The Group has requested approval from the PRA to amend the Prudential Group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from that point.

2 Solvency II assets include balances in respect of M&G Group Limited, Prudential Lifetime Mortgages Limited and other entities which are valued on a sectoral basis in accordance with the Solvency II rules. These balances are unaudited.

(B) Illustrative and unaudited Group shareholder capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more accurate reflection of the capital strength of the Group. The shareholder capital position has been prepared on a basis consistent with the illustrative regulatory capital position in part (A) of this section. The shareholder view includes future with-profits shareholder transfers, but excludes the shareholders' share of the ring-fenced with-profits estate. The estimated and unaudited illustrative shareholder Solvency II capital position for the Group as at 30 June 2019 and at 31 December 2018 is as follows:

	As at 30 June 2019	As at 31 December 2018
	£bn[(1)]	£bn[(1)]
Own Funds[(2)]	9.5	9.6
SCR[(3)]	5.6	5.6
Surplus	3.9	4.0
Coverage Ratio	169%	172%

1 Based on outputs from the Group's proposed internal model. The Group has requested approval from the PRA to amend the Prudential Group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from that point.

2 Certain aspects of Own Funds are audited, please refer to the above table.

3 The SCR is not audited.

The illustrative Group shareholder capital position has been prepared as at 30 June 2019 and at 31 December 2018 using the financial position of the entities within the perimeter of the Group as set out in Note 1.2(B) of the Historical Financial Information. An estimated pro forma position as at 30 June 2019 is presented in Part VI (*Unaudited Pro Forma Financial Solvency Information of the Group*).

5.7 Transferability of capital

As noted above, the shareholder Solvency II calculation includes future with-profits shareholder transfers, but excludes the shareholder's share of the with-profits estate in line with the Solvency II requirements. The large surplus in the with-profits funds is ring-fenced from the shareholder balance sheet with restrictions as to its distribution. Distributions from the with-profits funds to the shareholder continue to reflect the shareholder's 1/9th share of the cost of declared policyholders' bonuses.

The Group considers that available capital of the entities within the Group that is not ring-fenced is transferrable after taking account of an appropriate level of operating capital, based on Solvency II requirements and associated PRA guidance.

6. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Group leases various offices to conduct its business. The table below presents a maturity analysis of lease payments showing the undiscounted lease payments to be paid on an annual basis.

	As at 30 June		As at 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:					
Less than 1 year	9	21	16	19	20
1 - 5 years	109	115	105	33	36
Over 5 years	314	327	325	8	11
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings	—	—	—	2	1
Minimum lease rental payments included in combined income statement[(1)]	—	—	—	22	23

1 Disclosure no longer required on transition to IFRS 16

In May 2018, M&G FA Limited entered into a property lease for 10 Fenchurch Avenue in London, resulting in the significant increase in lease payments noted in the table above in 2018.

For further details of the Group's contractual obligations and commitments, see Note 30 of the Historical Financial Information.

7. CONTINGENT LIABILITIES

In addition to TRASP noted in section 3 (*Key factors affecting the Group's results*) of this Part III (*Operating and Financial Review*), 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 Director's believe that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows. For further details of the Group's contingent liabilities, see Note 29 of the Historical Financial Information.

8. RISK DISCLOSURES

For details of the Group's risk management, see Note 28 of the Historical Financial Information.

9. ACCOUNTING POLICIES

The critical accounting policies of the Group are set out in Note 1.5 of the Historical Financial Information. The judgements made in applying accounting policies are set out in Note 1.4 of the Historical Financial Information.

PART IV
CAPITALISATION AND INDEBTEDNESS

1. CAPITALISATION

The table below sets out the Group's capitalisation as at 30 June 2019.

Shareholders' equity	£m
Share capital	130
Share premium	370
Total	**500**

The capitalisation information presented above excludes retained earnings, the translation reserve and the merger reserve which arises on consolidation of the Group of (£11,619 million). The merger reserve was set equal to the difference between the aggregated capital reserves and the fair value of PAC, M&G Group Limited, Prudential Property Services Limited and Prudential Financial Services Limited when transferred from Prudential plc to the Company in November 2018 and adjusted for the disposal of the Hong Kong registered subsidiaries of PAC in December 2018.

The Company was incorporated on 2 July 2018. Prior to this date, the business now carried out by the Group was not carried out by a separate legal entity or a separate group of entities. As a result, the Historical Financial Information has been prepared on a basis that combines the results, assets and liabilities of the Group's business and it is not meaningful to show the share capital or an analysis of reserves for the Group in the Historical Financial Information. As such, the net assets of the Group are represented in the Historical Financial Information by the cumulative investment of Prudential plc in the Group. This is presented in the Statement of Financial Position as invested capital.

There has been no material change in the Group's capitalisation since 30 June 2019.

2. SHAREHOLDER INDEBTEDNESS

The table below sets out the Group's shareholder indebtedness as at 30 June 2019.

Total current debt	£m
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
	—
Total non-current debt (excluding current portion of long–term debt)	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
	—
Total	—

As at 30 June 2019 the Group had no indebtedness.

The Statement of Financial Position in the Historical Financial Information shows £3.7bn of borrowings as at 30 June 2019. £3.6bn of such borrowings are held by the policyholders of the Company that the M&G Shareholders have no recourse to. The remaining £0.1bn relates to operational borrowings and does not represent indebtedness of the Group.

There has been no material change in the Group's shareholder indebtedness since 30 June 2019.

PART V
UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma information has been prepared on the basis of the notes set out below to illustrate the impact of the Demerger on the consolidated statement of financial position of the Group. The pro forma statement of financial position is based on the statement of financial position as at 30 June 2019 and has been prepared on the basis that the Demerger took place on that date.

The pro forma financial information has been prepared in accordance with the accounting policies normally adopted by the Group and applied in preparing the Historical Financial Information.

The unaudited pro forma information of the Group has been prepared for illustrative purposes only and in accordance with Annex 20 of the PR Regulation. Because of its nature, the unaudited pro forma information of the Group addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of the Group. It may not, therefore give a true picture of the Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

The unaudited pro forma information does not constitute a statutory account within the meaning of section 434 of the Companies Act. Prospective investors should read the whole of this Prospectus and not rely solely on the summarised financial information contained in this Part V (*Unaudited Pro Forma Financial Information of the Group*).

Section A: Unaudited pro forma Statement of Financial Position

	Statement of financial position of the Group as at 30 June 2019	Adjustments: Debt Substitution	Adjustments: Pre-demerger dividends	Adjustments: Other	Pro forma
	Note 1 £m	Note 2 £m	Note 3 £m	Note 4 £m	Note 5 £m
Assets					
Goodwill and intangible assets	1,422				1,422
Deferred acquisition costs	107				107
Investment in joint ventures and associates	605				605
Property, plant and equipment	1,383				1,383
Investment property	18,778				18,778
Defined benefit pension asset	51				51
Deferred tax assets	110			36	146
Reinsurance assets	2,690				2,690
Loans	5,997				5,997
Derivative assets	2,883				2,883
Equity securities and pooled investment funds	67,484				67,484
Deposits	16,792				16,792
Debt securities	85,174				85,174
Current tax assets	271				271
Accrued investment income and other debtors	3,149				3,149
Assets held for sale	10,170				10,170
Cash and cash equivalents	4,624	3,217	(3,155)	35	4,721
Total assets	**221,690**	**3,217**	**(3,155)**	**71**	**221,823**
Invested capital	8,498	(380)	(3,155)	68	5,031
Total Invested capital	**8,498**	**(380)**	**(3,155)**	**68**	**5,031**
Liabilities					
Insurance contract liabilities	76,680				76,680
Investment contract liabilities with discretionary participation features	67,560				67,560
Investment contract liabilities without discretionary participation features	15,695				15,695
Unallocated surplus of with-profits funds	15,328				15,328
Third party interest in consolidated funds	9,040				9,040
Borrowings and subordinated liabilities	3,712	3,597			7,309
Defined benefit pension liability	120				120
Lease liabilities	323				323
Deferred tax liabilities	1,187				1,187
Current tax liabilities	427			(32)	395
Derivative liabilities	2,677				2,677
Other financial liabilities	2,723				2,723
Provisions	416				416
Accruals, deferred income and other liabilities	7,140			35	7,175
Liabilities held for sale	10,164				10,164
Total liabilities	**213,192**	**3,597**		**3**	**216,792**
Total equity and liabilities	**221,690**	**3,217**	**(3,155)**	**71**	**221,823**

Notes

1. The statement of financial position has been extracted without material adjustment from the Historical Financial Information.
2. This adjustment represents the Debt Substitution, details of which are set out in section 5.3 (*Capital Resources*) of Part III (*Operating and Financial Review*). The consideration for the Debt Substitution will be the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc will also pay the Company the Accrued Interest Amount.

   The debt has a fair value, excluding accrued interest, of £3,597 million at 30 June 2019. The difference between the consideration and the fair value of the debt has been accounted for as a distribution by the Company to Prudential plc.

   The nominal value of £393 million, consideration of £391 million and fair value of £442 million in respect of the US$ denominated debt has been translated at the 30 June 2019 exchange rate of 1.2727.

3. This adjustment represents dividends of £3,155 million paid and to be paid to Prudential plc, the Company's immediate parent, as part of the Demerger. This consists of a £2,968 million Pre-Demerger Dividend, together with a dividend of £187 million paid on 20 September 2019. All dividends are subject to the customary legal and governance considerations required before approval by the Board.
4. This adjustment represents the accrued interest of £35 million and the current and deferred tax impacts in respect of the Notes substituted by way of the Debt Substitution. £5 million of the accrued interest is in respect of the US$ denominated debt translated at the 30 June 2019 exchange rate of 1.2727.
5. No adjustment has been made to reflect the trading results of the Group since 30 June 2019 or any other change in its financial position in this period.

Section B: Accountants Report on Pro Forma Financial Information

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The Directors
M&G plc
10 Fenchurch Avenue
London, EC3M 5AG

25 September 2019

Ladies and Gentlemen

M&G plc

We report on the pro forma financial information (the 'Pro forma financial information') set out in Part V of the prospectus dated 25 September 2019, which has been prepared on the basis described in Part V, Section A, for illustrative purposes only, to provide information about how the Demerger might have affected the financial information presented on the basis of the accounting policies to be adopted by M&G plc in preparing the financial statements for the period ending 31 December 2019. This report is required by section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 (the 'PR Regulation') and is given for the purpose of complying with that section and for no other purpose.

Responsibilities

It is the responsibility of the directors of M&G plc to prepare the Pro forma financial information in accordance with Annex 20 of the PR Regulation.

It is our responsibility to form an opinion, as required by section 3 of Annex 20 of the PR Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 1 of the PR Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of M&G plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of M&G plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of M&G plc.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex 1 of the PR Regulation.

Yours faithfully

KPMG LLP

PART VI

UNAUDITED PRO FORMA FINANCIAL SOLVENCY INFORMATION OF THE GROUP

The unaudited pro forma shareholder Solvency II capital position of the Group set out below has been prepared to illustrate the effect of the Demerger on the shareholder Solvency II capital position of the Group as if the Demerger had taken place on 30 June 2019 and in a manner consistent with the basis of Solvency II reporting of the Group at 30 June 2019 (the "Solvency II accounting policies").

The unaudited pro forma shareholder Solvency II capital position of the Group has been prepared on the basis of, and should be read in conjunction with, the notes set out below.

The unaudited pro forma shareholder Solvency II capital position of the Group has been prepared for illustrative purposes only and in accordance with Annex 20 of the PR Regulation. Because of its nature, the unaudited pro forma shareholder Solvency II capital position of the Group addresses a hypothetical situation and, therefore, does not represent the actual Solvency II capital position following the Demerger. It may not, therefore, give a true picture of the shareholder Solvency II capital position of the Group, nor is it indicative of the capital position that may, or may not, be expected to be achieved in the future.

Section A: Unaudited pro forma Group shareholder Solvency II capital position

		Adjustments			
	Group shareholder Solvency II position as at 30 June 2019	**Debt Substitution**	**Pre-demerger dividends**	**Other**	**Pro forma**
	Note 1 £bn	**Note 2 £bn**	**Note 3 £bn**	**Note 4 £bn**	**Note 5 £bn**
Own Funds	9.5	3.2	(3.2)	0.1	9.6
Solvency Capital Requirement	5.6				5.6
Surplus	3.9	3.2	(3.2)	0.1	4.0
Ratio (%)	169%				170%

Notes

1. The information on the shareholder Solvency II capital position of the Group as at 30 June 2019 has been extracted without material adjustment from the Historical Financial Information.
2. This adjustment represents the Debt Substitution, details of which are set out in section 5.3 (*Capital Resources*) of Part III (*Operating and Financial Review*). The consideration for the Debt Substitution will be the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc will also pay the Company the Accrued Interest Amount.

   The Own Funds impact reflects the consideration of approximately £3.2 billion which will be paid. The Notes meet the requirements to be counted as Solvency II Own Funds and therefore the Notes' liability obligations are reclassified as capital for the purposes of determining Own Funds.

   The nominal value of £0.4 billion and consideration of £0.4 billion in respect of the US$ denominated debt has been translated at the 30 June 2019 exchange rate of 1.2727.
3. This adjustment represents dividends of £3.2 billion paid and to be paid to Prudential plc, the Company's immediate parent, as part of the Demerger. This consists of the £3.0 billion Pre-Demerger Dividend, together with a dividend of £0.2 billion paid on 20 September 2019. All dividends are subject to the customary legal and governance considerations required before approval by the Board.
4. This adjustment represents the accrued interest of £0.04 billion and the current and deferred tax impacts in respect of the Notes substituted by way of the Debt Substitution. £0.01 billion of the accrued interest is in respect of the US$ denominated debt translated at the 30 June 2019 exchange rate of 1.2727.
5. No adjustment has been made to reflect the results of the Group or other changes in Solvency II capital position of the Group since 30 June 2019.

Section B: Accountants Report on Pro Forma Solvency Information

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The Directors
M&G plc
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London, EC3M 5AG

25 September 2019

Ladies and Gentlemen

M&G plc

We report on the pro forma solvency information (the 'Pro forma Solvency information') set out in Part VI of the prospectus dated 25 September 2019, which has been prepared on the basis described in Part VI, Section A, for illustrative purposes only, to provide information about how the Demerger might have affected the solvency information presented on the Solvency II basis expected to be applied by M&G plc for the period ending 31 December 2019 (the 'Solvency Accounting Policies'). This report is required by section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 (the 'PR Regulation') and is given for the purpose of complying with that section and for no other purpose.

Responsibilities

It is the responsibility of the directors of M&G plc to prepare the Pro forma Solvency information in accordance with Annex 20 of the PR Regulation.

It is our responsibility to form an opinion, as required by section 3 of Annex 20 of the PR Regulation, as to the proper compilation of the Pro forma Solvency information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma Solvency information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 1 of the PR Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted solvency information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma Solvency information with the directors of M&G plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma Solvency information has been properly compiled on the basis stated and that such basis is consistent with the Solvency Accounting Policies of M&G plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma Solvency information has been properly compiled on the basis stated; and
- such basis is consistent with the Solvency Accounting Policies of M&G plc.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex 1 of the PR Regulation.

Yours faithfully

KPMG LLP

PART VII

REGULATORY OVERVIEW

1. OVERVIEW

The Group is currently subject to the consolidated prudential supervision of the PRA as part of the Prudential Group and, with effect from the Demerger, will be subject to the consolidated prudential supervision of the PRA as a standalone group. The Group contains a number of entities that are authorised and regulated under the laws of the UK and other jurisdictions. This part of the Prospectus is intended to give an overview of the regulatory framework that currently applies to the Group. Section 2 summarises the key features of the framework for the regulation of financial services in the UK, as it applies to the Group. Sections 3 and 4 summarise the key features of the supervisory regimes that apply to insurance and asset management entities in the UK, respectively, including information on the EU legislation from which they derive. Section 5 addresses regulation in other jurisdictions and section 6 summarises recent and future developments relevant to the supervision of the Group.

2. THE UK REGULATORY FRAMEWORK

2.1 The PRA and the FCA

The Bank of England, acting through the PRA, is responsible for the authorisation and micro-prudential regulation of insurance companies, banks and certain designated investment firms. The Bank of England exercises its function as the PRA through the Prudential Regulation Committee. Through the Financial Policy Committee, the Bank of England is also responsible for the macro-prudential regulation of the entire UK financial services system. The PRA's primary purpose and objective is to promote the safety and soundness of PRA-authorised persons. It also has (i) a specific "insurance objective" of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders of PRA-authorised insurers; and (ii) a secondary objective of facilitating effective competition between firms.

The FCA is responsible for the authorisation of all UK regulated entities other than insurance companies, banks and designated investment firms and regulates the conduct of every authorised firm (including those authorised by the PRA). Its "operational objectives" are to: secure an appropriate degree of protection for consumers; protect and enhance the integrity of the UK financial system; and promote effective competition in the interests of consumers in the markets for regulated financial services and services provided by recognised investment exchanges. The FCA also has a "strategic objective" of ensuring that the relevant markets function well. and powers as a competition regulator for the financial services sector that are concurrent with those of the Competition and Markets Authority (the "**CMA**").

Insurance undertakings in the UK are among the categories of firm that are dual-regulated, which means that they are authorised, prudentially regulated and supervised by the PRA, and regulated for conduct of business purposes by the FCA. The Group contains two such firms.

UK asset management firms, most investment firms (including firms that carry on regulated activities related to investment advice), insurance distribution firms and firms that engage in consumer lending are among the categories of firm that are authorised and regulated solely by the FCA and are therefore referred to as "solo-regulated" firms. The Group contains a number of such firms. While certain designated investment firms are authorised by the PRA and regulated by both the PRA and the FCA, the Group does not contain any such firms.

The PRA and FCA are funded by levies imposed on the firms that they supervise.

2.2 The Pensions Regulator

The Pensions Regulator is responsible for the regulation and supervision of work-based pension schemes. Its objectives are to: protect the benefits of those enrolled in work-based pension schemes; reduce the risk of situations arising which lead to compensation from the Pension Protection Fund; minimise any adverse impact on the sustainable growth of an employer in relation to the exercise of its scheme funding functions; maximise compliance with employers' duties concerning automatic enrolment of employees; and promote the good administration of work-based pension schemes. Its powers derive from, inter alia, the Pensions Act 2004, the Pension Schemes Act 1993, the Pensions Act 1995, the Pensions Act 2008 and the Welfare Reform and Pensions Act 1999. The Pensions Regulator is funded by a general levy set by the Secretary of State for Work and Pensions.

2.3 Permission to carry on regulated activities in the UK

In order to authorise a person to carry on regulated activities in the UK, the PRA and/or the FCA must determine that the applicant meets the requirements of FSMA, including certain "threshold conditions". The threshold conditions are the minimum conditions which must be satisfied (both at the time of authorisation and on an ongoing basis) in order for a firm to gain and continue to have permission to carry on the relevant regulated activities under FSMA. Dual-regulated firms must meet both the PRA and the FCA threshold conditions. These relate to matters including: the applicant's legal form; whether the applicant has adequate resources (both financial and non-financial) to carry on its business; whether, having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently), the applicant is a fit and proper person to conduct the relevant regulated activities; and whether the applicant is effectively supervised.

Once authorised, in addition to continuing to meet the threshold conditions, firms must comply with the provisions of FSMA, related secondary legislation and the rules made by the PRA (where appropriate) and the FCA under FSMA. These rules are set out in the PRA Rulebook and the FCA Handbook respectively.

2.4 Principles for Businesses and Fundamental Rules

The FCA Principles for Businesses (the "**Principles**"), which are contained in the FCA Handbook, set out high-level principles that apply to all authorised persons in the UK. Among other things, the Principles require firms to: treat customers fairly; maintain adequate financial resources; and communicate with customers in a way that is clear, fair and not misleading.

In addition to the Principles, dual-regulated firms are also subject to certain overarching "Fundamental Rules" issued by the PRA. These rules are core to the PRA's supervisory approach and underpin the PRA Rulebook. The Fundamental Rules require firms, among other things, to: conduct their business with integrity; maintain adequate financial resources; and organise and control their affairs responsibly and effectively.

The FCA has also established six key outcomes that it expects firms to focus on in order to ensure that they are treating customers fairly in accordance with the Principles. These outcomes are that: (i) consumers can be confident they are dealing with firms where the fair treatment of customers is central to the firm's corporate culture; (ii) products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly; (iii) consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale; (iv) where consumers receive advice, the advice is suitable and takes account of their circumstances; (v) consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect; and (vi) consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

2.5 Senior management arrangements, systems and controls

The 'Senior Management Arrangements, Systems and Controls' Sourcebook in the FCA Handbook ("**SYSC**") contains general organisational requirements that apply to UK authorised firms, including UK authorised insurers, asset management and investment firms. These requirements elaborate on Principle 3 of the FCA Principles for Businesses, which requires firms to take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems.

In broad terms, SYSC requires firms to employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them and to implement systems and controls relating to compliance and risk controls. SYSC also contains rules relating to: (i) the persons who effectively direct the business of authorised firms (including those approved under the Senior Managers and Certification Regime ("**SMCR**")); (ii) outsourcing; and (iii) conflicts of interest.

2.6 Client assets

Principle 10 of the Principles requires firms to arrange adequate protection for assets when the firm is responsible for them. The 'Client Assets' Sourcebook in the FCA Handbook ("**CASS**") elaborates on this requirement, setting out the rules that apply to firms that are permitted to hold client money and assets. This includes a number of UK authorised entities in the Group.

The requirements set out in CASS aim to protect money and assets belonging to a firm's clients from the insolvency of that firm and to ensure that, if a firm is subject to insolvency proceedings, client money and assets can be promptly returned to the client. The rules seek to achieve this by: (i) requiring firms to keep client money and assets separate from their own and imposing other rules on how client money and assets should be held (including by third parties); (ii) preventing firms from using client money and assets for their own purposes without consent; and (iii) mandating firms to keep records of the client money and assets they hold.

2.7 Supervision and enforcement under FSMA

The PRA and the FCA have powers to take a range of enforcement action against firms that they have authorised. In particular, enforcement action may include: restrictions on undertaking new business; public censure; the payment of restitution to customers; the imposition of financial penalties; and, ultimately, the revocation of permission to carry on regulated activities. The PRA and/or the FCA may also take direct enforcement action against certain individuals in insurance firms under the SMCR. The FCA may take enforcement action against certain individuals in solo-regulated firms under the Approved Persons Regime. The SMCR, which currently only applies to dual-regulated firms (including insurance undertakings) will be extended to apply to solo-regulated firms (including asset management firms and investment firms) from 9 December 2019. For further information, see sections 2.9 (*Senior Managers and Certification Regime*) and 2.10 (*Approved Persons Regime*) of this Part VII (*Regulatory Overview*).

The PRA and the FCA have further powers to obtain injunctions against UK authorised firms and to impose or seek restitution orders where consumers have suffered loss. In certain circumstances, the PRA and the FCA also have the power to take action against the unauthorised parent undertakings of UK authorised persons (such as the Company), including by issuing directions to take or refrain from taking specified action.

In addition to its work supervising individual firms, the FCA may use its powers to investigate the functioning of specific products and markets. A key part of this is the FCA's use of thematic reviews to assess current or emerging risks regarding an issue or product across a number of firms in a sector or market. The FCA has in recent years conducted a number of thematic reviews relevant to the Group, including on the treatment of long-standing customers in the life insurance sector and on non-advised annuity sales practices (in each case as part of a broader review into retirement outcomes). For instance, in April 2019 the FCA published its final report on its thematic review of the fair treatment of with-profits customers. Thematic reviews frequently result in the FCA issuing new rules and/or guidance, or investigating possible failures by firms to comply with existing rules and guidance. This has in recent years resulted in a number of changes to the regulation of the sectors in which the Group operates, particularly in relation to its insurance and savings businesses.

As part of its powers as a competition regulator, the FCA may also undertake market studies to investigate whether markets are working well for customers. If the FCA concludes that this is not the case in relation to a particular market, it can impose market-specific and/or firm-specific remedies or make a market investigation reference to the CMA. As discussed in more detail in section 6.3 (*Changes following the FCA asset management market study*) of this Part VII (*Regulatory Overview*), the FCA has made a number of changes to the rules and guidance that apply to the Group's asset management business following a market study into the asset management sector.

2.8 Consumer complaints and compensation

UK authorised firms fall under the compulsory jurisdiction of the FOS (a body established under FSMA) in relation to regulated activities carried on from an establishment in the UK. Authorised firms are required to have effective and transparent complaints handling procedures but, where these are exhausted and the complaint or dispute has not been resolved, the FOS provides for dispute resolution in respect of certain categories of complaints brought by individual and small business customers. Firms covered by the FOS are required to pay levies and case fees, which provide the funding for the FOS. Awards made by the FOS are binding on the firms to which they relate.

The Financial Services Compensation Scheme ("**FSCS**"), established under FSMA, seeks to protect customers of UK authorised firms that are unable or unlikely to be able to meet their financial obligations to customers. The FSCS provides compensation to certain categories of customer who suffer loss as a consequence of the failure by a regulated firm to meet its liabilities arising from claims made in connection with regulated activities. The FSCS is funded by way of levies imposed on all of its participating financial services firms, including certain authorised firms within the Group.

2.9 Senior Managers and Certification Regime

Solvency II requires insurers to ensure that all persons who effectively run a firm, or otherwise hold key functions, to: have adequate professional qualifications; have the requisite knowledge and experience to enable sound and prudent management; and be of good repute and integrity. The SMCR, which was extended to apply to insurers in 2018, implements these requirements in the UK. The SMCR currently only applies to dual-regulated firms, but will be extended on 9 December 2019 to all solo-regulated firms, replacing the existing Approved Persons Regime.

The SMCR has three main components.

First, the SMCR contains a Senior Managers Regime, which requires individuals performing SMFs to be pre-approved by regulators before they start their role. The PRA and the FCA both produce lists of SMFs, which include the chief executive function, the chief financial function, the chief risk function and the chief actuary function. Individuals who hold SMFs have a duty in relation to their prescribed responsibilities. The FCA and the PRA can take action against individuals who hold SMFs if: (i) there is a regulatory breach within their area of responsibility; and (ii) they do not take reasonable steps to avoid the breach.

Second, the SMCR contains a certification regime for staff employed in roles that do not entail the performance of SMFs but could nonetheless pose a significant risk of harm to their firm or its customers ("certification roles"). A firm is responsible for ensuring that no employee performs certification roles without having been certified as fit and proper by the firm (on recruitment and then on an annual basis). Employees performing certification roles in relation to insurers must be certified by 10 December 2019.

Third, the SMCR contains a conduct regime for senior managers and other employees. There are two tiers of conduct rules, contained in both the PRA Rulebook and the FCA Handbook. Some of these rules apply only to senior managers; some apply to senior managers and non-executive directors; and others apply to the majority of employees within the firm.

SYSC also contains rules on the apportionment of significant responsibilities among an insurer's directors and other senior managers and, more generally, the systems and controls that insurers are required to have in place. In particular, firms must take reasonable care to establish and maintain effective systems and controls for compliance with applicable regulatory requirements and for countering the risk that they might be used by individuals engaged in money laundering.

2.10 Approved Persons Regime

UCITS management companies, AIFMs, MiFID investment firms (other than those that are PRA-designated), insurance distribution firms and UK firms that engage in consumer lending are among the categories of solo-regulated firms that are currently subject to the "Approved Persons Regime", instead of the SMCR. This means that they are required to take reasonable care to ensure that individuals performing certain "controlled functions" in relation to their regulated activities have the prior approval of the FCA. Individuals who perform controlled functions fall broadly into two categories: those who exercise significant influence over a firm's affairs and those who deal with its customers. The FCA will only approve an individual to carry out a controlled function if it is satisfied that he or she is a "fit and proper" person to carry out the relevant function. Individuals approved by the FCA to carry out controlled functions are subject to conduct rules made by the FCA. Where an individual breaches these rules, the FCA may impose sanctions on the individual concerned.

As noted above, the SMCR, which currently only applies to dual-regulated firms, will be extended to apply to all solo-regulated firms with effect from 9 December 2019. The Approved Persons Regime will cease to apply to these firms from that date.

2.11 Market abuse

The FCA has the power to impose fines and other civil sanctions on individuals and firms that commit market abuse. The definition of market abuse is set out in the Market Abuse Regulation, which refers to three abusive behaviours which, when committed in relation to financial instruments, commodity derivatives or emission allowances admitted to trading on an EU regulated market, constitute market abuse. The relevant behaviours are: insider dealing; the unlawful disclosure of inside information; and market manipulation.

The FCA may impose an unlimited fine on any person that engages in market abuse. As an alternative to imposing a fine, the FCA may publish a statement of public censure or apply to the court under FSMA for an injunction or restitution order. The FCA also has the power to impose other administrative sanctions, including the power to enter premises under a warrant and the power to suspend trading in financial instruments.

In addition to the civil regime under FSMA and the Market Abuse Regulation, the FCA has the power to prosecute the criminal offences of insider dealing under the Criminal Justice Act 1993 (as amended) and the criminal offences of making false or misleading statements, creating false or misleading impressions and making false or misleading statements or creating a false or misleading impression in relation to specified benchmarks under the Financial Services Act 2012 (as amended).

2.12 Data protection

The GDPR came into force across the EU on 25 May 2018. It came into force in the three non-EU EEA states (Iceland, Liechtenstein and Norway) on 20 July 2018. The GDPR regulates the processing of the personal data of living individuals ("data subjects") by, among others: (i) companies that collect or receive personal data and control the use of that data ("data controllers"); and (ii) companies that process personal data on behalf of data controllers ("data processors").

In the UK, the Data Protection Act 2018 repeals the Data Protection Act 1998 (which set out the pre-GDPR data protection regime in the UK), exercises on the part of the UK the limited discretions accorded to member states under the GDPR and deals with certain data processing issues that are not covered by the GDPR. It also seeks to ensure that UK and EU data protection regimes are aligned post-Brexit, and that the UK will be able to freely exchange personal data with the EU post-Brexit (although the UK's ability to do so ultimately depends on a determination of the European Commission – see further below).

Personal data includes any information relating to data subjects who can be identified from that information (with or without other information already held, or likely to be held, by the data controller). It can therefore include: personal details such as name, address, email address, telephone number and date of birth; information relating to the individual, whether in their personal, family or professional life; and any expression of opinion about an individual or indications of a company's (or any other person's) intentions in respect of that individual.

The processing of personal data covers any activity done to or in relation to the personal data, including obtaining, organising, adapting, altering, retrieving, storing, consulting, using, disclosing, disseminating, aligning, combining, blocking, erasing or destroying personal data.

The GDPR obliges data controllers (and, to a lesser extent, data processors) to comply with various data protection principles. Personal data must be: processed fairly, lawfully and transparently (in some cases, only with explicit consent); collected for specified, explicit and legitimate purposes and only processed in line with those purposes; adequate, relevant and limited to what is necessary in relation to the purposes for which it is processed; accurate and, where necessary, up to date; stored only for as long as necessary; and processed securely.

The GDPR also grants data subjects various rights over their personal data, such as the right to erasure and the right of subject access.

The territorial scope of the GDPR extends outside the EU. For example, it applies where companies established outside the EU process personal data in relation to the offering of goods or services to individuals in the EU or the monitoring of the behaviour of individuals within the EU.

Data controllers and data processors should not transfer personal data outside the EEA without putting in place appropriate safeguards and on the condition that enforceable rights and remedies are available for data subjects, unless the transfer is to a jurisdiction officially declared by the European Commission to be 'adequate'.

For breaches of the GDPR, national supervisory authorities can impose fines of up to 4 per cent of annual turnover, or 20 million euro, whichever is greater. In the UK, the national supervisory authority is the Information Commissioner's Office.

If the UK leaves the EU without a ratified Withdrawal Agreement, the UK would become a 'third country' for the purposes of the EU's GDPR regime. The UK government has issued a technical note stating that, in this scenario, it would continue to allow personal data to be transferred freely from the UK to the EU. However, the European Commission has not confirmed that the UK will be an 'adequate' jurisdiction post-Brexit, and therefore there could be restrictions on the transfer of personal data from the EU to the UK in a no-deal scenario.

2.13 Change of control

In the United Kingdom, a person who decides to acquire ''control'' over a UK authorised firm must obtain the approval of the PRA or the FCA, as applicable, before doing so. Supervisory approval is also required where a person who is already a controller of such a firm proposes to increase their control to or above certain thresholds set out in FSMA. A person who disposes of control over a UK authorised firm, or reduces their control below certain thresholds set out in FSMA, must also notify the PRA or the FCA, as applicable, before doing so.

In broad terms, "control" over a UK regulated firm is acquired if the acquirer:

(A) acquires 10 per cent or more of the shares or voting power in that UK regulated firm or in its parent undertaking; or

(B) otherwise becomes able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in the UK regulated firm or its parent undertaking.

Where the relevant UK regulated firm is dual-regulated (such as a UK authorised insurer), the PRA will process the change in control application. The FCA will process change of control applications relating to solo-regulated firms (such as investment firms or UCITS management companies).

The control thresholds referred to above are relaxed in relation to certain UK authorised persons, including insurance intermediaries and AIFMs. "Control" over such firms is acquired where a person holds 20 per cent or more of the shares or voting power in that firm or its parent undertaking.

3. INSURANCE REGULATION IN THE EU AND UK

The UK regulatory framework for insurers is established under FSMA and derived, to a significant extent, from EU legislation.

The Group contains two UK insurance undertakings and one Irish insurance undertaking authorised by the Central Bank of Ireland, alongside a number of other entities that are authorised to carry out other insurance-related activities (including insurance distribution activities). This section provides an overview of the key features of the regulatory regime for companies carrying on insurance business in the UK, as it applies to the Group.

3.1 EU regulatory framework for insurance-related activities

(A) Solvency II

Solvency II sets out the framework for the solvency and supervisory regime for EU insurance firms. The main aim of the prudential framework under Solvency II is to ensure the financial stability of the insurance industry across the EU and protect policyholders through establishing solvency requirements better matched to the true risks of the business.

Solvency II adopts a three pillar approach to prudential regulation:

(i) Pillar 1 relates to minimum capital requirements, including technical provisions, the SCR and the MCR, rules on market consistent valuation, the investment of assets and the use of internal models to calculate the SCR;

(ii) Pillar 2 addresses (amongst other things) risk management, governance requirements, supervisory review and the ORSA of an insurer; and

(iii) Pillar 3 addresses public and supervisory reporting and disclosure.

The regime consists of a "Level 1" Directive (as amended), which has been implemented by means of both "Level 2" measures, including the Solvency II Regulation and other delegated acts and binding technical standards, and "Level 3" guidance, including non-binding supervisory standards, recommendations and guidelines.

EIOPA is the European Supervisory Authority ("**ESA**") charged with producing draft technical standards and guidelines under Solvency II. Guidelines are non-binding, although supervisory authorities and firms to whom they are addressed are expected to apply them on a "comply or explain" basis.

(B) Insurance Distribution Directive

The Insurance Distribution Directive requires EU member states to establish a framework for the regulation of insurance distributors. The Directive covers all participants involved in the sale of insurance products, including agents, brokers, insurers and reinsurers. The framework in each EU member state must ensure that:

(i) insurance and reinsurance intermediaries have been registered on the basis of a minimum set of professional and financial requirements;

(ii) registered intermediaries will be able to operate in other member states by availing themselves of the freedom to provide services or by establishing a branch;

(iii) employees of insurance and reinsurance intermediaries have a high level of professionalism and competence; and

(iv) insurance intermediaries provide specified minimum information to potential customers.

(C) PRIIPs Regulation

The PRIIPs Regulation requires "manufacturers" of packaged retail insurance-based investment products ("**PRIIPs**") (which includes the entity that provides or issues the PRIIP and any entity that makes changes to the PRIIP) to provide a key information document ("**KID**") containing certain pre-contractual product disclosures to retail consumers when they are considering buying a PRIIP. The KID must provide a comprehensible explanation of the PRIIP and enable retail investors to compare the KID with other similar investment product KIDs. The KID must include, among other things, details of future performance scenarios and the assumptions made to produce them.

PRIIPs include both packaged retail investment products (that is, investment products in relation to which the amount repayable to the retail investor fluctuates because of exposure to reference values or to the performance of one or more assets that are not directly purchased by the retail investor) and insurance-based investment products (that is, insurance products that offer a maturity or surrender value that is directly or indirectly exposed to market fluctuations). This includes products such as units in an investment fund, life insurance policies with an investment element and structured deposits. As such, the Group is required to comply with the requirements of the PRIIPs Regulation when manufacturing such products.

(D) EMIR

EMIR imposes a number of requirements on the counterparties to over-the-counter ("**OTC**") derivative transactions, central counterparties and trade repositories. EMIR came into force on 16 August 2012, but has not yet become fully effective. The requirements introduced by EMIR include: (i) an obligation to clear standardised OTC derivative contracts centrally; (ii) risk mitigation requirements relating to uncleared derivative contracts; (iii) reporting obligations; and (iv) requirements relating to central counterparties and trade repositories.

The reporting obligation has applied in relation to all categories of derivative contract since 12 February 2014. A number of risk mitigation requirements are also already in effect. While the clearing obligation has applied in relation to certain interest rate derivatives since 21 June 2016 and certain credit default swaps since 9 February 2017, it is not yet in effect in relation to other categories of derivative contract (such as foreign exchange swaps).

The EMIR Refit Regulation, which has applied since 17 June 2019, seeks to make the EMIR obligations more proportionate by, among other things: (i) exempting small financial counterparties from the clearing obligation; (ii) requiring financial counterparties to report derivatives trades on behalf of small non-financial counterparties; and (iii) removing the reporting obligation in respect of intra-group derivative contracts.

(E) SFT Regulation

The SFT Regulation imposes a number of requirements on the parties to securities financing transactions. In broad terms, a securities financing transaction is any transaction that uses assets belonging to one counterparty as a means of generating financing. This includes the lending or borrowing of securities, repurchase (repo) or reverse repo transactions and buy-sell back or sell-buy back transactions.

In broad terms, the SFT Regulation requires counterparties to securities financing transactions to report such transactions to trade repositories and imposes prior risk disclosure and consent requirements on counterparties before they may reuse or rehypothecate assets.

The SFT Regulation came into force on 12 January 2016 and many of its requirements applied from that date. However, the reporting obligations do not yet apply and will come into force during 2020 and 2021.

3.2 UK implementation of EU regulatory framework for insurance-related activities

The requirements of Solvency II have largely been implemented in the UK by rules made by the PRA and contained in the PRA Rulebook. Meanwhile, the provisions of the Insurance Distribution Directive have mostly been implemented in the UK by rules made by the FCA and contained in the FCA Handbook.

The PRA Rulebook comprises a number of Parts and is divided according to the different types of firm regulated by the PRA. Insurers such as PAC and PPL must comply with the rules set out in those Parts of the Rulebook that apply to Solvency II firms. The FCA Handbook also contains rules and guidance that apply to dual-regulated firms, including insurance firms.

(A) Prudential standards

The PRA Rulebook implements the prudential standards established under Solvency II. The fundamental requirement of the PRA's prudential rules is that firms maintain adequate financial resources to meet their capital requirements.

Under Solvency II, firms must hold eligible Own Funds covering both the SCR and the MCR. The 'Own Funds' Part of the PRA Rulebook and the Solvency II Regulation set out the capital resources that are deemed eligible for these purposes, while provisions relating to the SCR and the MCR are set out in the 'Solvency Capital Requirement' and 'Minimum Capital Requirement' Parts of the PRA Rulebook, respectively.

The 'Technical Provisions' Part of the PRA Rulebook requires firms to establish adequate technical provisions with respect to all of their insurance and reinsurance obligations to policyholders. The 'Investments' Part sets out the risk management requirements that insurers must follow when investing their assets, including those held to cover technical provisions, while the 'Valuation' Part sets out overriding standards with which firms must comply when valuing assets and liabilities.

The ‘Conditions Governing Business’ Part of the PRA Rulebook requires firms to conduct an ORSA on a regular basis. The ORSA is intended to provide a view of a firm’s risk profile and the capital and other means needed to address those risks. The ORSA must, among other things, survey the firm’s compliance with the SCR and the MCR on a continuous basis and assess the significance with which the risk profile of the firm deviates from the assumptions underlying the SCR.

The Group includes firms that are not insurers, but are nonetheless authorised to carry on insurance distribution activities (such as insurance intermediaries). In addition to complying with the FCA Principles for Businesses, conduct of business rules set out in ICOBS and rules relating to systems and controls set out in SYSC, such firms must also comply with provisions in MIPRU. The rules in MIPRU include requirements regarding the maintenance of capital resources and the allocation of responsibility for insurance distribution activity within firms.

(B) Remuneration

The Solvency II Regulation requires insurers to establish and maintain remuneration policies and procedures that promote sound and effective risk management, so as not to encourage excessive risk taking. Specific requirements apply to “Solvency II staff”, which encompasses board members, members of executive committees, senior management function holders approved by the PRA or FCA, significant influence holders approved by the FCA, key function holders reported to the PRA and material risk takers. Those requirements include restrictions on the proportion of variable to fixed remuneration.

All UK insurers within the scope of Solvency II must comply with the remuneration requirements set out in the Solvency II Regulation and the associated EIOPA ‘Guidelines on a system of governance’. PRA Supervisory Statement 10/16 provides guidance for “significant” insurers (i.e. those firms whose size and type of business means that there is a significant or very significant capacity to cause disruption to a substantial number of policyholders) in complying with those requirements. Other, non-significant, firms subject to Solvency II may still use the Supervisory Statement as a guide when reviewing their remuneration policies and practices against the requirements of the Solvency II Regulation.

Remuneration requirements apply at the level of individual firms subject to Solvency II (for example, PAC and PPL) and on a group-wide basis. Accordingly, the Prudential Group is currently, and the Group will be, required to implement a group-wide remuneration policy that complies with the requirements of the Solvency II Regulation. The PRA expects such policies to reflect material risks at group level and to apply to all entities within a group, but acknowledges that it may be necessary to deviate from the group remuneration policy for employees of entities incorporated in jurisdictions with conflicting requirements or subject to regulation under different regulatory regimes. “Significant” firms, including PAC, are required to report to the PRA on their compliance with the Solvency II requirements (including the PRA’s expectations set out in the Supervisory Statement); these reports should include explanations of any material deviations from the group-wide remuneration policies in respect of such employees.

(C) Reporting requirements

UK insurers within the scope of Solvency II are subject to certain ongoing reporting requirements set out in the ‘Reporting’ Part of the PRA Rulebook, which implements Pillar 3 of Solvency II. Firms are under a general requirement to submit to the PRA information necessary for the PRA’s supervision of the firm.

The Solvency II Regulation sets out more prescriptive reporting requirements:

(i) the submission of an RSR at least once every three years (with updates submitted at the end of each financial year). This is submitted to the PRA, but is not made public;

(ii) the annual submission and publication of a report on a firm’s solvency and financial condition, known as an SFCR. The required content of this report is prescribed by the ‘Reporting’ Part of the PRA Rulebook and includes details of the firm’s SCR and MCR;

(iii) the annual submission of a firm’s ORSA. This is submitted to the PRA but is not made public; and

(iv) annual and quarterly reporting of quantitative data that supplement the RSR and the SFCR.

These requirements apply on both a solo and consolidated basis (i.e. at the level of the Group and the individual entities in the Group that are subject to Solvency II).

UK insurers within the scope of Solvency II must also disclose on an ongoing basis the nature and effects of any major developments that significantly affect its prior disclosures.

(D) Conduct of Business requirements

The FCA regulates, through COBS and ICOBS, the distribution and sale of insurance products. In broad terms, COBS applies where such insurance products have an investment element (such as pension policies) and ICOBS applies to non-investment insurance products. These sourcebooks implement the Insurance Distribution Directive in the UK.

The scope and range of the obligations imposed on an authorised firm under COBS and ICOBS vary according to the scope of the firm's business and the nature of its clients. Certain of the provisions only apply to insurers that deal directly with retail customers. Broadly, the rules in COBS and ICOBS require firms to: provide clients with information about the firm; meet certain standards of product disclosure; assess suitability when advising on certain products; report appropriately to clients; and provide certain protections in relation to client assets.

COBS also contains specific rules relating to with-profits business, including the management and operation of with-profits funds. These rules seek to ensure the fair treatment of with-profits policyholders and include requirements for relevant firms to establish, maintain, record and publish "principles and practices of financial management" that describe how with-profits funds are managed and the business model used to meet the firm's duties to its with-profits policyholders. The rules also impose restrictions on how firms may deal with the assets in a with-profits fund, and set out requirements relating to the governance of with-profits funds and communications with with-profits policyholders. Firms' compliance with these rules, and the regulation of with-profits business more generally, has been a key focus for the FCA in recent years; as noted above, the FCA published the final report of its thematic review of the fair treatment of with-profits customers in April 2019, and has requested firms to take action where the review identified areas of poor practice.

Certain firms within the Group are subject to specific rules under COBS relating to the provision of platform services. These rules concern, among other things, adviser and platform charges. A number of firms within the Group also engage in consumer lending, including mortgage lending. Those firms are subject to specific conduct of business requirements under MCOB in relation to their mortgage lending activities and CONC and the Consumer Credit Act 1974 (as amended) in relation to other regulated consumer credit activities.

(E) Codes of practice

UK insurers within the Group are also members of various trade associations, including the Association of British Insurers, which issue non-binding codes of practice and other guidance.

4. ASSET MANAGEMENT AND INVESTMENT ADVICE REGULATION IN THE EU AND THE UK

The regulatory framework applicable to asset management and investment advice firms in the UK is derived to a significant extent from EU legislation.

The Group contains UK authorised firms that engage in the management of collective investment schemes (including UCITS and AIFs), the provision of discretionary investment management services, investment advice and the provision of dealing services.

This section provides an overview of the key features of the regulatory regime for asset management and investment advisory firms in the UK, as it applies to the Group.

4.1 EU regulatory framework for asset management and investment advice

(A) UCITS

The UCITS Directive (as amended by UCITS V) sets out the framework for the regulation of UCITS and UCITS management companies in the EU. The UCITS Directive includes rules on authorisation, the operation of management companies, depositaries, mergers, investment policies, and the information that must be provided to investors. It also requires UCITS management companies to establish and apply remuneration policies and practices consistent with sound and effective risk management.

(B) AIFMD

The AIFMD sets out the framework for the regulation of the management of certain non-UCITS collective investment undertakings in the EU and the marketing of investments in such undertakings. AIFMD applies to AIFMs, that is, to legal persons whose regular business it is to manage an AIF. In broad terms, an AIF is a non-UCITS collective investment undertaking that raises capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors.

The AIFMD covers matters such as authorisation, capital requirements, conduct of business standards, remuneration, the valuation of assets, delegation, depositaries, transparency and marketing.

(C) MiFID II

MiFID II sets out the framework for the regulation of firms in the EU that engage in certain investment activities, such as investment advice and portfolio management. MiFID II also regulates trading venues and data reporting service providers.

MiFID II sets out detailed and specific requirements relating to investment firms within its scope, including provisions relating to organisational requirements, outsourcing, client classification, conflicts of interest, best execution, client order handling, remuneration, bundled services, algorithmic trading, suitability and appropriateness, transparency and transaction reporting.

(D) CRD III

CRD III set out the capital requirements applicable to credit institutions and investment firms in the EU prior to 1 January 2014. CRD III was repealed by the CRD IV package with effect from that date, but continues to be relevant to certain UK investment firms that fall outside the scope of CRD IV, including those in the sub-group headed by M&G Group Limited. Such firms are permitted to apply the UK rules implementing CRD III, rather than those applying CRD IV, as applicable or implemented in the UK. Accordingly M&G Group Limited and its subsidiaries are subject to the sub-consolidated supervision of the FCA under UK legislation and rules implementing CRD III.

(E) MMF Regulation

The MMF Regulation regulates MMFs, including certain MMFs offered by the Group's investment management business. The MMF Regulation: restricts the investment policies of MMFs; requires MMF managers to establish and apply internal credit quality assessment procedures; and contains risk management and transparency rules that apply to the management of MMFs.

(F) Other EU legislation

The PRIIPs Regulation, SFT Regulation and EMIR (each of which is discussed in greater detail above) are also relevant to the Group's asset management and investment advisory businesses.

It should be noted that the SFT Regulation imposes detailed reporting requirements relating to securities financing transactions entered into by investment funds. Under UK rules that give effect to requirements under the SFT Regulation, UCITS management companies and AIFMs must also disclose their use of securities financing transactions and total return swaps in the relevant funds' pre-contractual documents and periodic reports to investors.

4.2 UK implementation of EU regulatory framework for asset management and investment advice

(A) Conduct of business rules

COBS contains rules and guidance relevant to how asset management and investment firms in the Group conduct their business with clients. The scope and nature of the obligations that apply to UK asset management and investment firms under COBS depend on the scope of the individual firm's business and the nature of its clients. For example, many of the provisions in COBS only apply to firms that deal directly with retail customers.

In broad terms, the rules in COBS require firms, among other things, to: disclose certain information (including as to fees and charges) to clients before providing services; ensure that any recommendations given in relation to investment advice are suitable for the client; ensure that any non-advised investment services or products provided are appropriate for the client; and provide (in certain circumstances) product information to clients.

Firms that are authorised to carry on regulated activities relating to investment advice or portfolio management are subject to specific rules under COBS. These include rules relating to the independence of advice, adviser charging and enhanced rules relating to the acceptance or payment of inducements.

(B) Remuneration

SYSC requires UCITS management companies, AIFMs and MiFID investment firms to implement remuneration policies and practices that promote sound and effective risk management. Separate requirements apply to each category of firm.

(C) Prudential requirements

The prudential requirements applicable to UCITS management companies, AIFMs and MiFID investment firms are set out in various sourcebooks of the FCA Handbook. Each sourcebook sets out requirements relating to initial capital and Own Funds. Investment firms that are exempt from the full CRD IV requirements (including those in the Group) are subject to prudential requirements set out in BIPRU and GENPRU.

The prudential requirements that apply to the solo-regulated firms in the Group depend on the FCA's prudential classification of individual firms. This in turn depends on the level of risk involved in performing the activities the relevant firm is authorised to perform.

The prudential classification of UCITS management companies and AIFMs depends on whether the firms in question are also authorised to carry on MiFID activities such as portfolio management, investment advice and the safekeeping and administration of assets. Where they are so authorised, UCITS management companies and AIFMs are required to comply with the prudential requirements of GENPRU and either IFPRU or BIPRU, depending on whether they fall within scope of CRD IV. All UCITS management companies and AIFMs (regardless of whether they carry on any MiFID activities) are required to comply with certain base Own Funds requirements in IPRU-INV.

(D) Specialist Sourcebooks

In addition to the requirements set out above, UCITS management companies and AIFMs must comply with the requirements of COLL and FUND, respectively. These specialist sourcebooks implement the UCITS Directive, the AIFMD and the MMF Regulation. The sourcebooks set out requirements relating to UCITS, AIFs and their managers.

5. REGULATION IN OTHER JURISDICTIONS

The Group contains entities that are authorised to undertake regulated activities in the following non-UK jurisdictions: Guernsey, Hong Kong, India, Ireland, Japan, Luxembourg, Namibia, Poland, Singapore, South Africa, Switzerland and the USA.

5.1 Europe, Middle East and Africa

The Group contains an insurance firm established in Ireland and authorised by the Central Bank of Ireland (Prudential International Assurance plc ("**PIA**")) and an insurance distribution firm established in Poland and authorised by KNF. The Group also contains various asset management entities established in Ireland and Luxembourg and authorised by the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier, respectively. Each of these entities (whether carrying on insurance or asset management activities) may also carry on business in other EEA jurisdictions under "passporting" rights deriving from EU sectoral directives. Although these entities do not need to be authorised in each of the EEA jurisdictions in which they carry on business in exercise of those rights, they are required to comply with certain local laws and regulatory requirements, for example in respect of conduct of business and anti-money laundering measures, in relation to business carried on in those jurisdictions. For example, the Group carries on insurance business in a number of EEA jurisdictions through PIA, which is authorised and regulated by the Central Bank of Ireland and subject to conduct of business regulation by other EEA regulators in the EEA jurisdictions in which it does business.

The Group contains asset management entities established in Switzerland and Guernsey and authorised by the Swiss Financial Market Supervisory Authority and the Guernsey Financial Services Commission, respectively.

The Group also has a number of joint venture entities established in South Africa that are authorised by the Financial Sector Conduct Authority (in the case of asset management entities) or the Prudential Authority (in the case of insurance entities). The Group also has joint venture entities that are established in Namibia and authorised to carry on asset management business by the Namibia Financial Institutions Supervisory Authority.

5.2 Asia

The Group contains asset management entities that are established and authorised in the following jurisdictions: in Hong Kong, by the Hong Kong Securities and Futures Commission; in Japan by JFSA; and in Singapore by the Monetary Authority of Singapore. The Group also contains certain entities that are licensed as foreign portfolio investors in India by the Securities and Exchange Board of India.

The Group contains asset management entities that are regulated in Hong Kong by the Hong Kong Securities and Futures Commission, in India by the Securities and Exchange Board of India, in Japan by JFSA and in Singapore by the Monetary Authority of Singapore.

5.3 USA

Two of the FCA-authorised asset management entities in the Group are also regulated by certain US regulators in relation to their activities there: one by the Securities and Exchange Commission, and another by the Securities and Exchange Commission, the Commodity Futures Trading Commission and the National Futures Association.

6. RECENT AND FUTURE REGULATORY DEVELOPMENTS

This section provides a brief overview of some of the recent and prospective UK and EU regulatory developments that may affect the Group.

6.1 Brexit

In 2016, the UK electorate voted in a referendum to leave the EU. The UK's withdrawal from the EU could lead to significant changes to the structure of financial services law and regulation in the UK. Prior to Exit Day, the UK is required to implement the requirements of EU Directives in national law. EU Regulations and other directly applicable EU law apply in UK domestic law without the need for further implementing measures.

The EU Withdrawal Act will repeal the ECA, the UK domestic legislation which currently provides for the supremacy of EU law in the UK, with effect from Exit Day. If the UK Parliament agrees to the Withdrawal Agreement negotiated between the UK and the EU27, the UK's withdrawal from the EU will be subject to a transitional period ending in 31 December 2020 (subject to extension by agreement with the EU27). The UK government had proposed a bill (the proposed European Union (Withdrawal Agreement) Bill) that would have preserved the effect of the ECA until the end of that transitional period, although it is not clear whether this proposed bill will be pursued, or how that transitional period would be implemented in UK law if those proposals are not ultimately enacted.

As such, with effect from Exit Day (if the Withdrawal Agreement is not ratified by the UK Parliament) or from the end of the transitional period (if it is and UK legislation is enacted to give effect to the transitional period), the EU Withdrawal Act will:

(A) preserve UK domestic legislation that has implemented non-directly applicable EU law (such as EU Directives);

(B) convert directly applicable legislation (such as EU Regulations, Decisions and certain tertiary legislation) into UK domestic legislation; and

(C) preserve as UK domestic law any EU rights (such as directly effective EU treaty rights) that are not otherwise captured by the provisions referred to in paragraphs (A) or (B) above.

The EU Withdrawal Act does not apply to "in-flight" EU legislation. Under the terms of the Withdrawal Agreement, any EU Regulations and other directly applicable legislation adopted by the EU after Exit Day but during the transition period would have direct effect in the UK. The UK would also be required to implement any EU Directives (and other non-directly applicable EU legislation) adopted during that period. As noted above, the proposed European Union (Withdrawal Agreement) Bill would legislate for this in UK domestic law if enacted. If Parliament does not approve the Withdrawal Agreement, and the UK leaves the EU with no deal, the Financial Services (Implementation of Legislation) Bill would, if enacted, give HM Treasury the power to adopt subordinate legislation to give effect to specified EU financial services legislation that, as at Exit Day, has been adopted but does not yet apply, as well as specified legislative proposals that, as at Exit Day, have been published, but not yet adopted, by the European Parliament and the European Commission. It is unclear whether this Bill will be enacted, or whether Parliament, HM Treasury or the UK regulators might seek to adopt equivalent measures if it is not enacted.

The Bank of England, the PRA and the FCA have also issued guidance clarifying their approach to guidance and other non-binding materials issued by the three ESAs (the EBA, ESMA and EIOPA). Under the approach adopted by the UK regulators, these materials will continue to be relevant following Exit Day, unless the relevant regulator had previously informed the relevant ESA that it did not intend to comply with them. As such, UK firms will be expected to continue to apply such material as they did prior to Exit Day. The UK regulators, for their part, will continue to have regard to this material as appropriate.

While the EU Withdrawal Act (and subordinate legislation) represent an attempt to preserve EU legislation as it applies in the UK immediately prior to Exit Day, the UK's withdrawal from the EU could result in significant changes to the legal and regulatory regime under which the Group operates. The nature and extent of those changes remain unclear and, amongst other factors, will depend upon the terms of the UK's withdrawal, which remain unclear as at the date of this Prospectus. See "*Exposure to domestic and global political developments, including the UK's withdrawal from the EU, and their impact on financial markets may have a material adverse effect on the Group's business and profitability*" in the section entitled "Risk Factors" for further information.

At present, firms authorised by the PRA or FCA (as applicable) under Solvency II, the IDD, CRD IV, CRD III, MiFID II, the UCITS Directive or AIFMD are able to carry on business in the EEA without requiring separate authorisation in each Member State. EEA firms authorised under those regimes are also able to carry on business in the UK without requiring separate authorisation under FSMA. These so-called "passporting" rights will cease to apply to UK firms and to EEA firms operating in the UK, from Exit Day (subject to any transitional period). In the event of a no-deal Brexit, HM Treasury has legislated for a temporary permissions regime ("**TPR**") for EEA firms currently operating in the UK in reliance on passporting rights. In the event of a no-deal Brexit, the TPR will allow such firms to continue carrying on business in the UK for a period of up to three years following Exit Day. At present, no EEA-wide equivalent exists for UK firms doing business in the EEA.

6.2 SMCR

The SMCR, discussed in more detail above, will apply to all solo-regulated firms, including those within the Group, with effect from 9 December 2019. The SMCR will replace the Approved

Persons Regime currently in effect (see sections 2.9 (*Senior Managers and Certification Regime*) and 2.10 (*Approved Persons Regime*) of this Part VII (*Regulatory Overview*)).

6.3 Changes following the FCA asset management market study

Between November 2015 and June 2017, the FCA undertook a market study to understand how UK asset managers compete with one another. As a result of the study, the FCA is in the process of introducing a series of measures that aim to make competition work better in the asset management sector. Some of these measures have already taken effect (for instance, since 1 April 2019, risk-free box profits have had to be redirected to the relevant fund) and others will come into force during the course of 2019.

Among other things, the new FCA rules and guidance provide that: (i) from 7 May 2019 for new funds and 7 August 2019 for existing funds, fund managers must explain why or how their funds use particular benchmarks (or, if they do not use a benchmark, how investors should evaluate the performance of their funds); and (ii) from 30 September 2019, managers must assess whether their offering is in line with their duty to act in the best interest of investors, and to ensure that at least a quarter of their total board membership is independent.

The FCA has also recently concluded a review into the calculation and disclosure of transaction costs by asset managers, finding that a number of firms are not applying the requirements of the PRIIPs Regulation, UCITS Directive and MiFID II correctly. This is likely to remain an area of focus for the FCA in the near future.

6.4 Reforms to the European system of financial supervision

On 21 March 2019, the Council of the EU and the European Parliament reached political agreement on a wide range of measures that would alter the financial regulatory landscape within the EU. The European system of financial supervision ("**ESFS**") reform proposals involve, among other things: (i) transferring some responsibilities from member state regulators to ESMA; (ii) enhancing the role and powers of the three ESAs; and (iii) improving the EU's anti-money laundering regime.

It is expected that the ESFS reform package will come into force in late 2019 (assuming the Commission's preferred timeline is followed) and would be at that point be adopted in the UK pursuant to the Financial Services (Implementation of Legislation) Bill (if passed by the UK Parliament in its current form).

6.5 Climate change

The PRA and the FCA have recently increased their supervisory emphasis on climate change. In April 2019, the PRA published a supervisory statement (SS3/19), which highlighted the physical and transition risks to financial stability caused by climate change. In the supervisory statement, the PRA stated that it expects UK insurers to: (i) consider climate change risks in their governance arrangements and financial risk management practice, including as part of their ORSA process and in relation to investments held to support insurance liabilities; (ii) use scenario analysis to inform long-term strategic planning and risk identification; and (iii) develop an approach to climate change risk disclosure.

The FCA has also highlighted the risks that climate change poses to the integrity of the UK financial system and has recently launched a Climate Financial Risk Forum to develop practical responses to these issues. As such, UK firms in the Group have in recent years become subject to a greater supervisory focus on climate change and are, in future, likely to become subject to additional regulation that seeks to address risks related to climate change.

There are also likely to be further regulatory changes in relation to climate change risk at a European level. In April 2019, EIOPA published technical advice regarding the integration of climate change risk into the drafting of delegated regulations made under the Solvency II Directive and the IDD. The advice, among other things, recommended that insurers be required to integrate sustainability in their prudential analysis of potential investments.

As part of the European Commission's review of Solvency II, to be published by January 2021, in June 2019 EIOPA published a draft opinion on integrating sustainability into the Solvency II regime. The opinion focuses on ensuring that climate change risks are appropriately valued by insurers and other financial institutions. EIOPA recommended, among other things: (i) the detailed disclosure of firms' climate change risk valuation methods; and (ii) a more robust actuarial analysis of climate-related risks in the development of underwriting policy. It is likely that some of EIOPA's recommendations will form part of the future European legislative approach to the prudential regulation of climate change risk.

PART VIII

TAXATION

1. UNITED KINGDOM TAX

The following paragraphs are intended only as a general guide to current UK law and HMRC's current published practice, which are both subject to change at any time, possibly with retroactive effect. Furthermore, all rates and allowances referenced below are those currently in force. The following paragraphs are not exhaustive and relate only to certain limited aspects of the UK tax consequences of holding or disposing of M&G Shares.

*The paragraphs below are intended to apply only to M&G Shareholders: (i) who are resident for UK tax purposes and, if individuals, domiciled in the UK; (ii) to whom split-year treatment does not apply; (iii) who are the absolute beneficial owners of their M&G Shares and any dividends paid in respect of them; and (iv) who hold their M&G Shares as investments (otherwise than through an individual savings account ("**ISA**") or a pension arrangement) and not as securities to be realised in the course of a trade.*

The paragraphs below may not apply to certain M&G Shareholders, such as dealers in securities, broker dealers, insurance companies and collective investment schemes, pension schemes, persons who are otherwise exempt from UK taxation and persons who have (or are deemed to have) acquired their M&G Shares by virtue of an office or employment or persons who are treated as holding their M&G Shares as carried interest. Such M&G Shareholders may be subject to special rules.

The material set out in the paragraphs below does not constitute tax advice. Any person who is in any doubt as to their tax position or who is subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.

1.1 Direct taxation of dividends

(A) UK withholding tax

The Company will not be required to withhold tax at source when paying a dividend.

(B) Individual M&G Shareholders within the charge to UK income tax

The tax treatment of dividends paid by the Company to individual M&G Shareholders is as follows:

- Dividends paid by the Company will not carry a tax credit.
- All dividends received by an individual M&G Shareholder from the Company (or from other sources) will, except to the extent that they are earned through an ISA, self-invested pension plan or other regime which exempts the dividends from tax, form part of the M&G Shareholder's total income for income tax purposes and will represent the highest part of that income.
- A nil rate of income tax will apply to the first £2,000 of taxable dividend income received by an individual M&G Shareholder in a tax year (the "**Nil Rate Amount**"), regardless of what tax rate would otherwise apply to that dividend income.
- Any taxable dividend income received by an individual M&G Shareholder in a tax year in excess of the Nil Rate Amount will be taxed at a special rate, as set out below.

(C) Dividend Income in excess of the Nil Rate Amount

Where a M&G Shareholder's taxable dividend income for a tax year exceeds the Nil Rate Amount, the excess amount (the "**Relevant Dividend Income**") will be subject to income tax:

- at the rate of 7.5 per cent, to the extent that the Relevant Dividend Income falls below the threshold for the higher rate of income tax;
- at the rate of 32.5 per cent, to the extent that the Relevant Dividend Income falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax; and
- at the rate of 38.1 per cent, to the extent that the Relevant Dividend Income falls above the threshold for the additional rate of income tax.

In determining whether and, if so, to what extent the Relevant Dividend Income falls above or below the threshold for the higher rate of income tax or, as the case may be, the additional rate of income tax, the M&G Shareholder's total taxable dividend income for the tax year in question (including the part within the Nil Rate Amount) will, as noted above, be treated as the highest part of the M&G Shareholder's total income for income tax purposes.

(D) Corporate M&G Shareholders within the charge to UK corporation tax

M&G Shareholders within the charge to corporation tax which are "small companies" (for the purposes of UK taxation of dividends) will not generally be subject to tax on dividends from the Company.

Other M&G Shareholders within the charge to corporation tax will not be subject to tax on dividends from the Company so long as the dividends fall within an exempt class and certain conditions are met. Dividends paid on non-redeemable shares that do not carry any present or future preferential rights to dividends or to the relevant company's assets on its winding up, and dividends paid to a person holding less than 10 per cent of the issued share capital of the payer (or any class of that share capital), are examples of dividends that should fall within an exempt class.

1.2 Chargeable gains

(A) Individuals

A disposal or deemed disposal of M&G Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax, depending on the circumstances and subject to any available exemption or relief. No indexation allowance will be available to an individual holder of M&G Shares in respect of any disposal of M&G Shares. However, the capital gains tax annual exemption (which is £12,000 for individuals in the 2019/20 tax year) may be available to exempt any chargeable gain, to the extent that the exemption has not already been utilised.

Capital gains tax will generally be charged at 10 per cent, to the extent that the total chargeable gains and, generally, total taxable income arising in a tax year, after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount), are less than the upper limit of the income tax basic rate band. To the extent that any chargeable gains (or part of any chargeable gains) arising in a tax year exceed the upper limit of the income tax basic rate band when aggregated with any such income (in the manner referred to above), capital gains tax will be charged at 20 per cent.

(B) Companies

A disposal of M&G Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Corporation tax is charged on chargeable gains at the rate applicable to that M&G Shareholder.

1.3 Stamp duty and stamp duty reserve tax ("SDRT")

The following statements are intended as a general guide to the current UK stamp duty and SDRT position, and apply regardless of whether or not a M&G Shareholder is resident in the UK. It should be noted that certain categories of person, including market makers, brokers, dealers, and other specified market intermediaries, are entitled to exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.

A sale of M&G Shares will generally be subject to UK stamp duty (if the shares are in certificated form) or SDRT (if the sale is settled through the UK's CREST system of paperless transfers), in either case at the rate of 0.5 per cent of the amount or value of the consideration. In cases where the M&G Shares are sold to a connected company of a M&G Shareholder (or its nominee), UK stamp duty or SDRT is chargeable on the higher of (i) the amount or value of the consideration or (ii) the market value of the M&G Shares.

Any stamp duty payable (as opposed to SDRT) is rounded up to the nearest £5. No stamp duty (as opposed to SDRT) will be payable if the amount or value of the consideration is (and is certified to be) £1,000 or less. Stamp duty or SDRT is usually paid or borne by the purchaser.

2. UNITED STATES TAX

The following is a discussion of the material US federal income tax considerations arising from the acquisition, ownership and disposition of M&G Shares by a US holder. A US holder is either: (i) an individual citizen or resident of the US; (ii) a corporation created or organized in or under the laws of the US or any of its political subdivisions; or, (iii) an estate or trust the income of which is subject to US federal income taxation regardless of its source.

This discussion deals only with M&G Shares that are held as capital assets by a US holder, and does not address tax considerations applicable to US holders that may be subject to special tax rules, such as dealers or traders in securities or currencies, financial institutions or other US holders that treat income in respect of the M&G Shares as financial services income, insurance companies, tax-exempt entities, persons acquiring M&G Shares in connection with employment, US holders that hold the M&G Shares as a part of a straddle or conversion transaction or other arrangement involving more than one position, US holders that own, or are deemed for US tax purposes to own, 10 per cent or more of the total combined voting power or value of all classes of the Company's stock, US holders that have a principal place of business or "tax home" outside the United States, or US holders whose "functional currency" is not the US dollar.

Because US tax consequences may differ from one holder to the next, the discussion set out below does not purport to describe all of the tax considerations that may be relevant to you and your particular situation. Accordingly, you are advised to consult your own tax advisor as to the US federal, state and local, UK and other, including foreign, tax consequences of investing in the M&G Shares. The statements of US law set out below are based on the laws and interpretations in force as of the date of this Prospectus, and are subject to any changes occurring after that date, possibly with retroactive effect.

2.1 US Federal Income Tax Treatment of Distributions on M&G Shares

If the Company pays dividends, a US holder must include those dividends in the US holder's income when the US holder receives them. The dividends will be treated as foreign source income. A US holder should determine the amount of dividend income by converting Pounds Sterling into US dollars at the exchange rate in effect on the date of the US holder's receipt of the dividend.

Subject to certain exceptions for short-term and hedged positions, the US dollar amount of dividends received by an individual will be subject to taxation at a lower rate than ordinary income if the dividends are 'qualified dividends.' Dividends received with respect to M&G Shares will be qualified dividends if the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). Based on the nature of its business activities and its expectations regarding such activities in the future, the Company believes that it was not treated as a PFIC within the meaning of the Code with respect to its 2018 taxable year and does not anticipate becoming a PFIC for its 2019 taxable year.

Dividends that the Company pays will not be eligible for the dividends received deduction generally allowed to US corporations under Section 243 of the US tax code.

2.2 US Federal Income Tax Treatment of Capital Gains

If a US holder sells its M&G Shares, the US holder will recognise a US source capital gain or loss equal to the difference between the US dollar value of the amount realised on the disposition and the US dollar basis in the M&G Shares. A gain on the sale of M&G Shares held for more than one year will be treated as a long-term capital gain. The net long-term capital gain generally is subject to taxation at a lower rate than ordinary income. A US holder's ability to offset capital losses against ordinary income is subject to limitations.

2.3 US Federal Medicare Tax on Net Investment Income

A 3.8 per cent surtax will generally apply to the net investment income of individuals whose modified adjusted gross income exceeds certain threshold amounts. For 2019, these amounts are $200,000 in the case of single taxpayers, $250,000 in the case of married taxpayers filing joint returns, and $125,000 in the case of married taxpayers filing separately. Net investment income includes, among other items, dividends, interest, and net gain from the disposition of property (other than certain property held in a trade or business).

2.4 US Information Reporting and Backup Withholding

Under the US tax code, a US holder of M&G Shares may be subject, under certain circumstances, to information reporting and possibly backup withholding with respect to dividends and proceeds from the sale or other disposition of M&G Shares, unless the US holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules is not additional tax and may be refunded or credited against the US holder's federal income tax liability, so long as the required information is furnished to the US Internal Revenue Service.

3. SINGAPORE TAX

The following paragraphs are intended only as a general guide to current Singapore law and the Inland Revenue Authority of Singapore's current published practice, which are both subject to change at any time, possibly with retroactive effect. These laws and published practice are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Furthermore, the following paragraphs are not exhaustive and relate only to certain limited aspects of the Singapore tax issues that may be relevant to the M&G Shareholders in relation to the holding or disposing of M&G Shares.

The paragraphs below are intended to apply only to M&G Shareholders: (i) who are resident in Singapore for Singapore tax purposes; (ii) who are the absolute beneficial owners of M&G Shares and any dividends paid in respect of them; and (iii) who will hold M&G Shares for long-term investment purposes.

The paragraphs below may not apply to all categories of M&G Shareholders, some of which may be subject to special rules.

The material set out in the paragraphs below does not constitute legal or tax advice. Any person who is in any doubt as to their tax position or who is subject to tax in a jurisdiction other than Singapore should consult an appropriate professional adviser. It is emphasised that neither the Company nor any other persons involved in this Prospectus accepts responsibility for any tax effects or liabilities resulting from the holding, acquisition or disposal of M&G Shares.

3.1 Income Tax

(A) Dividends paid by the Company to the M&G Shareholders

To the extent that any dividends paid by the Company are regarded as foreign-sourced dividends paid by the Company to the M&G Shareholders, such foreign-sourced dividends received or deemed received in Singapore by any Singapore tax resident individual shall be exempt from Singapore income tax if the Comptroller of Income Tax (the "**Comptroller**") is satisfied that the tax exemption would be beneficial to the individual, but excluding such income received by him through a partnership in Singapore.

Foreign-sourced dividends received or deemed received in Singapore by any Singapore tax resident individual through a partnership in Singapore or by any Singapore tax resident non-individual shall be exempt from Singapore income tax if certain conditions are met, including the following:

- the foreign-sourced dividend is subject to tax of a similar character to income tax (by whatever name called) under the law of the territory from which the foreign-sourced dividend is received;
- at the time the foreign-sourced dividend is received in Singapore by the person tax resident in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the foreign-

sourced dividend is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15 per cent; and

- the Comptroller is satisfied that the tax exemption would be beneficial to the person tax resident in Singapore.

Certain concessions and clarifications have also been announced by the Inland Revenue Authority of Singapore with respect to such conditions.

(B) Gains on disposal of M&G Shares

Singapore does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterisation of capital gains, and hence, gains arising from the disposal of M&G Shares may be construed to be of an income nature and subject to Singapore income tax, especially if they arise from activities which the Comptroller would regard as the carrying on of a trade or business in Singapore.

M&G Shareholders who apply, or are required to apply, Financial Reporting Standard ("**FRS**") 109 or Singapore Financial Reporting Standard (International) 9 (Financial Instruments) ("**SFRS(I) 9**") for Singapore income tax purposes may be required to recognise gains or losses on M&G Shares, irrespective of disposal, in accordance with FRS 109 or SFRS(I) 9, even though no sale or disposal is made. See the section below on "Adoption of FRS 109 or SFRS(I) 9 for Singapore Income Tax Purposes".

(C) Adoption of FRS 109 or SFRS(I) 9 for Singapore Income Tax Purposes

FRS 109 or SFRS(I) 9 (as the case may be) is mandatorily effective for annual periods beginning on or after 1 January 2018. Section 34AA of the Income Tax Act (Cap. 134) ("SITA"), requires taxpayers who comply or who are required to comply with FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions. The IRAS has also issued a circular entitled "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments".

M&G Shareholders who may be subject to the tax treatment under Section 34AA of the SITA should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of M&G Shares.

3.2 Stamp Duty

Stamp duty should generally not be payable by a M&G Shareholder on any instrument of conveyance, transfer or assignment of M&G Shares to Singapore tax resident M&G Shareholders, as the Company is incorporated in England and Wales, and further assuming that (i) the Company does not maintain any share register or register of members in Singapore and (ii) M&G Shares do not constitute equity interests in any entity with (direct or indirect) interest in "prescribed immovable property" in Singapore as prescribed under Paragraph 5 of the Stamp Duties (Section 23) Order 2017.

3.3 Goods and services tax ("GST")

To the extent that the acquisition or disposal of M&G Shares is regarded as an issue, allotment or transfer of ownership of an equity security, such issue, allotment or transfer of ownership of an equity security (i.e. any interest in or right to a share in the capital of a body corporate or any option to acquire any such interest or right but excluding a contract of insurance and an estate or interest in land, other than an estate or interest as mortgagee or chargeholder) is generally regarded as an exempt supply not subject to GST under the Goods and Services Tax Act (Cap. 117A).

M&G Shareholders should consult their own tax advisers if they are in any doubt as to the treatment that would be applicable.

4. HONG KONG TAX

The following paragraphs are intended only as a general guide to current Hong Kong law and the Inland Revenue Department's current published practice, which are both subject to change at any time, possibly with retroactive effect. Furthermore, the following paragraphs are not exhaustive and relate only to certain limited aspects of the Hong Kong tax consequences of holding, purchasing and disposing of the M&G Shares.

The material set out in the paragraphs below does not constitute tax advice. Any person who is in any doubt as to their tax position or who is subject to tax in a jurisdiction other than the Hong Kong should consult an appropriate professional adviser.

4.1 Tax on Dividends

No tax is payable in Hong Kong in respect of dividends paid by the Company.

4.2 Profits Tax

Hong Kong profits tax will not be payable by any M&G Shareholders (other than M&G Shareholders carrying on a trade, profession or business in Hong Kong and holding the M&G Shares for trading purposes) on any capital gains made on the sale or other disposal of the M&G Shares. Trading gains from the sale of M&G Shares by persons carrying on a trade, profession or business in Hong Kong will only be chargeable to Hong Kong profits tax where such gains are derived from or arise in Hong Kong from such trade, profession or business. Current Hong Kong Inland Revenue Department guidance provides that gains from sales of M&G Shares effected on the London Stock Exchange will be considered by the Inland Revenue Department not to be derived from or arise in Hong Kong. M&G Shareholders should take advice from their own professional advisers as to their particular tax position.

4.3 Stamp Duty

No Hong Kong stamp duty is chargeable on any sale and purchase of M&G Shares.

4.4 Estate Duty

Hong Kong estate duty was abolished effective from 11 February 2006. No Hong Kong estate duty is payable by M&G Shareholders in relation to the M&G Shares owned by them upon death.

PART IX

ADDITIONAL INFORMATION

1. RESPONSIBILITY STATEMENT

The Directors, whose names appear on page 39 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company, each having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND ACTIVITY OF THE COMPANY

The Company was incorporated and registered in England and Wales under the Companies Act as a private company limited by shares and under the name Voyager Dallas Holding Company Limited on 2 July 2018 with registered number 11444019. On 3 July 2018, the Company changed its name to M&G Prudential Limited. On 24 July 2019, the Company was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Company changed its name to M&G plc.

The principal activity of the Company is to act as the ultimate holding company of the Group. The principal legislation under which the Company operates is the Companies Act and regulations made thereunder.

The Company is domiciled in England and Wales with its registered and head office at 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom. The telephone number of the Company's registered office is +44 (0)20 7626 4588 and its website is www.mandgprudential.com. The information on the Company's website does not form part of this Prospectus.

The legal entity identifier of the Company is 254900TWUJUQ44TQJY84.

3. SHARE CAPITAL OF THE COMPANY

3.1 Issued share capital of the Company

On Admission, the number of M&G Shares in issue will be equal to the number of Prudential Shares in issue at the Record Time. The M&G Shares have a nominal value of £0.05 each and will be fully paid.

As at the Latest Practicable Date, there were 2,599,885,116 Prudential Shares in issue. Up to a further 70,419 Prudential Shares may be issued by Prudential plc prior to Admission to satisfy entitlements under the Prudential Savings-Related Share Option Scheme. These additional Prudential Shares, if issued, will be issued prior to the Record Time.

The M&G Shares will be registered with ISIN number GB00BKFB1C65 and SEDOL number BKFB1C6.

3.2 History of the share capital

The Company was incorporated on 2 July 2018 as a private limited company with share capital of £1.00 comprised of 1 ordinary share of £1.00 which was issued to its initial subscriber, Prudential plc.

On 7 November 2018, the Company sub-divided its existing 1 ordinary share of £1.00 into 20 ordinary shares of £0.05 each, following which the Company's share capital consisted of 20 ordinary shares of £0.05 each, with an aggregate nominal value of £1.00.

On 23 November 2018, the Company issued 2,597,929,980 ordinary shares of £0.05 each to the existing sole shareholder of the Company, Prudential plc, in consideration for the transfer of the entire issued share capital of each of PAC, M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited, following which the Company's share capital consisted of 2,597,930,000 ordinary shares of £0.05 each, with an aggregate nominal value of £129,896,500.

On 4 December 2018, the Company carried out a reduction of capital to reduce its share premium account from £21,370,103,500 to £370,103,500, creating distributable reserves of £21,000,000,000.

Prior to Admission, up to a further 2,025,535 M&G Shares may be issued to the existing sole shareholder of the Company, Prudential plc, to ensure that on Admission the number of M&G Shares in issue will be equal to the number of Prudential Shares in issue at the Record Time.

4. INFORMATION ABOUT M&G SHARES

4.1 Description and type of securities

The M&G Shares are fully paid ordinary shares with a nominal value of £0.05 each. The Company has and, following the Demerger and Admission, will have one class of ordinary shares.

The M&G Shares are credited as fully paid and free from all liens, equities, charges, encumbrances and other interests. The M&G Shares rank *pari passu* for dividends and distributions on ordinary shares of the Company declared, made or paid after their issue.

4.2 Legislation under which the M&G Shares were created

The M&G Shares have been created under the Companies Act.

4.3 Confirmations

At the date of the Prospectus, and save as otherwise disclosed in this Part IX (*Additional Information*):

(A) no share or loan capital of the Company has, since the incorporation of the Company, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(B) no commission, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital;

(C) no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option; and

(D) the Company held no treasury shares (as defined in the Companies Act).

4.4 Listing

An application will be made to the FCA for the M&G Shares to be admitted to the premium listing segment of the Official List. An application will also be made to the London Stock Exchange for the M&G Shares to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings in the M&G Shares will commence on the London Stock Exchange by no later than 8.00 a.m. (London time) on 21 October 2019. The Company is expected to be eligible for inclusion in the FTSE UK Index Series from Admission

No application has been made for admission of M&G Shares to trading on any other stock exchange (nor is it the current intention of the Company to make any such application in future).

There is no prior trading record for the M&G Shares.

4.5 Form and currency of the M&G Shares

The M&G Shares will be in registered form and will be capable of being held in certificated and uncertificated form. The registrar of the Company is Equiniti.

Title to the certificated M&G Shares will be evidenced by entry in the register of members of the Company and title to uncertificated M&G Shares will be evidenced by entry in the operator register maintained by Equiniti (which will form part of the register of members of the Company).

No share certificates will be issued in respect of M&G Shares in uncertificated form. No temporary documents of title have been or will be issued in respect of the M&G Shares.

It is currently anticipated that the M&G Shares will be eligible to join CREST, the computerised, paperless system for settlement of sales and purchases of shares in the London securities market, with effect immediately upon Admission and the commencement of dealings on the London Stock Exchange.

The M&G Shares will be denominated in Pound Sterling and quoted in Pound Sterling on the London Stock Exchange.

4.6 Rights attached to the M&G Shares

All the M&G Shares will rank *pari passu* in all respects, there being no conversion or exchange rights attaching thereto, and all the M&G Shares will have equal rights to participate in capital, dividend and profit distributions by the Company.

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to M&G Shareholders in proportion to their holdings of M&G Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be approved by a special resolution of the M&G Shareholders, either generally or specifically, for a maximum period not exceeding five years. The Company intends to seek approval prior to Admission from its sole shareholder, Prudential plc, for resolutions of the Company disapplying pre-emption rights to this effect as summarised at section 4.7 below.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the M&G Shareholders have no rights to share in the profits of the Company.

The M&G Shares are not redeemable. However, the Company may purchase or contract to purchase any of the M&G Shares on or off-market, subject to the Companies Act, the requirements of the Listing Rules and applicable regulatory requirements. The Company may purchase M&G Shares only out of distributable reserves or the proceeds of a new issue of shares made to fund the repurchase.

4.7 Authorisations relating to the share capital of the Company

The Company intends to seek approval prior to Admission from its sole shareholder, Prudential plc, for resolutions of the Company to the following effect, in each case to be subject to and conditional upon Admission becoming effective:

(A) The Board be generally and unconditionally authorised to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

(i) up to an aggregate nominal amount equal to one third of issued ordinary share capital (excluding treasury shares) as at Admission (such amount to be reduced by any allotments or grants made under paragraph (ii) below in excess of such amount and/or the authority described in paragraph (E) below), so that in total no more than:

(a) one third of issued ordinary share capital (excluding treasury shares) as at Admission can be allotted under this paragraph (A)(i) and, if passed, paragraph (E) below; and

(b) two thirds of issued ordinary share capital (excluding treasury shares) as at Admission can be allotted under this paragraph (A) and, if passed, paragraph (E) below; and

(ii) comprising equity securities (as defined in section 560(1) of the Companies Act) up to an aggregate nominal amount equal to two thirds of issued ordinary share capital (excluding treasury shares) as at Admission (such amount to be reduced by any allotments or grants made under paragraph (i) above and/or the authority described in paragraph (E) below, if passed, so that in total no more than two thirds of issued ordinary share capital (excluding treasury shares) as at Admission can be allotted under this paragraph (A) and, if passed, paragraph (E) below) in connection with an offer by way of a rights issue:

(a) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(b) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authority to apply until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

(B) Subject to and conditional on the passing of the authority described in paragraph (A) above, the Board be generally and unconditionally authorised to allot equity securities (as defined in section 560(1) of the Companies Act) for cash under the authority described in paragraph (A) above and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such authority to be limited:

(i) to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority described in paragraph (A)(ii) above, by way of a rights issue only):

(a) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(b) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(ii) in the case of the authority described in paragraph (A)(i) above and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (B)(i) above) up to an aggregate nominal amount equal to 5 per cent of issued ordinary share capital (excluding treasury shares) as at Admission,

such authority to apply until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

(C) Subject to and conditional on the passing of the authority described in paragraph (A) above, the Board be generally and unconditionally authorised in addition to any authority granted under paragraph (B) above to allot equity securities (as defined in section 560(1) of the Companies Act) for cash under the authority described in paragraph (A)(i) above and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such authority to be:

(i) limited to the allotment of equity securities and sale of treasury shares up to an aggregate nominal amount equal to 5 per cent of issued ordinary share capital (excluding treasury shares) as at Admission; and

(ii) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying

Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

such authority to apply until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

(D) The Board be generally and unconditionally authorised to allot preference shares in the Company and to grant rights to subscribe for or convert any security into preference shares in the Company:

(i) denominated in Pound Sterling with a nominal value of £0.01 each, up to a maximum aggregate nominal value of £20 million (representing two billion Pound Sterling denominated preference shares in the Company);

(ii) denominated in US dollars with a nominal value of US$0.01 each, up to a maximum aggregate nominal value of US$20 million (representing two billion US dollar denominated preference shares in the Company); and

(iii) denominated in euro with a nominal value of €0.01 each, up to a maximum aggregate nominal value of €20 million (representing two billion euro denominated preference shares in the Company),

in one or more series, with such rights or subject to such restrictions as the Board shall determine prior to the date on which such preference shares are allotted, such authority to apply until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require preference shares to be allotted or rights to subscribe for or convert securities into preference shares to be granted after the authority ends and the Board may allot preference shares or grant rights to subscribe for or convert securities into preference shares under any such offer or agreement as if the authority had not ended.

(E) The Board be generally and unconditionally authorised to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company in relation to any issue by the Company or any subsidiary or subsidiary undertaking of the Company of mandatory convertible securities ("**MCS**") that automatically convert into, or are exchanged for, ordinary shares in the Company in prescribed circumstances, where the directors of the Company consider that such an issuance of MCS would be desirable in connection with, or for the purposes of, complying with or maintaining compliance with the regulatory capital requirements or targets applicable to the Company or to the Group from time to time:

(i) up to an aggregate nominal amount equal to one third of issued ordinary share capital (excluding treasury shares) as at Admission (such amount to be reduced by any allotments or grants made under the authority described in paragraph (A)(ii) above in excess of such amount and/or the authority described in paragraph (A)(i) above), so that in total no more than:

(a) one third of issued ordinary share capital (excluding treasury shares) as at Admission can be allotted under paragraph (A)(i) above and this paragraph (E); and

(b) two thirds of issued ordinary share capital (excluding treasury shares) as at Admission can be allotted under paragraph (A) above and this paragraph (E); and

(ii) subject to applicable law and regulation, at such conversion prices (or such maximum or minimum conversion price methodologies) as may be determined by the directors of the Company from time to time,

such authority to apply until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

(F) Subject to and conditional on the passing of the authority described in paragraph (E) above, the Board be generally and unconditionally authorised to allot equity securities (as defined in section 560(1) of the Companies Act) for cash under the authority described in paragraph (E) above and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such authority to be limited to the allotment of equity securities and sale of treasury shares up to an aggregate nominal amount equal to one third of issued ordinary share capital (excluding treasury shares) as at Admission, and such authority to apply until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

(G) The Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of its ordinary shares, provided that such authority be limited:

(i) to a maximum number of ordinary shares equal to 10 per cent of issued ordinary share capital (excluding treasury shares) as at Admission;

(ii) by the condition that the minimum price (exclusive of expenses) which may be paid for each ordinary share is its nominal value; and

(iii) by the condition that the maximum price (exclusive of expenses) which may be paid for each ordinary share is the highest of:

(a) an amount equal to 5 per cent above the average market value of the Company’s ordinary shares for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and

(b) the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out,

such authority to apply, unless renewed, varied or revoked prior to such time, until the end of the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020) but during this period the Company may enter into a contract for the purchase of ordinary shares which would, or might, be completed or executed wholly or partly after the authority ends and the Company may purchase ordinary shares pursuant to any such contract as if the authority had not ended.

(H) In accordance with sections 366 and 367 of the Companies Act, the Company, and all companies that are subsidiaries of the Company at any time during the period for which this resolution is effective are authorised, in aggregate, to:

(i) make political donations to political parties and/or independent election candidates not exceeding £100,000;

(ii) make political donations to political organisations other than political parties not exceeding £100,000; and

(iii) incur political expenditure not exceeding £100,000,

(as such terms are defined in sections 363 to 365 of the Companies Act) during the period beginning with the date of the passing of this resolution until the first annual general meeting following Admission (or, if earlier, until the close of business on 31 December 2020), unless such authority has been renewed, varied or revoked, provided that the aggregate amount of any such donations and expenditure made or incurred under this authority shall not exceed £100,000.

(I) A general meeting of the Company other than an annual general meeting may be called on not less than 14 clear day's notice.

(J) The Company be authorised for the purposes of rule 6.1.8 of the Disclosure Guidance and Transparency Rules to use electronic means to convey information to shareholders and debt securities holders.

In relation to the resolution described in paragraph (I), the Board confirms that the shorter notice period will not be used as a matter of routine, but only where flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. Annual general meetings will be held on at least 21 clear days' notice.

4.8 Description of restrictions on free transferability

The Board can decline to register any transfer of any share which is not a fully paid share. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:

(A) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate or such other evidence of the right to transfer as the Board may reasonably require;

(B) is in respect of only one class of share; and

(C) if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of any of the Company's certificated shares by a person with an interest of 0.25 per cent or more of the existing M&G Shares (exclusive of any shares held in treasury) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

4.9 Taxation

Certain information on taxation in the United Kingdom, the United States, Hong Kong and Singapore is set out in Part VIII (*Taxation*). The information contained in Part VIII (*Taxation*) is intended only as a general guide to the current tax position in the United Kingdom, the United States, Hong Kong and Singapore for the M&G Shareholders described therein.

5. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Articles were adopted on 22 July 2019 conditional upon Admission becoming effective. The objects of the Company are unrestricted.

6. ORGANISATIONAL STRUCTURE

The Company is the principal holding company of the Group.

The following table shows details of the Company's significant subsidiaries.

Name	Country of incorporation or registration	Proportion of ownership interest	Principal activity
M&G Prudential (Holdings) Limited	England and Wales	100%	Holding Company
M&G Prudential Services Limited	England and Wales	100%	Service Company

Name	Country of incorporation or registration	Proportion of ownership interest	Principal activity
M&G Alternative Investment Management Limited	England and Wales	100%	Asset Management Firm
M&G Group Limited	England and Wales	100%	Holding Company
M&G International Investments S.A.	Luxembourg	100%	Asset Management Firm
M&G Investments (Singapore) Pte Ltd	Singapore	100%	Asset Management Firm
M&G Investment Management Limited	England and Wales	100%	Asset Management Firm
M&G FA Limited	England and Wales	100%	Holding Company
M&G (Luxembourg) S.A.	Luxembourg	100%	Asset Management Firm
M&G Real Estate Asia Holding Company Pte. Limited	Singapore	67%	Holding Company
M&G RE Fund Management S.a.r.l.	Luxembourg	100%	Asset Management Firm
M&G Real Estate Limited	England and Wales	100%	Asset Management Firm
M&G Securities Limited	England and Wales	100%	Asset Management Firm
PGDS (UK One) Limited	England and Wales	100%	Service Company
The Prudential Assurance Company Limited	England and Wales	100%	Insurance Firm
Prudential Capital Holding Company Limited	England and Wales	100%	Financial Services
Prudential Capital plc	England and Wales	100%	Financial Services
Prudential Distribution Limited	Scotland	100%	Insurance Distribution / Insurance Services
Prudential Financial Planning Limited	England and Wales	100%	Insurance Intermediary
Prudential Financial Services Limited	England and Wales	100%	Holding Company
Prudential International Assurance plc	Ireland	100%	Insurance Firm
Prudential International Management Services Limited	Ireland	100%	Service Company
Prudential Lifetime Mortgages Limited	England and Wales	100%	Mortgage Lending and Administration

Name	Country of incorporation or registration	Proportion of ownership interest	Principal activity
Prudential Pensions Limited	England and Wales	100%	Insurance Firm
Prudential Polska Sp. z o.o	Poland	100%	Insurance Distribution / Insurance Services
Prudential Portfolio Management Group Limited	England and Wales	100%	Asset Management Firm
Prutec Limited	England and Wales	100%	Investment Company
PVM Partnerships Limited	England and Wales	100%	Investment Company

7. INTERESTS OF MAJOR SHAREHOLDERS

As at the date of this Prospectus, the entire issued share capital of the Company is held and controlled by Prudential plc.

Immediately following the Demerger, the shareholders of the Company will be the same as the shareholders of Prudential plc as at the Record Time.

As at the Latest Practicable Date, and so far as is known to the Company by virtue of the notifications made to Prudential plc pursuant to the Companies Act, Market Abuse Regulation and/or the Disclosure Guidance and Transparency Rules, the following, directly or indirectly, are interested in 3 per cent or more of the issued share capital of Prudential plc:

Name of shareholder	Percentage of total voting rights
Capital Group Companies, Inc	9.87
BlackRock, Inc	5.08
NorgesBank	3.99

Following the Demerger, no M&G Shareholder has or will have different voting rights from any other holder of M&G Shares in respect of any M&G Shares held by them and the M&G Shares held by them will rank *pari passu* in all respects with other M&G Shares.

8. DIRECTORS AND SENIOR MANAGEMENT

8.1 Directorships and partnerships outside the Group

The details of those companies and partnerships outside the Group of which the Directors and Senior Managers are currently directors or partners, or have been directors or partners at any time during the five years prior to the publication of this Prospectus, are as follows:

Name	Current directorships and partnerships	Previous directorships and partnerships
Directors		
Mike Evans	Just Eat plc	Chesnara plc Chesnara Holdings BV Countrywide Assured plc esure Group plc Hargreaves Lansdown EBT Trustees Limited Hargreaves Lansdown plc Protection Life Company Limited Wessex Cardiac Trust Wessex Heartbeat Limited ZPG plc

Name	Current directorships and partnerships	Previous directorships and partnerships
John Foley	Mailliwear Limited The Mews (Tenterden) Management Company Limited Mundy Bois Limited	Prudential plc
Clare Bousfield	Pacific Life Re Holdings Limited Pacific Life Re Limited Pacific Life Re Services Limited	Aegon Holdings (UK) Limited Aegon Investment Solutions Limited Aegon Investment Solutions – Nominee 1 (Gross) Ltd. Aegon Investment Solutions – Nominee 2 (Net) Ltd. Aegon Investment Solutions – Nominee 3 (ISA) Ltd. Aegon Pension Trustee Limited Aegon Platform Services Limited Aegon SIPP Guarantee Nominee Limited Aegon SIPP Nominee Limited Aegon UK Corporate Services Limited Aegon UK IT Services Limited Aegon UK plc Aegon UK Property Fund Limited Aegon UK Services Limited Momentum Group Limited Newcast Property Developments (One) Limited Newcast Property Developments (Two) Limited Origen Limited Origen Financial Services Limited Origen Trustee Services Limited Scottish Equitable Holdings Limited Scottish Equitable (Managed Funds) Limited Scottish Equitable plc Scottish Financial Enterprise
Caroline Silver	The Board of Trustees of the Victoria & Albert Museum The British United Provident Association Limited Meggitt plc PZ Cussons plc	Moelis & Company UK LLP Moelis Capital Markets LLP
Clive Adamson	Ashmore Group plc Clydesdale Bank plc CYBG plc J.P. Morgan Securities plc McKinsey & Company Virgin Money plc	CYB Investments Limited The Financial Conduct Authority J.P. Morgan International Bank Limited
Robin Lawther	Ashurst LLP Nordea Bank ABP Oras Invest Oy UK Government Investments Limited	–

Name	Current directorships and partnerships	Previous directorships and partnerships
Clare Thompson	The British United Provident Association Limited	Bupa Insurance Limited Bupa Insurance Services Limited Churchill Insurance Company Limited Direct Line Insurance Group plc Disasters Emergency Committee Miller Insurance Holdings Limited Miller Insurance Services LLP RC Bond Holdings Limited Retail Charity Bonds plc UK Insurance Limited
Senior Managers		
Keith Davies	International House Trust Limited	–
Jonathan (Jack) Daniels	–	–
Roddy Thomson	–	–
Graham Mason	Alkanza, Inc. Four Houses (Petersham) Management Company Limited	Eastspring Investments (Luxembourg) S.A. (UK Branch)
Irene McDermott Brown	–	–
Alan Porter	The Panel on Takeovers and Demergers	Prudential Services Limited
Julian Adams	Association of British Insurers Worshipful Company of Basketmakers 2011 Charitable Trust	Prudential Zenith Life Insurance Company Limited
David Macmillan	–	Aegon UK Corporate Services Limited Aegon UK plc Aegon UK Services Limited Freedom's Road Enterprise Services Limited

Save as set out above, none of the Directors or the Senior Managers has any business interests, or performs any activities, outside the Group which are significant with respect to the Group.

8.2 Conflicts of interest

There are no actual or potential conflicts of interest between the duties owed by the Directors or the Senior Managers to the Company and their private interests and/or other duties that they may also have.

8.3 Directors and Senior Managers' confirmations

(A) As at the date of this Prospectus, no Director or Senior Manager has during the last five years:

(i) been convicted in relation to fraudulent offences;

(ii) been associated with any bankruptcy, receivership, liquidation or companies put into administration while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company;

(iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies); or

(iv) been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company or from acting in the management or conduct of the affairs of any company.

(B) No Director or Senior Manager was selected to act in such capacity pursuant to any arrangement or understanding with any shareholder, consumer, supplier or any other person having a business connection with the Group.

(C) There are no family relationships between any of the Directors and/or the Senior Managers.

(D) There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors or Senior Managers.

8.4 Interests of Directors and Senior Managers in the share capital of Prudential plc and of the Company

As at the date of this Prospectus, the Directors and Senior Managers have no interest in the share capital of the Company. Following Admission, the interests of the Directors and Senior Managers in the share capital of the Company will be based on the number of Prudential Shares owned and the number of Prudential Shares subject to awards that will be unvested at that time, which, as at the Latest Practicable Date, is expected to be as follows.

(A) Issued Prudential plc share capital

Set out below are the interests (all of which are beneficial) as at the Latest Practicable Date of the Directors and the Senior Managers in the share capital of Prudential plc. On completion of the Demerger, each Director and Senior Manager will receive one M&G Share for each Prudential Share held at the Record Time.

Director / Senior Manager	Number of Prudential Shares[1]	% of issued share capital of Prudential plc
Mike Evans	—	—
John Foley	287,536	0.011%
Clare Bousfield	233	less than 0.001%
Caroline Silver	—	—
Clive Adamson	—	—
Robin Lawther	—	—
Clare Thompson	2,100	less than 0.001%
Keith Davies	1,470	less than 0.001%
Jonathan (Jack) Daniels	37,767	0.001%
Roddy Thomson	—	—
Graham Mason	—	—
Irene McDermott Brown	—	—
Alan Porter	1,114	less than 0.001%
Julian Adams	651	less than 0.001%
David Macmillan	—	—

1 The figures specified above include Prudential Shares held by the trustee of a share incentive plan on behalf of Directors and Senior Managers.

(B) Awards over Prudential Shares

The following table sets out details of the options and awards over Prudential Shares held by the Directors and Senior Managers as at the Latest Practicable Date which will be rolled over into, or exchanged for, equivalent options and awards over M&G Shares ("**Replacement Awards**") on Admission. The number of M&G Shares subject to the Replacement Awards will be calculated using the following methodology:

- the Prudential Share awards will be valued using a 5-day average closing price of Prudential Shares up to and including the last trading day on which those Prudential Shares are eligible to receive the M&G Shares as part of the Demerger; and
- the number of M&G Shares over which the Replacement Awards will be granted will be calculated by reference to the 5-day closing average price of the first 5 days of trading of the M&G Shares.

Director / Senior Manager	Number of Prudential Shares subject to awards[(1)(2)] Performance based awards	Non-performance based awards
John Foley	403,302	95,852
Clare Bousfield	158,452	15,785
Keith Davies	104,159	18,473
Jonathan (Jack) Daniels	148,306	137,256
Roddy Thomson	90,691	9,982
Graham Mason	42,726	43,088
Irene McDermott Brown	105,099	13,065
Alan Porter	178,653	63,214
Julian Adams	223,317	82,842
David Macmillan	71,236	9,655

1 Includes the number of Prudential Shares subject to awards under the terms of the share plans administered by Prudential plc set out in sections 10.8 to 10.16 of this Part IX (*Additional Information*).

2 Includes an estimated number of Prudential Shares to reflect a dividend equivalent payment that is expected to be made in respect of the individuals' outstanding share awards over Prudential Shares in connection with a Prudential Group dividend due to be paid in late September 2019. This dividend equivalent payment has been estimated based on the closing price of Prudential Shares as at the Latest Practicable Date. The total number of Prudential Shares issued under this dividend equivalent payment remains subject to the closing price of Prudential Shares on 26 September 2019.

Save as set out above, no Director or Senior Manager has any interests in the share capital or any other securities of the Company.

9. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

9.1 Executive Directors

The Executive Directors have service agreements, entered into on 9 September 2019 in anticipation of Admission, with the Company.

The key terms of their appointments are as follows:

(A) General terms

Name	Position	Commencement of employment	Notice period
John Foley	Chief Executive Officer	17 January 2000	12 months
Clare Bousfield	Chief Financial Officer	26 September 2016	12 months

The Executive Directors are each entitled to a remuneration package comprising annual basic salary, a discretionary performance-related incentive award under such incentive scheme(s) as the Group operates from time to time, participation in such share incentive or long-term incentive scheme(s) as the Group operates from time to time (including any all-employee share plans established by the Group), the option of pension contributions or a fixed cash allowance in lieu of pension contributions, and participation in the Group's benefit plans, including membership of any private health insurance or medical scheme operated by the Group (including eligibility for his or her spouse or civil partner and dependent children), permanent health insurance, life assurance and directors and officers' liability insurance. Further details are set out in section 9.4 of this Part IX (*Additional Information*).

In addition to normal public holidays, the Executive Directors are entitled to 30 working days of paid holiday in each complete holiday year.

(B) Termination provisions

The service agreements of the Executive Directors can be terminated by not less than 12 months' notice in writing by either party.

Each of the Executive Directors may be put on garden leave by the Company during all or any part of his or her notice period. During this period, the Executive Director remains an employee of the Company and is subject to certain restrictions.

Where either party has served notice to terminate, the Company may elect to terminate employment immediately by making a payment in lieu of notice equivalent to the applicable Executive Director's base salary for the notice period (or the remainder of such period). The Company may elect to make any such payments in monthly instalments which will continue until the expiry of the notice period or if earlier, either: (i) the date on which the Executive Director obtains an alternative remunerated position; or (ii) the date on which the Company determines the Executive Director has failed to comply with his or her duties to mitigate his or her loss by seeking to obtain an alternative remunerated position. If he or she finds an alternative remunerated position, the monthly payments will be reduced by the amount of the monthly remuneration received pursuant to that alternative remunerated position.

In addition, the employment of each Executive Director is terminable with immediate effect in certain circumstances, including (but not limited to) where he or she: (i) commits an act which in the opinion of the Company amounts to gross misconduct or is likely to seriously damage the interests of the Company or bring it into disrepute; (ii) commits a persistent or material breach of the terms of his or her service agreement; (iii) refuses or neglects to carry out his or her duties or fails to discharge his or her responsibilities; (iv) becomes bankrupt or makes any composition or enters into any voluntary arrangement with his or her creditors; (v) is convicted of a criminal offence (other than a motoring offence for which no custodial sentence is given); (vi) is disqualified or otherwise prohibited by law from being a director, or resigns as a director without the consent of the Board; (vii) refuses or neglects to comply with his or her common law, fiduciary or statutory duties as a director or comply with lawful orders given by the Company; (viii) loses any professional registration necessary to undertake his or her duties under his or her service agreement or ceases to meet the requirements of any regulatory body or be a fit and proper person under the relevant regulatory regime; (ix) is suspended or subject to serious disciplinary action by a professional body or prevented from carrying out duties by a relevant regulator; or (x) is convicted of any offence relating to insider dealing.

In the event of termination, the service agreement of each Executive Director imposes post-termination restrictions, including those described as follows:

(i) For a period of 12 months following his or her termination (less any time spent on garden leave immediately prior to termination), the Executive Director may not: (i) solicit or deal with the Group's customers or solicit the Group's prospective customers with a view to providing goods or services to them in competition with any business of the Group with which the Executive Director was materially involved in the 12 months prior to termination ("**Restricted Business**"); (ii) interfere with the Group's suppliers; or (iii) in the course of any business concern which is or is intended to be in competition with any Restricted Business, offer employment to or entice away from the Group any other executive or management level employee who worked closely with the Executive Director in the 12 months prior to termination or regularly used confidential information or was able to influence the Group's relationships with its customers or employees.

(ii) For a period of 6 months following his or her termination (less any time spent on garden leave), the Executive Director may not be engaged or concerned in any capacity in any business concern which is or is intended to be in competition with any Restricted Business (subject to certain specified exceptions).

Save as disclosed in this section 9.1, there are no existing service contracts between any Executive Director and any member of the Group which provide for benefits upon termination.

9.2 Non-Executive Directors

On Admission, the Company will have five non-executive Directors: the Chair and four independent non-executive Directors. The non-executive Directors (including the Chair) were appointed by letter of appointment. The key terms of these appointments are as follows:

(A) General terms

Name	Position	Date of appointment	Notice period
Mike Evans	Chair (and Chair of Nomination Committee)	1 October 2018	12 months
Caroline Silver	Senior Independent Director	22 March 2019	6 months
Clive Adamson	Chair of Risk Committee and Chair of PAC Risk Committee	22 March 2019	6 months
Robin Lawther	Chair of Remuneration Committee	22 March 2019	6 months
Clare Thompson	Chair of Audit Committee	7 May 2019	6 months

The Chair is entitled to receive an annual fee of £450,000. The base annual fee for each non-executive Director is £75,000. Additional fees will be payable as follows: £30,000 per annum to the Senior Independent Director, £30,000 per annum for chairing the Audit Committee, £40,000 per annum for chairing the Risk Committee, £30,000 per annum for chairing the Remuneration Committee, £30,000 per annum for chairing the PAC Risk Committee, £15,000 per annum for being a member of the Audit Committee, £15,000 per annum for being a member of the Risk Committee, £15,000 per annum for being a member of the Remuneration Committee and £10,000 per annum for being a member of the Nomination Committee.

In addition, each non-executive Director is entitled to be reimbursed for reasonable expenses necessarily incurred arising from the performance of their duties. They may not participate in any pension or share scheme operated by the Company and are not eligible for any bonus. The Chair may participate in a medical scheme operated by the Group.

(B) Termination provisions

The appointment of the Chair is terminable by either party on 12 months' notice. The appointment of each independent non-executive Director is terminable by either party on six months' written notice. Fees are payable as normal during the notice period.

The appointment of the Chair and each independent non-executive Director may also be terminated with immediate effect by the Company if he or she: (i) fails to be re-appointed or re-elected or otherwise stops being a director in accordance with the Articles of Association; (ii) commits a material breach of his or her obligations under the letter of appointment; (iii) commits any serious or repeated breach or non-observance of his or her obligations to the Company (which include an obligation not to breach his or her duties to the Company, whether statutory, fiduciary, or common law); (iv) is guilty of any fraud or dishonesty or acts in a manner which, in the opinion of the Company acting reasonably, brings or is likely to bring him or her or the Company into disrepute or is materially adverse to the interests of the Company; (v) is convicted of any arrestable criminal offence other than an offence under road traffic legislation in the UK or elsewhere for which a fine or non-custodial penalty is imposed; (vi) is declared bankrupt or has made an arrangement with or for the benefit or his or her creditors; (vii) is disqualified from acting as a director; (viii) ceases to hold appropriate Senior Managers and Certification Regime status; (ix) does not comply with the Company's material policies, including those on Anti-Bribery and Corruption, Anti-Money Laundering, Gifts and Hospitality and Inside Information management; or (x) is absent for more than six months without the Company's permission from board meetings of the Company held during that period.

There are no existing service contracts between any non-executive Director and any member of the Group which provide for benefits upon termination. Fees are payable as normal during the notice period.

9.3 Directors' and Senior Managers' remuneration

The aggregate value of the remuneration paid (including salary, fees, incentives and other benefits) to the Directors and Senior Managers who were directors of the Company or employees of the Group during the year ended 31 December 2018, in respect of the year ended 31 December 2018, was £11,858,202 of which £3,430,450 comprised salaries/fees, £500,050 retirement benefits or cash in lieu of pension, £4,924,300 annual variable remuneration, £143,494 taxable benefits and £2,859,908 share-based payments.

Details of remuneration paid to the Directors for the year ended 31 December 2018 are set out below:

Name	Salary and fees	Retirement benefits or cash in lieu of pension	Annual variable remuneration	Taxable benefits	Share-based payments	Total
Mike Evans	112,500	–	–	–	–	112,500
John Foley	781,000	195,000	1,186,000	123,000	1,511,000	3,796,000
Clare Bousfield	458,750	55,050	450,000	1,047	–	964,847

9.4 Overview of remuneration strategy and policy

The Company's remuneration strategy is to provide a remuneration policy that:

- promotes the long-term success of the Company;
- attracts, motivates and retains the best talent to help ensure continued growth and success of the Company as a separately listed company;
- supports the Company's diversity and inclusion objectives to provide equality of opportunity for all who apply for and perform work for the Group;
- aligns the interests of the Executive Directors, Senior Managers and employees with the interests of current and future M&G Shareholders and other stakeholders;
- strikes an appropriate balance between short-term and long-term performance with strong linkage to Group performance, effective risk management, management of conflicts of interest, customer outcomes, the culture and values of the Group and long-term shareholder value creation; and
- is simple and transparent, both externally and to employees.

Consistent with that strategy, overall remuneration packages for the Executive Directors of the Company have been set at levels that are considered by the Board (having taken independent advice) to be appropriate for the size and nature of the business following Admission.

The information below and in sections 9.1 and 9.2 above, together with the details of the share-based incentive plans set out in sections 10.1 to 10.6 of this Part IX (*Additional Information*), summarises the key components of the Executive Director and non-executive Director remuneration arrangements which will apply from Admission.

The Company's remuneration policies and processes are fully compliant with all regulatory requirements, in particular the PRA and FCA Remuneration Codes that apply to the Company. Remuneration policies may be amended from time to time to ensure continued compliance with these remuneration codes.

The Company will formally propose a remuneration policy for approval by M&G Shareholders at the first annual general meeting of the Company following Admission, in accordance with section 439A of the Companies Act 2006 and regulations set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It is currently intended that, if approved, that policy will apply for three years from the date of that annual general meeting.

That policy will allow implementation of the remuneration strategy through a combination of base salary, benefits, annual bonuses, long-term incentives and all-employee share plans. It will also be designed to enable the Remuneration Committee to respond appropriately to market best practice developments and changes in regulatory requirements.

A summary of the directors' remuneration policy that will operate from Admission until the shareholder-approved policy is put in place is provided below.

(A) Base salary

The current Executive Directors' salaries are £980,000 for the CEO and £550,000 for the CFO respectively. Base salaries will be reviewed annually with increases, if any, normally taking effect from 1 April. The level of increases for Executive Directors will take account of increases awarded to the workforce as a whole as well as the performance of the Company and the individual. Increases will not, in percentage terms, ordinarily exceed those that apply to the general workforce, although the Company expects that the remuneration policy that is submitted for shareholder approval will include flexibility for increases in salary for the Executive Directors at a level greater than that applied to the general workforce, if the Remuneration Committee considers it appropriate. The Remuneration Committee next intends to review directors' base salaries in 2020 with any increase taking effect from 1 April 2020.

(B) Pension and benefits

Executive Directors are eligible to participate in the Group's defined contribution pension scheme, the Prudential Staff Pension Scheme – Defined Contribution Section, with a maximum contribution of 13 per cent of salary, which they may opt to receive as a cash allowance in lieu of employer pension contributions. The approach to pension arrangements for the Executive Directors is in line with the wider workforce.

The CEO has accrued benefits under the Prudential Staff Pension Scheme – Defined Benefit Section. He is a deferred member and is no longer actively accruing benefits in this scheme.

Other market typical benefits for Executive Directors are provided including membership of any private health insurance or medical scheme operated by the Group (including eligibility for his or her spouse or civil partner and dependent children), permanent health insurance and life assurance.

The CEO has certain additional entitlements retained from his previous employment with the Prudential Group comprising a car/driver, international medical cover and home security costs. These benefits are an exception to the remuneration policy and will not be provided to any other existing or future Executive Directors.

(C) Annual incentive

Executive Directors are currently eligible to participate in an annual incentive plan which will be operated in line with the remuneration policy approved by M&G Shareholders from time to time. The performance measures will comprise a combination of financial and non-financial metrics, with financial metrics comprising at least 50 per cent of the performance metrics. The Remuneration Committee has the discretion to adjust variable pay outcomes, including the possibility of making no payments, to reflect the exposure of the Group to current and future risks, taking into account the Group's risk management policies. Any annual incentive will be capped at 250 per cent of base salary for the CEO and 225 per cent of base salary for the CFO. 50 per cent of any incentive payable to an Executive Director will be deferred into an award over shares under the Deferred Incentive Plan ("**DIP**"), adopted by the Board conditional on Admission, which will normally vest on the third anniversary of grant, subject to the leaver and malus and clawback provisions summarised in section 10.5 of this Part IX (*Additional Information*).

The Remuneration Committee has reviewed the annual incentive plan for the Executive Directors for implementation in 2020. It is intended that in 2020 financial metrics will comprise 70 per cent of the plan, aligned with Company profit, capital generation and cost management and investment performance of the with-profits fund. The remaining 30 per cent will be aligned with non-financial customer, people and strategic metrics. Further details of the metrics and weightings will be set out in the Company's first Directors' Remuneration Report.

(D) Long-term incentives

The Board has adopted the M&G Performance Share Plan (the "**PSP**"), a new long-term incentive plan, conditional on Admission . It is expected that awards made to Executive Directors after Admission will be made under the PSP and will be in line with the remuneration policy approved by M&G Shareholders from time to time.

It is intended that under the PSP awards will be in the form of conditional free shares or nil or nominal-cost options. The limit under the PSP rules on the face value of awards that can be made in any year to an individual is 400 per cent of his or her base salary. Under the remuneration policy to be proposed to M&G Shareholders at the Company's first annual general meeting following Admission, the ordinary limit for the Executive Directors will be 250 per cent of base salary which may only be exceeded in the year of recruitment of a new Executive Director.

For future awards, performance conditions will be set. A minimum of 75 per cent of performance conditions must be aligned with financial (including Total Shareholder Return ("**TSR**")) measures. The Remuneration Committee has the discretion to adjust variable pay outcomes, including the possibility of making no payments, to reflect the exposure of the Group to current and future risks, taking into account the Group's risk management policies. The Remuneration Committee has determined that 100 per cent of performance conditions will be aligned with financial measures for awards granted in 2020, comprising a combination of capital generation and TSR metrics. Further details of these metrics and weightings will be set out in the first Directors' Remuneration Report. It is currently expected that the performance condition relating to capital generation will be set by reference to the mid-point target for cumulative capital generation for the three years to 31 December 2022 of £2.2 billion, subject to further consideration by the Remuneration Committee at the end of 2019 of appropriate performance targets for awards granted in 2020.

It is envisaged that awards granted to Executive Directors under the PSP will have a three-year performance period and a further post-vesting holding period of two years.

A summary of the principal terms of the PSP is set out in section 10 of this Part IX (*Additional Information*).

(E) Share ownership guidelines

The Remuneration Committee has adopted shareholding requirements that will require the Executive Directors to build up over a five-year period, and then subsequently hold, a shareholding in the Company equivalent to a percentage of salary. This is to ensure that the interests of Executive Directors and those of M&G Shareholders are closely aligned. Unvested M&G Shares which are not subject to performance conditions and vested M&G Shares which are subject to a holding period will count towards these shareholding requirements on a net of tax basis. The minimum shareholding requirement for the CEO is 300 per cent of salary and, for the CFO, 200 per cent of salary. This will also apply to Executive Directors who leave the Group for two years following the end of their employment. In the event that a leaver has not met the relevant shareholding requirement at the point of cessation of employment, they would be required to retain their full pre-cessation shareholding for the two-year period.

(F) Recruitment policy

Consistent with best practice, any new Executive Directors (including those promoted internally) will be offered packages in line with the remuneration policy in force at the time.

The Remuneration Committee recognises that it may be necessary in some circumstances to provide compensation for amounts foregone from a previous employer ("**Buyout Awards**"). Any Buyout Awards would be limited to what is considered by the Remuneration Committee to be a fair estimate of the value of remuneration foregone when leaving the former employer and would be structured so as to be, to the extent possible, no more generous in terms of the fair value and other key terms (e.g. time to vesting and performance targets) than the incentives they are replacing. The Remuneration Committee may agree to cover reasonable legal costs and the costs of certain relocation expenses in accordance with the Company's relocation policy.

(G) Termination policy

In the event of termination, service contracts provide for payments of base salary, pension and benefits only over the notice period or for the employer to terminate immediately by making a payment in lieu of notice equivalent to base salary for the notice period (or the remainder of such period). There is no contractual right to any bonus payment in the event of termination although in certain "good leaver" circumstances the Remuneration Committee may exercise its discretion to pay a bonus for the period of employment and based on performance assessed after the end of the financial year in which the Executive Director ceased to be employed.

The default treatment of any deferred incentive award under the DIP or share-based entitlement under the PSP is that any outstanding award will lapse on cessation of employment. However, in certain prescribed circumstances or at the discretion of the Remuneration Committee "good leaver" status can be applied. In these circumstances a participant's awards typically vest on the normal vesting date, in the case of PSP awards subject to the satisfaction of the relevant performance conditions and, ordinarily, on a time pro-rata basis, with the balance of the awards lapsing. Further details of the terms are set out in section 10 of this Part IX (*Additional Information*).

10. SHARE-BASED INCENTIVE PLANS

Following Admission, the Company intends to operate two discretionary share-based incentive plans: a performance share plan (the "**PSP**") and a deferred incentive plan (the "**DIP**") (the PSP and DIP together, the "**Executive Plans**"). The Company also intends to operate two tax-advantaged all-employee share-based incentive plans: a share acquisition and free share plan, known as a UK share incentive plan (the "**SIP**") and a savings-related share option plan, known as a Sharesave plan (the "**Sharesave Plan**") (the SIP and the Sharesave Plan, together with the Executive Plans, the "**New Plans**"). The main features of each of the New Plans are set out below, with the common terms of the Executive Plans set out in section 10.5 of this Part IX (*Additional Information*) and the common terms of the New Plans as a whole set out in section 10.6 of this Part IX (*Additional Information*).

In addition, following Admission, a number of options and awards which have previously been granted to employees of members of the Group under share schemes operated by Prudential plc will be rolled over into, or exchanged for, equivalent options and awards over M&G Shares ("**Replacement Awards**"). These Replacement Awards will be governed by the same rules as applied to the original options or awards to which they relate, save that any reference to Prudential plc and the Prudential Group will be read as references to the Company and the Group (respectively) and, where relevant, performance conditions will be adjusted so as to ensure that the holder of the Replacement Award is appropriately incentivised by reference to the performance of the Company and the Group rather than Prudential plc and the Prudential Group. Any performance conditions which apply to Replacement Awards will be, in the reasonable opinion of the Remuneration Committee, no more or less difficult to achieve when compared with the performance conditions applicable to the original award to which the Replacement Award relates. Replacement Awards will be granted in respect of options and awards granted under the following Prudential plc share schemes, summaries of which are set out in sections 10.8 to 10.16 of this Part IX (*Additional Information*):

(A) Prudential International Savings-Related Share Option Scheme;

(B) Prudential Europe Share Participation Plan;

(C) Prudential UK Services Limited Share Incentive Plan;

(D) Prudential Corporation Asia All-Employee Share Purchase Plan;

(E) Prudential Corporation Asia Deferred Bonus Plan 2010;

(F) Prudential Group Deferred Bonus Plan;

(G) PruCap Business Deferred Bonus Plan;

(H) Prudential Group Deferred Annual Incentive Plan;

(I) Prudential Long-Term Incentive Plan;

(J) PCA Long-Term Incentive Plan; and

(K) Prudential Restricted Share Plan 2015.

The number of M&G Shares which may be issued to satisfy Replacement Awards will count towards the limits set out in section 10.6(A). M&G Shares transferred out of treasury will count towards these limits for so long as this is required under institutional shareholder guidelines. Further details of these Replacement Awards will be set out in the first Directors' Remuneration Report.

10.1 PSP

The PSP was adopted by the Board on 22 July 2019, conditional on Admission. The PSP is a discretionary share plan, under which the Remuneration Committee may grant share-based awards ("**PSP Awards**") to incentivise and retain eligible employees. The PSP will be administered by the Remuneration Committee or by any sub-committee or person duly authorised by it.

(A) Individual limit

Awards will not normally be granted to a participant under the PSP over M&G Shares with a market value (as determined by the Remuneration Committee) in excess of 400 per cent of salary, in respect of any financial year of the Company. Awards may be granted in excess of this limit to an eligible employee in connection with their recruitment by way of compensating them for any awards forfeited as a result of leaving their former employer (a "**Recruitment Award**").

(B) Performance conditions

The vesting of PSP Awards may (and, in the case of a PSP Award to an Executive Director, other than a Recruitment Award will, to the extent required by the shareholder-approved directors' remuneration policy (the "**Remuneration Policy**")) be subject to the satisfaction of performance conditions.

Any performance condition may be amended in accordance with its terms or if anything happens which causes the Remuneration Committee reasonably to consider it appropriate to amend the performance conditions, provided that the Remuneration Committee considers that any amended performance condition would not be materially less or more challenging to satisfy.

(C) Vesting and release of PSP Awards

PSP Awards which are subject to performance conditions will normally have those conditions assessed as soon as reasonably practicable after the end of the relevant performance period. The Remuneration Committee will determine the extent to which the PSP Awards will then vest, taking into account the extent that the performance conditions have been satisfied, the underlying performance of the Company and the business or member of the Group that employs the participant and such other factors the Remuneration Committee considers, in its opinion, relevant. To the extent that they vest, PSP Awards will normally vest on the vesting date set by the Remuneration Committee at grant. This date will normally be the third anniversary of grant.

The Remuneration Committee may also determine at grant that a PSP Award is subject to an additional holding period following vesting, during which M&G Shares subject to the PSP Award will not be delivered to participants and at the end of which the PSP Award will be "released". The holding period will be set at the time of grant and will not normally exceed two years from vesting.

10.2 DIP

The DIP was adopted by the Board on 22 July 2019, conditional on Admission. The DIP is a discretionary share plan implemented so that a portion of a participant's annual incentive can be deferred into a share-based award (a "**DIP Award**"). The DIP will be administered by the Remuneration Committee or by any sub-committee or person duly authorised by it.

DIP Awards may also be granted to facilitate the recruitment of an eligible employee by way of compensating them for any awards forfeited as a result of leaving their former employer.

DIP Awards will normally vest on the third anniversary of the date of grant or such other date as the Remuneration Committee determines.

10.3 The SIP

The SIP was adopted by the Board on 22 July 2019, conditional on Admission. The SIP is an all-employee share ownership plan which has been designed to meet HMRC requirements so that M&G Shares are awarded to UK employees under the SIP in a tax-efficient manner.

(A) Grant of SIP awards

Under the SIP, eligible employees may be: (a) awarded free M&G Shares up to a value of £3,600 ("**Free Shares**") each year; (b) offered the opportunity to buy M&G Shares up to a maximum value of the lesser of £1,800 and 10 per cent of the employee's pre-tax salary each year ("**Partnership Shares**"); (c) given up to 2 free M&G Shares ("'**Matching Shares**") for each Partnership Share bought; and/or (d) allowed or required to purchase M&G Shares using dividends received on M&G Shares held in the SIP ("**Dividend Shares**"). The Board may increase these limits in the future should the relevant legislation change the maximum levels of participation referred to above.

It is the Company's intention that on or shortly following Admission it will make an award of Free Shares to each eligible employee over M&G Shares worth £2,000 at the time of award.

(B) SIP Trust

The SIP operates through a UK resident trust (the "**SIP Trust**"). The trustee(s) of the SIP Trust purchases or subscribes for M&G Shares that are awarded to or purchased on behalf of participants in the SIP. A participant will be the beneficial owner of any M&G Shares held on their behalf by the trustee(s) of the SIP Trust.

(C) Eligibility

Each time that the Board decides to make an award under the SIP, all UK resident tax-paying employees of the Company and its subsidiaries participating in the SIP must be offered the opportunity to participate. Other employees of the Company and its subsidiaries may be permitted to participate at the Board's discretion. Employees who are invited to participate must have completed a minimum qualifying period of employment (as determined by the Board in line with the relevant legislation) before they can participate.

(D) Free Shares

There will be a holding period of between three and five years (or such other period as may be permitted by the relevant legislation from time to time) during which the participant cannot withdraw the Free Shares from the SIP Trust unless the participant ceases to be employed by the Group. The precise duration of this holding period will be determined by the Board each time Free Shares are awarded. The Board, in its discretion, may provide that the Free Shares will be forfeited if the participant ceases to be employed by the Group other than because of death, injury, disability, redundancy, retirement or the sale of the individual's employing company or business out of the Group (each a "**SIP Good Leaver Reason**").

(E) Partnership Shares

The Board may allow an employee to use pre-tax salary to buy Partnership Shares at their then market value. Once acquired, Partnership Shares may be withdrawn from the SIP by the participant at any time.

(F) Matching Shares

The Board may, in its discretion, offer free Matching Shares to an employee who has purchased Partnership Shares. There is a holding period of between three and five years (or such other period as may be permitted by the relevant legislation from time to time) during which the participant cannot withdraw the Matching Shares from the SIP Trust, unless the participant ceases to be employed by the Group. The precise duration of this holding period will be determined by the Board each time Matching Shares are awarded. The Board, in its discretion, may provide that the Matching Shares will be forfeited if the participant ceases to be employed by the Group other than for a SIP Good Leaver Reason or if the related Partnership Shares are withdrawn from the SIP.

(G) Reinvestment of dividends

The Board may allow or require a participant to reinvest the whole or part of any dividends paid on M&G Shares held in the SIP on their behalf. Dividend Shares must be held in the SIP Trust for no less than three years, unless the participant ceases to be employed by the Group.

(H) Corporate events

In the event of a general offer being made to M&G Shareholders (or a similar takeover event taking place), participants will be able to direct the trustee of the SIP Trust as to how to act in relation to their M&G Shares held in the SIP. In the event of an internal reorganisation, any M&G Shares held by participants may be replaced by equivalent shares in a new holding company.

(I) Variation of capital

M&G Shares acquired on a variation of the share capital of the Company will usually be treated in the same way as the M&G Shares originally acquired or awarded under the SIP in respect of which the rights were conferred and as if they were acquired or awarded at the same time.

(J) Rights attaching to M&G Shares

Any M&G Shares issued to the trustee of the SIP Trust will rank equally with other M&G Shares then in issue (except for rights arising by reference to a record time or date prior to the time or date of issue). In the event of a rights issue, participants will be able to direct the trustee(s) of the SIP Trust as to how to act in respect of the M&G Shares held in the SIP on their behalf.

10.4 Sharesave Plan

The Sharesave Plan was adopted by the Board on 22 July 2019, conditional on Admission. The Sharesave Plan is an all-employee share option plan which has been designed to meet HMRC requirements so that UK employees can acquire M&G Shares under the Sharesave Plan in a tax-efficient manner.

(A) Eligibility

Each time that the Board decides to make an award under the Sharesave Plan, all UK resident tax-paying employees and full-time directors of the Company and its subsidiaries participating in the Sharesave Plan must be offered the opportunity to participate. Other Executive Directors and employees of the Group may be permitted to participate at the Board's discretion. Employees who are invited to participate must have completed a minimum qualifying period of employment (as determined by the Board in line with the relevant legislation) before they can participate.

(B) Savings contract

Under the Sharesave Plan, eligible employees may enter into a linked savings contract to make savings over a three or five-year period. Monthly savings by an employee under all savings contracts linked to options granted under any tax-advantaged savings-related share option plan may not exceed the statutory maximum, which is currently set at £500. The Board may set a lower limit in relation to any particular grant. At the end of the three or five-year savings contract, employees may either withdraw their savings on a tax-free basis or use their savings to acquire M&G Shares.

(C) Exercise price

The proceeds of the savings contract can be used to exercise an option to acquire M&G Shares at an exercise price per M&G Share set at the date of invitation (or such other date as may be specified in the invitation in line with the relevant legislation). The exercise price may not be manifestly less than 80 per cent (or such other percentage as may be permitted by the relevant legislation) of the market value of a M&G Share at the date of invitation. The exercise price will be set using prices taken from a period of 42 days beginning on: (a) Admission; (b) the first dealing day after the announcement of the Company's results for any period; (c) the day on which an announcement is made of an amendment to the Sharesave legislation or such legislation comes into force; (d) the day on which a new HMRC-approved savings contract is announced; (e) any day on which the Board determines that exceptional circumstances exist which justify the issue of invitations under the Sharesave Plan at that time; or to the extent that share dealing restrictions apply in any of the preceding five periods, (f) the dealing day on which such dealing restrictions are lifted.

(D) Exercise of options

Ordinarily, an option may be exercised within six months of the date that the savings contract matures. Options not exercised by the end of this period will lapse.

(E) Cessation of employment

Options will normally lapse immediately upon a participant ceasing to be employed by, or hold office with, the Group. However, if a participant ceases to hold office or employment because of injury, disability, redundancy, retirement or the sale of the individual's employing company or business out of the Group, their option will not lapse and may be exercised early for a period of up to six months after cessation of office or employment. If a participant dies, their option may be exercised for 12 months after their death by their personal representatives.

(F) Corporate events

In the event of a change of control or winding-up of the Company, any outstanding options may be exercised early. Alternatively, the Board may permit options to be exchanged for equivalent options over shares in a different company (including the acquiring company). If the change of control is an internal reorganisation of the Group, options will lapse unless the participants agree to exchange their outstanding options for equivalent options over shares in the new holding company.

(G) Adjustments

In the event of a variation of the Company's share capital, the Board may adjust the number of M&G Shares subject to options and/or the exercise price applicable to options in such manner as it determines.

(H) Rights attaching to M&G Shares

Options granted under the Sharesave Plan will not confer rights on any participant unless and until that participant has exercised their options and received the underlying M&G Shares. Any M&G Shares issued will rank equally with other M&G Shares then in issue (except for rights arising by reference to a record date prior to their issue).

10.5 Terms common to the Executive Plans

(A) Eligibility

All employees (including the Executive Directors) of the Group (and, in the case of the DIP, former employees where it is determined that the former employee should be eligible to receive a bonus for a period prior to his termination of office or employment (a "**Former Employee**")) are eligible for selection to participate in the Executive Plans at the discretion of the Remuneration Committee.

(B) Timing of awards

PSP and DIP Awards (together, the "**Executive Awards**") can only be granted (i) during the 42 days beginning on: (a) Admission; (b) the first business day after the announcement of the Company's results for any period; (c) the day on which the Remuneration Policy (or amendment to it) is approved by the Company in general meeting; or (d) to the extent that share dealing restrictions apply in any of the preceding three periods, the first dealing day on which such dealing restrictions are lifted, or (ii) on any other day on which the Remuneration Committee determines that exceptional circumstances exist which justify the making of an Executive Award at that time.

(C) Form of awards

The Remuneration Committee may grant Executive Awards as conditional awards of M&G Shares, nil or nominal-cost options over M&G Shares or forfeitable M&G Shares. No payment is required for the grant of an Executive Award. Executive Awards structured as nil or nominal-cost options will normally be exercisable from the point of vesting (or, where a PSP Award is subject to a holding period, release) until the tenth anniversary of the grant date. Where a DIP Award structured as an option is granted to a Former Employee, it will normally be exercisable for a period of 12 months from the vesting date set at grant.

(D) Settlement

The Remuneration Committee may, in its discretion, decide to satisfy an Executive Award with a cash payment equal to the market value of the M&G Shares that the participant would have received had the relevant Executive Award been satisfied with M&G Shares.

(E) Dividend equivalents

Unless the Remuneration Committee determines otherwise, participants will receive an amount (in additional M&G Shares, unless the Remuneration Committee decides it will be paid (in full or in part) in cash) equal to the value of any dividends which would have been paid on M&G Shares subject to an Executive Award which vest by reference to record dates during the period beginning on the grant date and ending on the date on which the Executive Award vests or, if there is a holding period applicable to a PSP Award, is released. This amount may assume the reinvestment of dividends and exclude or include special dividends. This rule will not normally apply to awards of forfeitable M&G Shares.

(F) Malus and clawback

In certain circumstances the Remuneration Committee may at any time prior to the fifth anniversary of the date of grant of a PSP Award or the third anniversary of the date of grant of a DIP Award (or, if an investigation into the conduct or actions of any participant or any member of the Group has started, such later date as the Remuneration Committee may determine in order to allow the investigation to be completed) to: (a) reduce an Executive Award (to zero if appropriate) or (b) require that the participant either return some or all of the M&G Shares acquired pursuant to the Executive Award or make a cash payment to the Company in respect of the M&G Shares delivered.

The Remuneration Committee may invoke these malus and clawback provisions in the following circumstances:

(i) a material misstatement in the published results of the Company or Group or a member of the Group;

(ii) an error in determining the amount of the annual incentive or the number of M&G Shares subject to an Executive Award, or in assessing any performance conditions (as applicable);

(iii) the determination of the number of M&G Shares subject to an Executive Award, any annual incentive, or the assessment of any performance conditions being based on inaccurate or misleading information;

(iv) a material failure of risk management;

(v) a material breach of any applicable law, regulation or code of practice;

(vi) gross misconduct on the part of the relevant participant;

(vii) where the Remuneration Committee determines that the participant is responsible for or had management oversight over a member of the Group receiving censure by a regulatory body or suffering a significant detrimental impact on its reputation; or

(viii) the Company or a material proportion of the Group becoming insolvent or suffering corporate failure.

(G) Cessation of employment

Classification of "good leavers"

An unvested Executive Award will usually lapse upon a participant ceasing to be employed by or to hold office with the Group.

If, however, a participant ceases to be an employee or director of the Group because of their ill-health, injury, disability, redundancy, the sale of the participant's employing company or business out of the Group or in other circumstances at the discretion of the Remuneration Committee (i.e. they leave as a "good leaver"), their Executive Award will normally continue to vest (and be released) on the date when it would have vested (and been released) if they had not ceased to be an employee or director of the Group.

If the participant ceases to be an employee or director of the Group as a result of his employing company or business being sold out of the Group, the Remuneration Committee may require that the Executive Award is exchanged for an equivalent award over shares in another company.

Death

If a participant dies, their Executive Award will vest (and, in the case of a PSP Award subject to a holding period, be released) on the date of their death on the basis set out for other "good leavers" above. Alternatively, the Remuneration Committee may decide that unvested Executive Awards will vest on the date they would have vested if the participant had not died on the basis set out for other "good leavers" above.

Extent of vesting – PSP awards

The extent to which PSP Awards vest in these circumstances will be determined by the Remuneration Committee, taking into account the satisfaction of any performance conditions applicable to PSP Awards measured over the original performance period, the underlying performance of the Company and the business or member of the Group that employs the participant and such other factors the Remuneration Committee considers, in its opinion, relevant. The Remuneration Committee retains discretion, however, to allow the PSP Award to vest (and be released) following the individual's cessation of office or employment, taking into account any applicable performance conditions measured up to that point or, where the participant is a "good leaver" as a result of his employing company or business being sold out of the Group, to require that the PSP Award is exchanged for an equivalent award over shares in another company.

Unless the Remuneration Committee decides otherwise, the extent to which a PSP Award vests will also take into account the proportion of the performance period (or, in the case of a PSP Award not subject to performance conditions, the vesting period) which has elapsed on the cessation of the participant's office or employment with the Group.

PSP holding periods

If a participant ceases to be an officer or employee of the Group during a holding period in respect of a PSP Award for any reason other than summary dismissal, their PSP Award will normally be released at the end of the holding period, unless the Remuneration Committee determines that it should be released on the cessation of their office or employment. If a participant dies during the holding period, their PSP Award will be released on the date of death (unless the Remuneration Committee decides they will be released at the end of the normal holding period). If a participant is summarily dismissed, any outstanding PSP Awards they hold will immediately lapse. Executive Awards structured as nil or nominal-cost options which do not lapse may normally be exercised to the extent vested for a period of 12 months after vesting (or, where PSP Awards are subject to a holding period, release).

Extent of vesting – DIP awards

In the "good leaver" circumstances referred to above, a DIP Award will vest in full as if the participant had not ceased to be a Group employee or director unless the Remuneration Committee determines that the DIP Award shall vest in its entirety following the individual's cessation of office or employment. Where a former employee has been granted a DIP Award, the "good leaver" provisions set out above will not apply.

Awards structured as nil or nominal-cost options

Where nil or nominal-cost options have already vested (and, where relevant, been released) on the date of cessation of office or employment, those options may normally be exercised for a period of 12 months from the date of cessation, unless the participant is summarily dismissed, in which case their options will lapse. If a participant dies, a vested (and, where relevant, released) option may normally be exercised until the first anniversary of their death.

(H) Corporate events

In the event of a change of control of the Company, the Remuneration Committee may require that Executive Awards are exchanged for equivalent awards over shares in another company (subject to the acquiring company's consent). Alternatively, in the event of a change of control, or a resolution being passed or order made for the winding-up of the Company, the Remuneration Committee may require that Executive Awards are exchanged for equivalent awards over shares in another company. Alternatively, the Remuneration Committee may determine that Executive Awards will vest (and be released) early. In this case the proportion of any unvested PSP Awards which vest will be determined by the Remuneration Committee, taking into account the extent to which any performance conditions applicable to PSP Awards have been satisfied at that time, the underlying performance of the Company and the business or member of the Group that employs the participant and such other factors the Remuneration Committee considers, in its opinion, relevant, and, unless the Remuneration Committee determines otherwise, the proportion of the performance period, or in the case of PSP Awards not subject to performance conditions, the vesting period, which has elapsed. DIP Awards will vest in full. Awards structured as nil or nominal-cost options may then normally be exercised for a period of one month, after which they lapse.

If other corporate events occur such as a variation of the share capital of the Company, a demerger, special dividend or other transaction which, in the Remuneration Committee's opinion, would materially affect the value of M&G Shares and which the Remuneration Committee determines cannot be appropriately dealt with by exchange or adjustment (see *Variation of capital* below), the Remuneration Committee may determine that Executive Awards will vest (and be released) on the same basis as for a change of control.

(I) Variation of capital

If there is a variation of the share capital of the Company or in the event of a demerger, special dividend or other transaction which in the Remuneration Committee's opinion will materially affect the value of M&G Shares, the Remuneration Committee may provide for the Executive Award to be automatically exchanged for an equivalent award over shares in another company, unless it determines that it will make such adjustments to the number or class of shares subject to Executive Awards, the exercise price and/or any performance condition applicable to PSP Awards, and/or change the identity of the company whose shares are subject to the Executive Award, in each case as it considers appropriate.

(J) Rights attaching to M&G Shares

M&G Shares issued and/or transferred under the PSP and DIP will not confer rights on any participant until that participant has received the underlying M&G Shares. Any M&G Shares issued will rank equally with M&G Shares then in issue (except for rights arising by reference to a record date prior to their issue).

10.6 Terms common to the New Plans

(A) Overall limits

The New Plans may operate over new issue M&G Shares, treasury M&G Shares or M&G Shares purchased in the market. The rules of the New Plans provide that, in any ten year rolling period, the number of M&G Shares which may be issued under the New Plans and any other employee share plan adopted by the Company may not exceed 10 per cent of the issued ordinary share capital of the Company from time to time. In addition, in any ten year period, the number of M&G Shares which may be issued under the Executive Plans and any other discretionary employee share plan adopted by the Company may not exceed 5 per cent of the issued ordinary share capital of the Company from time to time.

M&G Shares transferred out of treasury will count towards these limits for so long as this is required under institutional shareholder guidelines. However, awards which are relinquished or lapse will be disregarded for the purposes of these limits.

(B) Amendments

The Board (or, in the case of the Executive Plans, the Remuneration Committee) may, at any time, amend the provisions of the New Plans in any respect. The prior approval of M&G Shareholders at a general meeting of the Company must be obtained in the case of any amendment which is made to the advantage of eligible employees and/or participants and relates to the provisions relating to eligibility, individual or overall limits, the basis for determining the entitlement to, and the terms of, awards, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval. There are, however, exceptions to this requirement to obtain M&G Shareholder approval for any minor amendments to benefit the administration of the New Plans, to take account of the provisions of any legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for any participant or member of the Group.

(C) Non-transferability

Awards (other than where indicated otherwise in connection with the SIP under paragraph 10.3 of this Part IX (*Additional Information*)) are not transferable other than to the participant's personal representatives in the event of his or her death.

(D) Benefits not pensionable

Benefits received under the New Plans are not pensionable.

(E) Overseas plans

The Board may, at any time, establish further plans based on the New Plans for overseas territories. Any such plan will be similar to the New Plans but may be modified to take account of local tax, exchange control or securities laws. Any M&G Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation under the New Plans.

(F) Termination

No awards may be granted under the New Plans more than ten years after Admission.

10.7 The Company's employee benefit trust

An employee benefit trust known as the M&G Employee Share Trust (the "**EBT**") was established by a trust deed entered into between the Company and Sanne Fiduciary Services Limited on 20 September 2019. The Company will have the power to appoint and remove the trustee(s) of the EBT and the EBT will be able to benefit employees and directors (other than non-executive directors) and former employees and directors (other than non-executive directors) of the Group and certain members of their families (excluding any person resident in Jersey for tax purposes).

The trustee(s) of the EBT has the power to acquire M&G Shares and, with effect from Admission, any M&G Shares acquired may be used for the purposes of the New Plans, other employee share plans established by the Group from time to time or otherwise for the benefit of the beneficiaries of the EBT.

With effect from Admission, the Group may fund the EBT by loan or gift to acquire shares in any member of the Group either by market purchase or by subscription. Any awards to subscribe for shares in any member of the Group granted to the EBT or M&G Shares issued to the EBT will be treated as counting against the overall limits that apply to the New Plans. Following Admission, the trustee(s) of the EBT will not, without M&G Shareholder approval, hold or acquire more than five per cent of any member of the Group's issued ordinary share capital from time to time (disregarding any ordinary shares held by it as a nominee).

10.8 Prudential International Savings-Related Share Option Scheme

The Prudential International Savings-Related Share Option Scheme has been operated by Prudential plc to allow executive directors and employees outside the United Kingdom to save towards the exercise of options over Prudential Shares, at an option price set at the beginning of the savings period at a discount of up to 20 per cent to the market price. Savings contracts may be up to £500 (converted to the participant's local currency) per month for three or five years. On maturity at the end of the set term, participants holding Replacement Awards in relation to the Prudential International Savings-Related Share Option Scheme may exercise those Replacement Awards within six months of the end of the savings period and purchase M&G Shares. If an option is not exercised within six months, participants are entitled to a refund of their cash contributions plus interest if applicable under the rules. M&G Shares are issued to satisfy options that are exercised. Special rules apply on termination of employment and on a change of control. It is intended that the Replacement Awards will be capable of exercise for six months following Demerger, after which time they lapse. Other than the Replacement Awards, no further awards will be made to employees of the Group under this plan.

10.9 Prudential Europe Share Participation Plan

Irish-resident employees are entitled to hold the Prudential Shares awarded to them under this Irish Revenue-approved plan, as well as the M&G Shares transferred in connection with the Demerger in respect of their Prudential Shares, subject to the terms of the trust established in connection with the plan in order to receive tax-favoured treatment in connection with those shares.

10.10 Prudential UK Services Limited Share Incentive Plan

UK-resident employees are entitled to hold the Prudential Shares awarded to them under this legacy HMRC-approved plan, as well as the M&G Shares transferred in connection with the Demerger in respect of their Prudential Shares, subject to the terms of the trust established in connection with the plan in order to receive tax-favoured treatment in connection with those shares. No further awards will be made to employees of the Group under this plan.

10.11 Prudential Corporation Asia All-Employee Share Purchase Plan

Under the Prudential Corporation Asia All-Employee Share Purchase Plan, employees can acquire M&G Shares using deductions from their salary ("**Purchased Shares**") and receive matching awards of M&G Shares which vest conditional on the retention of those Purchased Shares and their ongoing employment. Any deductions from salary which have not been used to acquire Prudential Shares at the time of Admission will be used to acquire M&G Shares. Any unvested matching awards of Prudential Shares granted under the plan will be exchanged for equivalent Replacement Awards which will vest as soon as practicable following Admission. No further awards will be made to employees of the Group under this plan.

10.12 Prudential Corporation Asia Deferred Bonus Plan 2010

The Prudential Corporation Asia Deferred Bonus Plan 2010 has been operated by Prudential plc in order to pay a portion of a participant's annual bonus in the form of an award over Prudential Shares. Participants may also have been given the opportunity to take all or part of their remaining bonus in the form of an award over Prudential Shares, and to be granted matching awards over additional Prudential Shares. Awards may or may not be made subject to performance targets. Replacement Awards, which may take the form of nil-cost options or a conditional right over M&G Shares, will normally vest after a three year deferral period subject to continued employment and, if applicable, satisfaction of performance targets. Special rules apply on termination of employment and on a change of control. Other than the Replacement Awards, no further awards will be made to employees of the Group under this plan.

10.13 Prudential Group Deferred Bonus Plan and PruCap Business Deferred Bonus Plan

These plans, which operate together with the relevant business unit annual bonus plans, require that a portion of a participant's annual bonus be paid in the form of a right to acquire Prudential

Shares. M&G Shares subject to a Replacement Award will normally be released to the participant at the end of the three year deferral period. Special rules apply on termination of employment and on a change of control. Other than the Replacement Awards, no further awards will be made to employees of the Group under these plans.

10.14 Prudential Group Deferred Annual Incentive Plan

This plan requires that a portion of a participant's annual bonus be paid in the form of a right to acquire Prudential Shares. M&G Shares subject to a Replacement Award will normally be released to the participant at the end of the deferral period. Special rules apply on termination of employment and on a change of control. Other than the Replacement Awards, no further awards will be made to employees of the Group under this plan.

10.15 Prudential Long-Term Incentive Plan and PCA Long-Term Incentive Plan

The Prudential Long Term Incentive Plan has been used to grant awards to key Prudential plc employees. Awards take the form of conditional awards or awards of restricted shares and are subject to the achievement of one or more performance conditions which are usually assessed over a three-year performance period, and may be granted subject to a post-vesting holding period. Special rules apply on termination of employment and on a change of control. Other than the Replacement Awards, no further awards will be made to employees of the Group under these plans.

10.16 Prudential Restricted Share Plan 2015

The Prudential Restricted Share Plan 2015 has been used to grant awards, in the form of conditional awards, awards of restricted shares or share appreciation rights, to employees of members of the Prudential Group excluding directors of Prudential plc. Awards may be (but are not required to be) granted subject to a performance target, which will be measured over a performance period which will normally be a minimum period of a year. Special rules apply on termination of employment and on a change of control. Other than the Replacement Awards, no further awards to employees of the Group will be made under this plan.

11. PENSIONS

The Group provides retirement benefits to certain of its current and former employees through three pension schemes which undergo triennial actuarial valuations: the Prudential Staff Pension Scheme, the M&G Group Pension Scheme and the Scottish Amicable Staff Pension Scheme. The defined benefit section of the Prudential Staff Pension Scheme, and the Scottish Amicable Staff Pension Scheme and the M&G Group Pension Scheme were closed to new entrants in August 2003 but they remain open to future benefit accrual for existing active members.

As at 5 April 2017, the Prudential Staff Pension Scheme – Defined Benefit Section had a surplus of £404 million on an ongoing (technical provisions) basis.

As at 31 March 2017, the Scottish Amicable Staff Pension Scheme had a deficit of £269 million on an ongoing (technical provisions) basis.

As at 31 December 2017, the M&G Group Pension Scheme had a surplus of £101 million on an ongoing (technical provisions) basis.

The Group also operates a defined contribution pension scheme, the Prudential Staff Pension Scheme – Defined Contribution Section, which opened in August 2003. The total expense relating to this scheme in the year to June 30 2019 was £19.9 million inclusive of £7.6 million of salary sacrifice contributions elected and funded by participants and paid into the scheme as a company contribution on their behalf. This included employer contributions made under 'salary sacrifice' arrangements, under which members can opt to take a lower salary but have the employer pay what would otherwise be member contributions.

12. EMPLOYEES

As at 30 June 2019, the Group employed 6,331 people. The average monthly number of employees employed by the Group for the three years ended 31 December 2016, 2017 and 2018 was 6,562, 7,158 and 7,001, respectively.

13. RELATED PARTY TRANSACTIONS

Related party transactions of the Group between 1 January 2016 and 30 June 2019 are disclosed in Note 31 to the Historical Financial Information.

The nature of the related party transactions of the Group has not changed during the period between 30 June 2019 and the Latest Practicable Date from those described in Note 31 to the Historical Financial Information. There have been no other related party transactions requiring disclosure under IFRS during the period between 30 June 2019 and the Latest Practicable Date.

14. LITIGATION

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering at least the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

15. MATERIAL CONTRACTS

The contracts listed below have been entered into by the Company or another member of the Group: (i) within the two years immediately preceding publication of this Prospectus which are material to the Company or any member of the Group, or (ii) at any time and contain any provision under which the Company or any member of the Group has any obligation or entitlement which is material to the Company or any member of the Group as at the date of this Prospectus, in each case not including contracts entered into in the ordinary course of business.

15.1 Demerger Agreement

The Demerger Agreement was entered into on or about the date of this Prospectus between the Company and Prudential plc to effect the Demerger and to govern the post-Demerger obligations of the Group and the Post-Demerger Prudential Group in respect of, among other things, data sharing and their respective indemnity obligations. Certain aspects of the Demerger Agreement are conditional upon the following:

- the approval of the Demerger Resolution by Prudential Shareholders at the Prudential General Meeting;
- the transfer of Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million from Prudential plc to the Company;
- the payment of the Pre-Demerger Dividend by the Company to Prudential plc;
- the approval of the Demerger Dividend by the Prudential plc Board;
- the Company's Sponsor's Agreement and Prudential plc's Sponsors' Agreement not having terminated in accordance with their terms;
- the FCA having acknowledged (and such acknowledgement not having been withdrawn) that the application for Admission has been approved and, after satisfaction of any conditions to which such approval is expressed to be subject, will become effective as soon as a dealing notice has been issued;
- the London Stock Exchange having acknowledged (and such acknowledgement not having been withdrawn) that the M&G Shares will be admitted to trading on the main market; and
- the no objection letter issued by the Hong Kong Stock Exchange in relation to the Demerger pursuant to Practice Note 15 of the Hong Kong Listing Rules not having been withdrawn.

The Demerger Agreement contains mutual cross indemnities under which the Company indemnifies the Post-Demerger Prudential Group against losses, costs, damages and expenses of any kind suffered or arising directly or indirectly from or in consequence of the business carried on by the Group prior to the Demerger and Prudential plc indemnifies the Group against losses, costs, damages and expenses of any kind suffered or arising directly or indirectly from or in consequence of the business carried on by the Prudential Group other than the Group prior to the Demerger. Claims made under these mutual cross indemnities by the indemnified party are, subject to the right of the indemnifying party to defend any such claim, required to be paid by the indemnifying party. These mutual cross indemnities are unlimited in terms of amount and duration. It is not currently anticipated that the Group will be required to pay, or that the Group will receive, any significant amounts pursuant to such indemnity arrangements.

The Demerger Agreement sets out how guarantees, indemnities or other assurances given by the Group for the benefit of companies in the Post-Demerger Prudential Group (or vice versa) will be dealt with following the Demerger. Under the Demerger Agreement, the beneficiary of such a guarantee must generally seek to obtain the guarantor's release from the guarantor's obligations thereunder and, pending release, indemnify the guarantor against all liabilities and costs arising under or by reason of the guarantee and ensure that the guarantor's exposure under the guarantee is not increased. Both the Group and the Post-Demerger Prudential Group will be permitted access to each other's records for a period of 10 years following the Demerger and both groups have agreed to keep certain information relating to the other group confidential, subject to certain customary exemptions.

15.2 Tax covenant

Prudential plc and the Company entered into a tax Covenant on or about the date of this Prospectus, which contains mutual cross indemnities relating to taxation. These indemnities only cover liabilities which have been notified by the indemnified party to the indemnifying party within three months after the expiry of the period specified by statute during which an assessment of the relevant tax liability may be issued by the relevant tax authority or, if there is no such period, within six years and 30 days after the end of the accounting period in which the Demerger completes.

15.3 Transitional Services Agreement and Data Centre Services Agreement

In connection with the Demerger, Prudential Services Limited (a company in the Post-Demerger Prudential Group) and M&G Prudential Services Limited (a company in the Group) entered into the Transitional Services Agreement on or about the date of this Prospectus, pursuant to which each Group will, to the extent required, provide limited services to the other on a temporary basis following completion of the Demerger. The services relate to short-term support for various IT applications and platforms, Sarbanes-Oxley reporting and testing, access to financial systems and a pass through of third party outsourced services.

The Group will also have access to IT applications and services through a data centre operated by the Post-Demerger Prudential Group on a transitional basis, pursuant to the Data Centre Services Agreement entered into between PGDS (UK One) Limited (a company in the Group) and PGDS (US One) LLC (a company in the Post-Demerger Prudential Group) on 1 October 2017, as amended on 7 May 2019. Access to the IT applications and services is expected to continue until expiry of the term of the amended agreement on 30 April 2023.

15.4 Co-existence Agreement

The Company and Prudential plc are parties to the Co-existence Agreement with PFI, an independent financial services business whose principal place of business is in the United States. An earlier version of the Co-existence Agreement has been in place between Prudential plc and PFI since 2004 and set out the terms of use of the PRUDENTIAL/PRU names and marks by Prudential plc and PFI. Subject to certain exceptions, PFI had exclusive rights in the PRUDENTIAL/PRU names and marks in limited territories (broadly, the Americas, Japan, Taiwan and Korea) and Prudential plc had exclusive rights in the PRUDENTIAL/PRU names and marks in all other territories.

The Company has been added as a party to the Co-existence Agreement and the terms were revised on 16 September 2019 in anticipation of the Demerger setting out the terms of use (as between the parties) of the PRUDENTIAL/PRU names and marks. Subject to Admission, the Co-existence Agreement gives the Company exclusive rights in the UK and Europe to the PRUDENTIAL/PRU names and marks, and restricts the Company's rights to use such names and marks outside of those territories to limited communications. PFI continues to have exclusive rights in the PRUDENTIAL/PRU names and marks in the same territories as under the earlier version of the Co-existence Agreement and Prudential plc has exclusive rights in the

PRUDENTIAL/PRU names and marks in all other territories. The parties agree to maintain distinctive branding when using the PRUDENTIAL/PRU names and marks after a transitional period. Subject to limited exceptions, the parties will broadly operate in each other's territories under names other than PRUDENTIAL.

15.5 Brand Agreement

The Company and Prudential plc also entered into the brand agreement on or about the date of this Prospectus (the "**Brand Agreement**"), which provides for the assignment of the registered PRUDENTIAL/PRU names and marks in the UK and Europe which are currently held by the Prudential Group to the relevant Group entity and a transitional licence granted by Prudential plc to the Company in respect of some elements of the current Prudential plc branding. The Brand Agreement also sets out additional terms for cooperation by the Group and the Post-Demerger Prudential Group, including access to archive material.

15.6 Rothesay Life transfer

(A) Rothesay Life business transfer agreement

On 14 March 2018, PAC and Rothesay Life entered into the Rothesay Life BTA pursuant to which PAC agreed to reinsure the Annuity Portfolio to Rothesay Life by way of a collateralised reinsurance arrangement followed by the Scheme.

The Rothesay Life BTA, the Scheme and a supplemental agreement entered into between PAC and Rothesay Life on 14 March 2018 contain cross indemnities in relation to mis-selling risk in connection with the Annuity Portfolio (the "**Mis-Selling Liabilities**"). The Mis-Selling Liabilities that crystallise after the seventh anniversary of the earlier of the date on which the Scheme takes effect (the "**Scheme Effective Date**") and 31 December 2019 (the "**Long Stop Date**"), or, in the case of one of the tranches which comprise the Annuity Portfolio, the earlier of the Scheme Effective Date and the Long Stop Date, will be borne by Rothesay Life, unless it notifies PAC, prior to such date, of matters and circumstances leading to the relevant liabilities, in which case the Mis-Selling Liabilities will always be borne by PAC. Liabilities that relate to TRASP are retained by PAC other than those that relate to augmenting existing annuity payments which have been reinsured by Rothesay Life or in relation to which an additional premium has been paid as at the Scheme Effective Date.

On 16 August 2019, the High Court declined to sanction the Scheme, despite the independent expert, who was appointed to report to the High Court, concluding that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. PAC and Rothesay Life have been granted leave to appeal the judgment. The High Court's judgment has no direct impact on the reinsurance with Rothesay Life and is not expected to have any material impact on the financial position or prospects of the Group.

(B) Rothesay Life transitional services agreement

On 24 May 2019, PAC and Rothesay Life entered into a transitional services agreement (the "**Rothesay Life TSA**") pursuant to which PAC agreed to provide or procure the provision of certain administration services in relation to the Annuity Portfolio for a period up to 24 months after the Scheme Effective Date. Rothesay Life may extend the term of the Rothesay Life TSA for successive periods of three months each if the parties have not successfully migrated services by the end of the existing term. The fees for services provided under the Rothesay Life TSA are payable on a 'price per policy' basis, together with a fixed monthly contract management fee. Any extension to the term of the Rothesay Life TSA may incur additional charges.

16. JOINT VENTURES AND OPERATING PARTNERSHIPS

The following joint ventures and operating partnerships have been entered into by the Company or another member of the Group which are material to the Company or any member of the Group:

16.1 M&G Real Estate Asia

M&G Real Estate Limited has a 67 per cent interest in a joint venture with Prudential Singapore Holdings Pte. Limited ("**PSHL**"), a wholly-owned subsidiary of Prudential plc. The joint venture company, M&G Real Estate Asia Holding Company Pte. Limited ("**M&G REA**"), manages certain real estate investments undertaken by PSHL and its Asia-Pacific affiliates as well as all investments undertaken by the Group's Asian real estate investment business. This involves carrying on fund management activity and financial advisory services in respect of unlisted real estate securities. M&G Real Estate Limited is entitled to appoint the majority of the M&G REA directors.

16.2 Prudential Investment Managers South Africa

The Group's investment management business in South Africa is wholly owned by Prudential Portfolio Managers (South Africa) (Proprietary) Ltd ("**Prudential SA**"). M&G FA Limited is a 49.99 per cent shareholder and is entitled to appoint up to four directors on the Board of Prudential SA. Other shareholders are Thesele Asset Management No. 1 (Proprietary) Ltd and Thesele Asset Management No. 2 (Proprietary) Ltd, each a wholly-owned subsidiary of Thesele Group (Proprietary) Ltd and the Prudential Staff Investment Company (Proprietary) Ltd, a wholly-owned subsidiary of the Prudential Employee Equity Trust established for the benefit of the employees of the Group.

17. SIGNIFICANT CHANGE

There has been no significant change in the financial position or performance of the Group since 30 June 2019, being the date to which the Historical Financial Information was prepared.

18. WORKING CAPITAL STATEMENT

The Company is of the opinion that, after taking into account the bank and other facilities available to the Group, the working capital available for the Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of publication of this Prospectus.

19. CONSENTS

The Company has received the following written consents, which are available for inspection at the times and locations set out in section 24 (*Documents Available for Inspection*) of this Part IX (*Additional Information*), in connection with the publication of this Prospectus:

- KPMG LLP has given and not withdrawn its written consent to the inclusion in this Prospectus of
  - its report set out on pages 189 and 190 of Schedule II (*Historical Financial Information*); and
  - its reports set out in Part V (*Unaudited Pro Forma Financial Information of the Group*) and Part VI (*Unaudited Pro Forma Financial Solvency Information of the Group*);

  in the form and context in which they appear and has authorised the contents of its reports for the purposes of Rule 5.3.2R(2)(f) of the Prospectus Regulation Rules.

A written consent under the Prospectus Regulation Rules is different from a consent filed with the SEC under section 7 of the US Securities Act. As M&G Shares have not been and will not be registered under the US Securities Act, KPMG LLP has not filed a consent under section 7 of the US Securities Act.

20. EXPENSES OF ADMISSION AND THE DEMERGER

The expenses of Admission and the Demerger are being borne by Prudential plc.

21. AUDITOR

The auditor of the Company since the date of its incorporation has been KPMG LLP, whose registered office is 15 Canada Square, London E14 5GL. KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales and has no material interest in the Group.

22. THIRD PARTY INFORMATION

Where third party information has been used in this Prospectus, the source of such information has been identified. The Company confirms that such information has been accurately reproduced and, so far as the Company is aware and has been able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

23. FRUSTRATING ACTIONS, MANDATORY BIDS AND COMPULSORY ACQUISITION RULES RELATING TO ORDINARY SHARES

Other than as provided by the City Code on Takeovers and Mergers (the "**City Code**") and Chapter 28 of the Companies Act, there are no rules or provisions relating to frustrating actions, mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

23.1 Frustrating actions

The City Code applies to the Company.

Rule 21.1 of the City Code prohibits any frustrating actions taken by the board during the course of an offer period, or when an offer is in contemplation, without the consent of shareholders.

23.2 Mandatory bids

Rule 9.1 of the City Code states that, except with the consent of the Takeover Panel, when:

(A) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent or more of the voting rights of a company; or

(B) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent of the voting rights of a company, but does not hold shares carrying more than 50 per cent of such voting rights, and such person, or any persons acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested,

such person shall extend offers, on the basis set out in Rules 9.3, 9.4 and 9.5 of the City Code, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights. Offers for different classes of equity share capital must be comparable and the Takeover Panel should be consulted in advance in such cases.

"Interests in shares" is defined broadly in the City Code. A person who has long economic exposure, whether absolute or conditional, to changes in the price of shares will be treated as interested in those shares. A person who only has a short position in shares will not be treated as interested in those shares.

"Voting rights" for these purposes means all the voting rights attributable to the share capital of a company which are then exercisable at a general meeting. Persons acting in concert (and concert parties) comprise persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Certain categories of people are deemed under the City Code to be acting in concert with each other unless the contrary is established.

23.3 Authority of the Company to redeem or purchase its own shares

When a company redeems or purchases its own voting shares, under Rule 37 of the City Code any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purpose of Rule 9 of the City Code. Rule 37 of the City Code provides that, subject to prior consultation, the Takeover Panel will normally waive any resulting obligation to make a general offer if there is a vote of independent shareholders and a procedure along the lines of that set out in Appendix 1 to the City Code is followed. Appendix 1 to the City Code sets out the procedure which should be followed in obtaining that consent of independent shareholders. Under Note 1 on Rule 37 of the City Code, a person who comes to exceed the limits in Rule 9.1 in consequence of a company's purchase of its own shares will not normally incur an obligation to make a mandatory offer unless that person is a director, or the relationship of the person with any one or more of the Directors is such that the person is, or is presumed to be, concert parties with any of the Directors. However, there is no presumption that all the Directors (or any two or more directors) are concert parties solely by reason of a proposed purchase by a company of its own shares, or the decision to seek shareholders' authority for any such purchase.

Under Note 2 on Rule 37 of the City Code, the exception in Note 1 on Rule 37 described above will not apply, and an obligation to make a mandatory offer may therefore be imposed, if a person (or any relevant member of a group of persons acting in concert) has acquired an interest in shares at a time when they had reason to believe that such a purchase of their own shares by the company would take place. Note 2 will not normally be relevant unless the relevant person knows that a purchase for which requisite shareholder authority exists is being, or is likely to be, implemented (whether in whole or in part).

The Takeover Panel must be consulted in advance in any case where Rule 9 of the City Code might be relevant. This will include any case where a person or group of persons acting in concert is interested in shares carrying 30 per cent or more but do not hold shares carrying more than 50 per cent of the voting rights of a company, or may become interested in 30 per cent or more on full implementation of the proposed purchase by the company of its own shares. In addition, the Takeover Panel should always be consulted if the aggregate interests in shares of the directors and any other persons acting in concert, or presumed to be acting in concert, with any of the directors amount to 30 per cent or more, or may be increased to 30 per cent or more on full implementation of the proposed purchase by the company of its own shares.

Subject to certain limits, the Company has authority to purchase M&G Shares under the terms of the shareholder resolution summarised in paragraph 4.7(G) of this Part IX (*Additional Information*) (the "**Buyback Authority**"). The maximum aggregate number of M&G Shares authorised to be purchased under the Buyback Authority is 10 per cent of the Company's issued share capital immediately following Admission. The Buyback Authority is due to expire at the conclusion of the annual general meeting of the Company to be held in 2020, but so that the Company may, before the expiry of the Buyback Authority, enter into a contract to purchase M&G Shares which will or may be executed wholly or partly after the expiry of such Buyback Authority.

23.4 Squeeze-out rules

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made by an offeror to acquire all of the shares in the Company not already owned by it and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent in value of the shares to which such offer relates, the offeror could then compulsorily acquire the remaining shares. The offeror would do so by sending a notice to the outstanding members informing them that it will compulsorily acquire their shares and, six weeks later, it would deliver a transfer of the outstanding shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration for the outstanding shares to the Company which would hold the consideration on trust for the relevant members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

23.5 Sell-out

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent in value of the shares and not less than 90 per cent of the voting rights carried by the shares in the Company, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his or her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his or her rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

24. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected on the Group's website at www.mandgprudential.com for a period of 12 months from the date of publication of this Prospectus:

- the Articles;
- the written consent letter of KPMG LLP referred to in section 19 (*Consents*) of this Part IX (*Additional Information*); and
- a copy of this Prospectus.

For the purposes of Rule 3.2 of the Prospectus Regulation Rules, this Prospectus will be published in printed form and available free of charge, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 28 days from the date of publication of this Prospectus at 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom. In addition, the Prospectus will be published in electronic form and be available on the Group's website at www.mandgprudential.com.

SCHEDULE I

DEFINITIONS AND GLOSSARY

"**3.875 per cent Notes**"	the Prudential plc subordinated notes issued on 10 July 2019, in the form of dated tier 2 notes, the terms of which include a substitution mechanic permitting Prudential plc to substitute the Company as the issuer thereof;
"**ABC**"	anti-bribery and corruption;
"**Accrued Interest Amount**"	£26,000,000, being the agreed amount in respect of: (i) the amount of accrued interest expense that has not yet been paid to holders of the relevant debt instruments at the point of substitution; *less* (ii) an amount equivalent to certain coupon payments Prudential plc has agreed to pay on behalf of M&G;
"**Admission**"	admission of the M&G Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities;
"**AIF**"	has the meaning given to it in Article 4(1)(a) of the AIFMD;
"**AIFM**"	has the meaning given to it in Article 4(1)(b) of the AIFMD;
"**AIFMD**"	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) NO 1095/2010, as amended;
"**Amended Substitutable Notes**"	the Substitutable Notes with amendments effected by way of supplemental trust deeds dated 10 June 2019;
"**AML**"	anti-money laundering;
"**Annuity Portfolio**"	the £12 billion of PAC's shareholder-backed annuity portfolio reinsured to Rothesay Life;
"**Articles**"	the articles of association of the Company in force as of the date of this Prospectus;
"**Articles of Association**"	the articles of association of the Company from time to time;
"**Asset Management Group**"	the Group's main asset management subsidiaries, of which M&G Group Limited is the holding company;
"**AuMA**"	assets under management and administration;
"**BIPRU**"	the 'Prudential Sourcebook for Banks, Building Societies and Investment Firms' in the FCA Handbook, as amended;
"**Board**"	the board of directors of the Company;
"**Brand Agreement**"	the agreement entered into between the Company and Prudential plc on or about the date of this Prospectus which provides for, among other things, an assignment of the PRUDENTIAL/PRU names and marks in the UK and Europe;

"**Buyback Authority**"	the authority of the Company to purchase M&G Shares under the terms of the shareholder resolution summarised in paragraph 4.7(G) of Part IX (*Additional Information*);
"**CASS**"	the 'Client Assets' Sourcebook in the FCA Handbook, as amended;
"**CDP**"	the Central Depository (Pte) Limited, which operates the Central Depository System for the holding and transfer of book-entry securities traded on the SGX-ST;
"**CEO**"	the Chief Executive Officer of the Company;
"**certificated**" or "**in certificated form**"	in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);
"**CFO**"	the Chief Financial Officer of the Company;
"**City Code**"	the City Code on Takeovers and Mergers;
"**CMA**"	the Competition and Markets Authority;
"**CMI**"	the Continuous Mortality Investigation as published by the Institute and Faculty of Actuaries;
"**COBS**"	the 'Conduct of Business' Sourcebook in the FCA Handbook, as amended;
"**Co-existence Agreement**"	the agreement entered into among the Company, Prudential plc, and PFI on 16 September 2019, which sets out the terms of use of the PRUDENTIAL/PRU names and marks by Prudential plc, the Company and PFI;
"**COLL**"	the 'Collective Investment Schemes' Sourcebook in the FCA Handbook, as amended;
"**ComFrame**"	the Common Framework for the supervision of IAIGs;
"**Companies Act**"	the Companies Act 2006 of the UK, as amended;
"**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;
"**Comptroller**"	the Singapore Comptroller of Income Tax;
"**CONC**"	the 'Consumer Credit' sourcebook in the FCA Handbook, as amended;
"**CRD III**"	Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies;
"**CRD IV**"	taken together, (i) the CRD IV Directive; (ii) the CRD IV Regulation; and (iii) any additional measures adopted to give

	effect to the CRD IV Directive or CRD IV Regulation (for the avoidance of doubt, whether implemented by way of a regulation, a directive or otherwise);
“**CRD IV Directive**”	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended;
“**CRD IV Regulation**”	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended;
“**CREST**”	the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear;
“**CREST Regulations**”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended;
“**Debt Substitution**”	the transfer of Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million from Prudential plc to the Company, in consideration for the payment from Prudential plc to the Company of an amount equal to the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable) plus the Accrued Interest Amount;
“**Demerger**”	the proposed demerger of the Group from the Prudential Group, to be effected by way of the Demerger Dividend on the terms and subject to the conditions set out in the Demerger Agreement;
“**Demerger Agreement**”	the agreement relating to the Demerger entered into between the Company and Prudential plc on or about the date of this Prospectus;
“**Demerger Dividend**”	the proposed interim in-specie distribution of M&G Shares by Prudential plc to Qualifying Shareholders;
“**Demerger Resolution**”	the ordinary resolution numbered 1, set out in the Notice of General Meeting;
“**Directors**”	the directors of the Company as at the date of this Prospectus, whose names are set out in section 1 of Part II (*Directors, Senior Managers, Corporate Governance and Remuneration*);
“**Disclosure Guidance and Transparency Rules**”	the disclosure guidance and transparency rules made by the FCA under Part VI of FSMA (as set out in the FCA’s Handbook of Rules and Guidance), as amended;
“**Dodd-Frank Act**”	the US Dodd-Frank Wall Street Reform and Consumer Protection Act;
“**EBA**”	the European Banking Authority;

"**EBT**"	Employee Benefit Trust;
"**ECA**"	the European Communities Act 1972, as amended;
"**EEA**"	the European Economic Area;
"**EIOPA**"	the European Insurance and Occupational Pensions Authority;
"**EMIR**"	Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, as amended;
"**EMIR Refit Regulation**"	Regulation (EU) No 2019/834 of the European Parliament and of the Council of 20 May 2019 amending EMIR;
"**ESA**"	the European Supervisory Authority;
"**ESFS**"	European system of financial supervision;
"**ESG**"	environmental, social and governance;
"**ESMA**"	the European Securities and Markets Authority;
"**Euroclear**"	Euroclear UK & Ireland Limited;
"**EU**"	the European Union;
"**EU Withdrawal Act**"	the European Union (Withdrawal) Act 2018, as amended;
"**EU27**"	the member states of the European Union, excluding, where the United Kingdom is a member state of the European Union, the United Kingdom;
"**Excluded Subsidiaries**"	Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited;
"**Executive Directors**"	the CEO and the CFO;
"**Exit Day**"	has the meaning given to "exit day" in section 20(1) of the EU Withdrawal Act;
"**FCA**"	the Financial Conduct Authority of the UK;
"**FOS**"	the Financial Ombudsman Service;
"**FRS**"	the Financial Reporting Standard;
"**FSB**"	the Financial Stability Board;
"**FSCS**"	the Financial Services Compensation Scheme;
"**FSMA**"	the Financial Services and Markets Act 2000 of the UK, as amended;
"**FUND**"	the 'Investment Funds' Sourcebook in the FCA Handbook, as amended;
"**GDPR**"	Regulation (EU) No 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural

	persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), as amended;
"**GENPRU**"	the 'General Prudential' Sourcebook in the FCA Handbook, as amended;
"**Global Systemically Important Insurer**" and "**G-SII**"	an insurer identified, from time to time, by the Financial Stability Board as a globally systemically important insurer;
"**Goldman Sachs**"	Goldman Sachs International;
"**Group**"	the Company and its subsidiaries, and in the context of the Historical Financial Information and other financial information in this Prospectus, the Company and its subsidiaries from time to time excluding the Excluded Subsidiaries;
"**GRF**"	Group Risk Framework;
"**GST**"	Goods and services tax;
"**Historical Financial Information**"	the historical financial information of the Group set out in Schedule II (*Historical Financial Information*) of this Prospectus;
"**HK Register**"	the Hong Kong overseas branch register of members of Prudential plc;
"**HK Shareholder**"	a holder of Prudential Shares who is registered on the HK Register;
"**HMRC**"	HM Revenue & Customs in the UK;
"**HM Treasury**"	the Commissioners of Her Majesty's Treasury;
"**Hong Kong**" or "**HK**"	the Hong Kong Special Administrative Region of the People's Republic of China;
"**Hong Kong Listing Rules**"	the listing rules of the Hong Kong Stock Exchange;
"**Hong Kong Register**"	the Hong Kong overseas branch register of members of Prudential plc;
"**Hong Kong Stock Exchange**"	the Stock Exchange of Hong Kong Limited or the market conducted by it, as the context requires;
"**IAIGs**"	Internationally Active Insurance Groups;
"**IAIS**"	the International Association of Insurance Supervisors;
"**IASB**"	the International Accounting Standards Board;
"**ICAAP**"	Internal Capital Adequacy Assessment Process;
"**ICOBS**"	the 'Insurance: Conduct of Business' Sourcebook in the FCA Handbook, as amended;
"**IDD**"	Directive (EU) No 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, as amended;
"**IFPRU**"	the 'Prudential Sourcebook for Investment Firms' in the FCA Handbook, as amended;

"**IFRS**"	the International Financial Reporting Standards;
"**Inland Revenue Department**"	the Inland Revenue Department of Hong Kong;
"**Insurance Distribution Directive**"	Directive 2016/97 of the European Parliament and Council of 20 January 2016 on insurance and reinsurance distribution amending Directive 2002/92/EC;
"**IPRU-INV**"	the 'Interim Prudential Sourcebook for Investment Businesses' in the FCA Handbook, as amended;
"**JFSA**"	the Japanese Financial Services Agency;
"**KID**"	key information document, as defined under the PRIIPs Regulation;
"**KNF**"	Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority);
"**KPMG**"	KPMG LLP, the reporting accountants of the Company;
"**Latest Practicable Date**"	23 September 2019, being the last practicable date prior to publication of this Prospectus;
"**LIBOR**"	the London Inter-bank Offered Rate used in lending between banks on the London;
"**Listing Rules**"	the listing rules of the FCA made under section 73A(1) of FSMA;
"**London Stock Exchange**"	London Stock Exchange Group plc;
"**M&G Group Limited**"	M&G Group Limited, 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;
"**M&G REA**"	M&G Real Estate Asia Holding Company Pte. Limited;
"**M&G Shareholder**"	a shareholder of M&G Shares from time to time;
"**M&G Shares**"	the fully paid ordinary shares in the capital of the Company;
"**Market Abuse Regulation**" or "**MAR**"	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, as amended;
"**MCOB**"	the 'Mortgages and Home Finance: Conduct of Business' Sourcebook in the FCA Handbook, as amended;
"**MCR**"	the minimum capital requirement, as defined under Solvency II;
"**MCS**"	mandatory convertible securities;
"**Merger**"	the merger of Prudential UK and Europe with M&G to form the Group;

"**MiFID II**"	the MiFID II Directive and MiFIR and any additional measures adopted to give effect to the MiFID II Directive (for the avoidance of doubt, whether implemented by way of a regulation, a directive or otherwise);
"**MiFID II Directive**"	Directive (EU) No 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as amended;
"**MiFIR**"	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation 648/2012/EU as amended;
"**MIPRU**"	the 'Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries' in the FCA Handbook, as amended;
"**MMF**"	a money market fund, as defined in article 1(1) of the MMF Regulation;
"**MMF Regulation**"	Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, as amended;
"**Nil Rate Amount**"	the nil rate of income tax which applies to the first £2,000 of taxable dividend income received by an individual M&G Shareholder in a tax year;
"**Non-IFRS Financial Measures**"	the financial measures not defined or recognised under IFRS contained in this Prospectus, including adjusted operating profit before tax, net client flows and AuMA;
"**Notes**"	the 3.875 per cent Notes, the Substitutable Notes and the Amended Substitutable Notes;
"**Notice of General Meeting**"	the notice of the Prudential General Meeting contained in the Circular;
"**OEICs**"	Open Ended Investment Companies;
"**Official List**"	the Official List of the FCA;
"**ORSA**"	own risk and solvency assessment, as defined under Solvency II;
"**OTC**"	over-the-counter;
"**Overseas Shareholders**"	holders of Prudential Shares with registered addresses outside the UK, Hong Kong or Singapore or who are citizens or residents of countries that are not the UK, Hong Kong, Singapore or the US;
"**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;

"**PFI**"	Prudential Financial, Inc., an independent financial services business whose principal place of business is in the United States;
"**PFIC**"	passive foreign investment company;
"**PIA**"	Prudential International Assurance plc;
"**Post-Demerger Prudential Group**"	Prudential plc and its subsidiaries and subsidiary undertakings excluding those companies which form part of the Group, as at the date of this Prospectus;
"**£**", "**Pounds Sterling**" or "**pence**"	the lawful currency of the UK;
"**PPL**"	Prudential Pensions Limited, a private limited company incorporated in England and Wales with registered number 00992726 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom;
"**PRA**"	the Prudential Regulation Authority, as defined in FSMA;
"**Pre-Demerger Dividend**"	the cash dividend of approximately £2,968 million to be paid by the Company to Prudential plc prior to completion of the Demerger;
"**PRIIPs**"	packaged retail and insurance-based investment products, as defined under the PRIIPs Regulation;
"**PRIIPs Regulation**"	Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for PRIIPs, as amended;
"**Prospectus**"	this document dated 25 September 2019, comprising a prospectus relating to the Company for the purpose of the Admission and the listing of the M&G Shares on the London Stock Exchange;
"**Prospectus Regulation**"	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC;
"**Prospectus Regulation Rules**"	Prospectus Regulation Rules of the FCA made under section 73A of FSMA;
"**PR Regulation**"	Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004;
"**Prudential Board**"	the Prudential plc board of directors;
"**Prudential Financial Services Limited**"	Prudential Financial Services Limited, a private limited company incorporated in England and Wales with registered number 02042953 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom;

“**Prudential General Meeting**”	the general meeting of Prudential plc proposed to be held at 9.30 a.m. London time (4.30 p.m. Hong Kong / Singapore time) on 15 October 2019 at the conference suite at Nomura, 1 Angel Lane, London EC4R 3AB to approve the Demerger Resolution;
“**Prudential Group**”	in respect of any time prior to the Demerger, Prudential plc and its subsidiaries and subsidiary undertakings; and in respect of any period following the Demerger, the Post-Demerger Prudential Group;
“**Prudential plc**”	Prudential plc, 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;
“**Prudential Property Services Limited**”	Prudential Property Services Limited, a private limited company incorporated in England and Wales with registered number 02106133 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom;
“**Prudential SA**”	Prudential Portfolio Managers (South Africa) (Proprietary) Ltd;
“**Prudential Shareholder**”	a UK Shareholder, a HK Shareholder and/or a Singapore Shareholder from time to time;
“**Prudential Shareholder Circular**”	the circular published by Prudential plc in relation to the Demerger;
“**Prudential Shares**”	the fully paid ordinary shares in the capital of Prudential plc;
“**Prudential UK and Europe**”	the UK and European business of Prudential plc;
“**Prudential UK&E Assets**”	the £188.0 billion of assets, as at 30 June 2019, held by the Group which back its retail savings solutions, legacy annuity products, with-profits policies and unit-linked solutions;
“PSHL”	Prudential Singapore Holdings Pte. Limited;
“**Qualifying Shareholder**”	a Prudential Shareholder at the applicable Record Time;
“**Record Time**”	for UK Shareholders is 6.00 p.m. London time on 18 October 2019 and for Hong Kong Shareholders is 5.00 p.m. Hong Kong time on 18 October 2019;
“**Registrar**” or “**Equiniti**”	Equiniti Limited;
“**Relevant Dividend Income**”	the excess amount, being subject to income tax, where a M&G Shareholder’s taxable dividend income for a tax year exceeds the Nil Rate Amount;
“**Revolving Credit Facilities**”	the four unsecured revolving credit facilities entered into by the Company on 27 March 2019 with aggregate commitments of £1.5 billion;
“**Rothesay Life**”	Rothesay Life plc;
“**RSR**”	a regular supervisory report, as defined under Solvency II;
“**Scheme**”	an insurance business transfer scheme under Part VII of FSMA;

"**SCR**"	the solvency capital requirement, as defined under Solvency II;
"**SDRT**"	stamp duty reserve tax;
"**Senior Managers**"	the senior managers of the Company as at the date of this Prospectus, whose names are set out in section 2 of Part II (*Directors, Senior Managers, Corporate Governance and Remuneration*);
"**SFCR**"	a solvency and financial condition report, as defined under Solvency II;
"**SFRS(I) 9**"	Singapore Financial Reporting Standard (International) 9 (Financial Instruments);
"**SFT Regulation**"	Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012, as amended;
"**SGX-ST**"	Singapore Exchange Securities Trading Limited;
"**SICAV**"	Societe D'Investissement a Capital Variable;
"**Singapore Shareholder**"	a holder of an interest in Prudential Shares on the HK Register in uncertificated form through CDP;
"**SITA**"	Singapore Income Tax Act;
"**SMCR**"	the Senior Managers and Certification Regime, as applied by the FCA and the PRA;
"**SMF**"	a senior management function under the SMCR;
"**Solvency II**"	the Solvency II Directive, the Solvency II Delegated Regulation and any additional measures adopted to give effect to the Solvency II Directive (whether implemented by way of a regulation, a directive or otherwise);
"**Solvency II Delegated Regulation**"	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance, as amended;
"**Solvency II Directive**"	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance, as amended;
"**SONIA**"	the Sterling Overnight Index Average benchmark;
"**subsidiary**"	a subsidiary as that term is defined in section 1159 of the Companies Act;
"**subsidiary undertaking**"	a subsidiary undertaking as that term is defined in section 1162 of the Companies Act;
"**Substitutable Notes**"	the three series of Prudential plc subordinated notes issued on 3 October 2018, in the form of dated tier 2 notes, the terms of each of which include a substitution mechanic permitting Prudential plc to substitute the Company as the issuer thereof;

"**SYSC**"	the 'Senior Management Arrangements, Systems and Controls' Sourcebook in the FCA Handbook, as amended;
"**TPR**"	temporary permissions regime;
"**Transformation Programme**"	the transformation programme which is being implemented by the Group;
"**TRASP**"	the FCA's Thematic Review of Annuity Sales Practices;
"**UCITS**"	an undertaking for collective investment in transferable securities, as defined in article 1(2) of the UCITS Directive;
"**UCITS Directive**"	Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast), as amended;
"**UCITS V**"	Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities as regards depositary functions, remuneration policies and sanctions;
"**UK Register**"	the register of members of Prudential plc kept in the UK;
"**UK Shareholder**"	a holder of Prudential Shares who is registered on the UK Register;
"**uncertificated**" or "**in uncertificated form**"	refers to a share or other security recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by using CREST;
"**United Kingdom**" or "**UK**"	the United Kingdom of Great Britain and Northern Ireland;
"**United States**" or "**US**"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction;
"**US dollars**" or "**US$**"	the lawful currency of the United States;
"**US Securities Act**"	the US Securities Act of 1933, as amended;
"**US Securities and Exchange Commission**"	the US government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry/stock market;
"**Voting Record Time**"	for UK Shareholders is 6.30 p.m. London time on 11 October 2019 and for Hong Kong Shareholders is 4.30 p.m. Hong Kong time on 11 October 2019; and
"**Withdrawal Agreement**"	the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community pursuant to Article 50 of the Treaty on European Union, as endorsed by UK and EU27 leaders.

SCHEDULE II

HISTORICAL FINANCIAL INFORMATION

Part A: Accountant's Report on the Historical Financial Information

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The Directors
M&G plc
10 Fenchurch Avenue
London, EC3M 5AG

25 September 2019

Ladies and Gentlemen

M&G plc

We report on the financial information set out in Schedule II for the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019. This financial information has been prepared for inclusion in the prospectus dated 25 September 2019 of M&G plc on the basis of the accounting policies set out in note 1.5. This report is required by Item 18.3.1 of Annex 1 of Commission Delegated Regulation (EU) 2019/980 (the 'PR Regulation') and is given for the purpose of complying with that item and for no other purpose. We have not audited or reviewed the financial information for the six months ended 30 June 2018 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of M&G plc are responsible for preparing the financial information on the basis of preparation set out in note 1.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Item 1.3 of Annex 1 of the PR Regulation, consenting to its inclusion in the prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 25 September 2019, a true and fair view of the state of affairs of M&G plc as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019 and of its combined profits, combined statement of financial position, combined cash flows and combined changes in invested capital for the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019 in accordance with the basis of preparation set out in note 1.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Item 1.2 of Annex 1 of the PR Regulation.

Yours faithfully

KPMG LLP

Part B: Historical Financial Information

Combined income statement

	Note	For the six months ended 30 June 2019	For the six months ended 30 June Unaudited 2018	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
		£m	£m	£m	£m	£m
Gross premiums earned		5,907	6,555	13,061	13,126	10,290
Outward reinsurance premiums (i)		(487)	(12,598)	(13,137)	(1,050)	(1,005)
Earned premiums, net of reinsurance		**5,420**	**(6,043)**	**(76)**	**12,076**	**9,285**
Investment return	**4**	13,384	(82)	(3,683)	14,565	22,180
Fee income	**5**	627	686	1,361	1,211	973
Other income		16	201	237	24	147
Total revenue, net of reinsurance		**19,447**	**(5,238)**	**(2,161)**	**27,876**	**32,585**
Benefits and claims		(14,824)	(5,563)	(7,322)	(22,261)	(28,184)
Outward reinsurers' share of benefit and claims		407	12,031	12,230	1,033	1,532
Movement in unallocated surplus of with-profits funds	**21**	(2,047)	(29)	162	(1,757)	(1,178)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(16,464)**	**6,439**	**5,070**	**(22,985)**	**(27,830)**
Administrative and other expenses	**6**	(1,161)	(1,193)	(2,657)	(2,532)	(2,223)
Movements in third party interest in consolidated funds		(428)	48	291	(715)	(377)
Finance costs		—	(4)	(4)	(9)	(9)
Total charges, net of reinsurance		**(18,053)**	**5,290**	**2,700**	**(26,241)**	**(30,439)**
Share of profit from joint ventures and associates	**13**	33	20	52	121	34
Profit before tax (ii)		**1,427**	**72**	**591**	**1,756**	**2,180**
Tax (charge)/credit attributable to policyholders' returns	**9**	(430)	10	406	(425)	(782)
Profit before tax attributable to equity holders		**997**	**82**	**997**	**1,331**	**1,398**
Total tax (charge)/credit	**9**	(633)	(5)	215	(682)	(1,046)
Less tax charge/(credit) attributable to policyholders' returns	**9**	430	(10)	(406)	425	782
Tax charge attributable to equity holders' returns	**9**	(203)	(15)	(191)	(257)	(264)
Profit for the period attributable to equity holders		**794**	**67**	**806**	**1,074**	**1,134**

(i) Outward reinsurance premiums for the six months ended 30 June 2018 and the year ended 31 December 2018 include £12,149m in respect of reinsurance of the UK annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefit and claims in the same periods. See Note 2 for further details.

(ii) This measure is the profit before tax measure under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Group 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 with-profits fund after adjusting for taxes borne by policyholders.

Combined statement of comprehensive income

	Note	For the six months ended 30 June 2019 £m	For the six months ended 30 June Unaudited 2018 £m	For the year ended 31 December 2018 £m	For the year ended 31 December 2017 £m	For the year ended 31 December 2016 £m
Profit for the period		**794**	**67**	**806**	**1,074**	**1,134**
Other comprehensive income/(loss):						
Items that may be reclassified subsequently to profit or loss:						
Exchange movements arising on foreign operations		1	(6)	—	6	12
Items that will not be reclassified to profit or loss:						
(Loss)/gain on remeasurement of defined benefit pension asset	**16**	(192)	104	114	165	(185)
Transfer in of net defined benefit pension asset	**16**	15	—	—	—	—
Related tax		30	(18)	(19)	(26)	27
		(147)	**86**	**95**	**139**	**(158)**
Add (deduct) amount attributable to UK with-profits fund transferred to unallocated surplus of with-profits fund, net of related tax		149	(21)	(38)	(79)	62
Other comprehensive income/(loss) for the period, net of related tax		**3**	**59**	**57**	**66**	**(84)**
Total comprehensive income for the period attributable to equity holders		**797**	**126**	**863**	**1,140**	**1,050**

Combined statement of financial position

	Note	As at 30 June	As at 31 December		
		2019	2018	2017	2016
		£m	£m	£m	£m
Assets					
Goodwill and intangible assets	**11**	1,422	1,446	1,321	1,398
Deferred acquisition costs	**12**	107	105	90	89
Investment in joint ventures and associates	**13**	605	742	504	448
Property, plant and equipment	**14**	1,383	1,265	404	271
Investment property	**15**	18,778	18,003	16,607	14,740
Defined benefit pension asset	**16**	51	162	165	111
Deferred tax assets	**9**	110	118	146	170
Reinsurance assets	**21**	2,690	2,812	2,521	2,589
Loans	**17**	5,997	5,909	6,445	4,058
Derivative assets	**18**	2,883	2,513	2,954	2,927
Equity securities and pooled investment funds	**18**	67,484	60,793	68,487	59,729
Deposits	**18**	16,792	12,020	10,050	10,790
Debt securities	**18**	85,174	85,956	92,707	90,795
Current tax assets	**9**	271	236	237	307
Accrued investment income and other debtors	**19**	3,149	4,106	3,510	4,096
Assets held for sale	**2**	10,170	10,578	37	726
Cash and cash equivalents	**20**	4,624	4,739	5,799	5,056
Total assets		**221,690**	**211,503**	**211,984**	**198,300**
Invested capital		8,498	8,799	8,355	7,891
Total invested capital		**8,498**	**8,799**	**8,355**	**7,891**
Liabilities					
Insurance contract liabilities	**21**	76,680	69,298	88,623	89,464
Investment contract liabilities with discretionary participation features	**21**	67,560	67,038	62,340	52,490
Investment contract liabilities without discretionary participation features	**21**	15,695	15,560	17,069	16,171
Unallocated surplus of with-profits fund	**21**	15,328	13,433	13,567	11,738
Third party interest in consolidated funds	**18**	9,040	9,383	5,638	6,034
Borrowings and subordinated liabilities	**22**	3,712	4,055	3,877	1,507
Defined benefit pension liability	**16**	120	173	179	287
Lease liabilities	**23**	323	316	—	—
Deferred tax liabilities	**9**	1,187	1,061	1,703	1,591
Current tax liabilities	**9**	427	245	299	546
Derivative liabilities	**18**	2,677	2,208	1,661	1,861
Other financial liabilities	**18**	2,723	2,592	3,255	3,269
Provisions	**24**	416	512	546	345
Accruals, deferred income and other liabilities	**25**	7,140	6,262	4,872	4,571
Liabilities held for sale	**2**	10,164	10,568	—	535
Total liabilities		**213,192**	**202,704**	**203,629**	**190,409**
Total invested capital and liabilities		**221,690**	**211,503**	**211,984**	**198,300**

Combined statement of changes in invested capital

	Note	As at 30 June	As at 31 December		
		2019	2018	2017	2016
		£m	£m	£m	£m
Invested capital at start of period		**8,799**	**8,355**	**7,891**	**7,430**
Profit for the period		794	806	1,074	1,134
Other comprehensive income for the period		3	57	66	(84)
Total comprehensive income for the period		**797**	**863**	**1,140**	**1,050**
Dividends	**10**	(1,108)	(526)	(679)	(590)
Reserve movements in respect of share-based payments		8	2	3	2
Other movements (i)		2	105	—	(1)
Net (decrease)/increase in invested capital		**(301)**	**444**	**464**	**461**
Invested capital at end of period		**8,498**	**8,799**	**8,355**	**7,891**

(i) Other movements in 2018 include a capital contribution of £88m from Prudential plc to M&G.

Combined statement of cash flows

	Note	For the six months ended 30 June 2019 £m	For the six months ended 30 June Unaudited 2018 £m	For the year ended 31 December 2018 £m	For the year ended 31 December 2017 £m	For the year ended 31 December 2016 £m
Cash flows from operating activities:						
Profit before tax		1,427	72	591	1,756	2,180
Non-cash movements in operating assets and liabilities included in profit before tax:						
Investments		(11,423)	10,486	12,384	(14,537)	(18,415)
Other non-investment and non-cash assets		689	(473)	(1,088)	517	(886)
Policyholder liabilities (including unallocated surplus)		9,885	(12,922)	(16,255)	11,676	16,385
Other liabilities (including operational borrowings)		177	1,158	5,023	1,313	2,238
Interest income, interest expense and dividend income		(2,715)	(2,676)	(4,754)	(5,516)	(5,381)
Other non-cash items		55	242	(356)	(107)	953
Operating cash items:						
Interest receipts and payments		1,311	1,434	2,922	3,657	3,629
Dividend receipts		1,269	1,136	1,804	1,954	1,793
Tax paid (i)		(261)	(168)	(268)	(464)	(321)
Net cash flows from operating activities (ii)		**414**	**(1,711)**	**3**	**249**	**2,175**
Cash flows from investing activities:						
Purchases of property, plant and equipment	**14**	(171)	(108)	(189)	(55)	(252)
Proceeds from disposal of property, plant and equipment		—	—	4	—	20
Acquisition of subsidiaries and intangibles		(1)	(116)	(173)	(115)	—
Sale of businesses		—	—	—	1,193	—
Net cash flows from investing activities		**(172)**	**(224)**	**(358)**	**1,023**	**(232)**
Cash flows from financing activities:						
Interest paid (iii)		—	(4)	(4)	(9)	(9)
Redemption of subordinated liabilities		—	(100)	(100)	—	—
Capital contribution		—	88	88	—	—
Cash remittances to Prudential plc (iv)		(356)	(429)	(742)	(649)	(590)
Net cash flows from financing activities		**(356)**	**(445)**	**(758)**	**(658)**	**(599)**
Net (decrease)/increase in cash and cash equivalents		**(114)**	**(2,380)**	**(1,113)**	**614**	**1,344**
Cash and cash equivalents at beginning of period	**20**	4,739	5,799	5,799	5,056	3,318
Effect of exchange rate changes on cash and cash equivalents		(1)	(8)	53	129	394
Cash and cash equivalents at end of period	**20**	**4,624**	**3,411**	**4,739**	**5,799**	**5,056**

(i) Tax paid for the six months ended 30 June 2019 includes £25m (30 June 2018: £121m; for the year ended 31 December 2018: £134m; 2017: £298m; 2016: £233m) paid on profits taxable at policyholder rather than shareholder rates.

(ii) Cash flows in respect of other borrowings of with-profits fund, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(iii) Interest paid on structural borrowings of with-profits operations relate solely to the £100m 8.5% undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund ("**SAIF**"), a ring-fenced sub-fund of The Prudential Assurance Company Limited ("**PAC**") With-Profits Sub-Fund ("**WPSF**"). These bonds were redeemed in full on 30 June 2018.

(iv) Cash remittances to Prudential plc include dividends of £356m for the six months ended 30 June 2019 (30 June 2018: £429m, for the year ended 31 December 2018: £526m, 2017: £649m, 2016: £590m). Details of non-cash dividends are disclosed in Note 10.

1. Basis of preparation and significant accounting policies

1.1 General information

M&G plc (the “**Company**”) is a public limited company incorporated and domiciled in England and Wales. The address of the registered office is 10 Fenchurch Avenue, London, United Kingdom, EC3M 5AG.

All financial information in the Historical Financial Information (“**HFI**”) is stated in respect of the Company and its subsidiaries from time to time, excluding Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited (the “**Excluded Subsidiaries**”) (collectively, the “Group”) for the entirety of the years ended 31 December 2016, 2017 and 2018 and half years ended 30 June 2018 and 2019 (the “**Track Record Period**”). The Group manages the long-term savings of millions of people in the UK and across Europe, with customers that include individual savers and investors, life insurance policyholders, members of pension schemes, wholesale and institutional investors. The HFI has been prepared for the Group as at the date of this Prospectus, which excludes Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited (which were transferred by The Prudential Assurance Company Limited (“**PAC**”) to Prudential Corporation Asia Limited (a direct subsidiary of Prudential plc) in December 2018), as well as Prudential Vietnam Finance Company Limited (which was disposed of in 2019). For further information on the basis of preparation of the HFI, see section 1.2 of this Note below.

On 14 March 2018, Prudential plc announced its intention to demerge its UK & Europe business, resulting in two separately-listed companies with different investment characteristics and opportunities. On completion of the proposed demerger (the “**Demerger**”), the Company will be the parent company of the demerged UK & Europe business. The Demerger is expected to be completed immediately prior to admission of the Company’s shares to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities (“**Admission**”).

1.2 Basis of preparation

(A) Background

The HFI has been prepared and approved by the Directors of the Company in accordance with the requirements of the Prospectus Directive Regulation, the Listing Rules and this basis of preparation. This basis of preparation describes the extent to which the HFI has been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations (together “**IFRS**”) as adopted by the European Union, the Companies Act 2006 and any departures from IFRS. The HFI contains information for the Track Record Period.

IFRS does not provide for the preparation of combined financial information, or the specific accounting treatment set out below, and, accordingly, in preparing the HFI, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 “Standards for Investment Reporting applicable to public reporting engagements on historical financial information” issued by the UK Auditing Practices Board have been applied. Sections 1.2(C) – (F) of this Note below summarise the departures from IFRS which have been applied in preparing the HFI. Section 1.3(A) of this Note below provides details of how IFRS standards and interpretations effective during the Track Record Period have been applied throughout the Track Record Period.

As a result of the departures taken from IFRS, the HFI is not fully IFRS compliant and does not constitute an IFRS 1 compliant set of financial statements and therefore the HFI will differ to the Group’s first set of financial statements. Pursuant to section 435 of the Companies Act, this HFI does not constitute the Company’s statutory accounts. The principal accounting polices applied in the preparation of this HFI are set out in section 1.5 of this Note below. These policies have been consistently applied to all periods presented, unless otherwise stated.

The HFI is prepared on a historical cost basis except for investment property measured at fair value, certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit and loss ("**FVTPL**") and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligations. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

The HFI has been prepared on a going concern basis. Management has considered the Demerger, and expects that appropriate funding will be available for future operations after the Demerger occurs. Management expects that following separation from Prudential plc, the business will continue operating. The business's forecasts and projections, taking account of possible changes in trading performance, and including stress testing and scenario analysis, show that the business will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The HFI presented has been prepared for the Group, which comprises the Company and its subsidiaries from time to time, excluding the Excluded Subsidiaries. On 2 July 2018, Voyager Dallas Holding Company Limited, as the Company was known at the time, was incorporated as a subsidiary of Prudential plc. On 3 July 2018, the Company changed its name to M&G Prudential Limited. On 23 November 2018, the Company issued share capital as consideration to Prudential plc for the acquisition of PAC, M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited. Prior to this acquisition, the Group's business did not comprise a separate legal entity or a separate group of entities. On 24 July 2019, the Company was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Company changed its name to M&G plc.

The HFI is presented in Pounds Sterling, which is the currency of the primary economic environment in which the Company and its subsidiaries operate and is rounded to the nearest million (£m).

(B) Perimeter

The HFI for the Track Record Period has been prepared for the Group, which comprises the Company and its subsidiaries, excluding the Excluded Subsidiaries. The option to exclude these subsidiaries is in line with the accounting conventions of SIR 2000 for the preparation of historical financial information for the purposes of inclusion in an investment circular, as their inclusion does not provide additional relevant information on the track record of the Group as it will be comprised at the point of Demerger.

(C) Basis of combination

The HFI, which has been prepared specifically for the purpose of this Prospectus, is prepared on a basis that combines the IFRS results, assets and liabilities of the entities within the Group by applying the principles underlying the consolidation procedures of IFRS 10 *Consolidated Financial Statements* and making the adjustments set out in this basis of preparation for each of the Track Record Periods. On such basis, the HFI sets out the combined and carve-out balance sheet as at each Track Record Period end date.

As the Group has not comprised a separate legal group throughout the Track Record Period, it is not meaningful to show share capital or an analysis of reserves for the Group. As such, the net assets of the Group are represented by the cumulative investment of Prudential plc in the Group. This is presented in the statement of financial position as invested capital.

Prudential plc's long-term debt has not been attributed to the Group across the Track Record Period because the borrowings are not the legal obligations of the Group during these periods. Borrowings and other amounts payable to entities under common control but outside the perimeter of the Group are liabilities of the Group and do not form part of invested capital.

(D) Taxation

Income and expenses included in this HFI have been included in the relevant corporate entity's individual tax returns as filed with the relevant local tax authority and aggregated herein.

Current tax receivable/payable and deferred tax assets and liabilities were determined based on the analysis of the Group's combined current tax position and temporary differences at each period-end and assessment of how these relate directly or indirectly to the Group.

(E) Earnings per share

As the HFI has been prepared on a combined basis, net assets are represented as invested capital. This does not represent the legal capital structure that will be in place following Admission, and therefore earnings per share disclosures have not been provided in the HFI.

(F) Share based payments

Employees within the Group participated in share based payment schemes of Prudential plc Group during the Track Record Period. Post Demerger the Group will continue to incentivise employees through share based payment schemes. For the purposes of this HFI, the IFRS 2 expense in respect of share based payments schemes included in staff costs was £8.8m for the six months ended 30 June 2019 (30 June 2018: £8m; year ended 31 December 2018: £12m; 2017: £5.5m; 2016: £8.5m). Share based payment costs recognised directly in equity represent amounts settled via a capital contribution from Prudential plc. No additional share based payment disclosures have been provided in this HFI on the basis of materiality.

1.3 New accounting pronouncements

(A) New accounting pronouncements adopted in the period

(i) IFRS 16 *Leases*

Date of initial application

In accordance with the requirements of the SIR 2000, IFRS 16 has been adopted in a way that will be consistent with the Group's next published annual consolidated financial statements.

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

The Group's first published set of financial statements will be prepared in accordance with IFRS 1: First time adoption (IFRS 1). Based on the requirements of IFRS 1, the date of adoption for IFRS 16 will be 1 January 2018, which is the beginning of the earliest period presented in those financial statements. Accordingly, to maintain consistency between the HFI and the first annual report, IFRS 16 has been adopted as at 1 January 2018 for the purposes of the HFI. If the HFI was fully IFRS compliant, IFRS 16 would have had a different date of initial application and would have applied different transition arrangements from those set out below.

Change in accounting policy

The adoption of IFRS 16 resulted in the following changes in accounting policies:

IFRS 16 applies primarily to leases of major properties occupied by the Group's businesses, where the Group acts as a lessee. Under IFRS 16, these leases have been brought onto the Group's statement of financial position with a 'right of use' asset being established and a corresponding liability, representing the obligation to make lease payments. The previously recognised rental accrual charge in the income statement has been replaced with a depreciation charge for the 'right of use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile, compared to former requirements under IAS 17.

At transition, as permitted by IFRS 1, lease liabilities were measured at the present value of remaining lease payments, discounted at the Group's incremental borrowing rate. Right of use assets ("**ROU**") are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease at the date of transition.

The Group has used the following additional practical expedients as permitted by IFRS 1 on transition to IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measurement of ROU asset on initial application; and
- used hindsight when determining the lease term if the contract had an option to break the lease.

Adoption of IFRS 16 has not resulted in any changes to accounting where the Group is acting as lessor.

Impact on HFI

On transition to IFRS 16, the Group recognised an additional lease liability of £40m and a corresponding right of use asset of £39m.

When measuring the lease liabilities, the Group discounted lease payments using the incremental borrowing rate as at 1 January 2018 which ranged between 0.99% and 3.57%.

	2018
	£m
Undiscounted operating lease commitment as at 1 January 2018	44
Effect of discounting using incremental borrowing rate	(4)
Lease liability as at 1 January 2018	40
IFRS 16 lease liabilities recognised as at 1 January 2018	**40**

(ii) IFRS 15 *Revenue from contracts with customers*

The Group has adopted IFRS 15 from 1 January 2018. This standard introduces a new five-step model for recognition and measurement of revenue from contracts with customers and replaces the existing guidance under IAS 18, 'Revenue'.

The Group's recognition of revenue from asset management contracts and investment contracts that do not contain discretionary participating features is in scope of IFRS 15.

The contracts excluded from the scope of this standard include:

- lease contracts within the scope of IAS 17 *Leases*;
- insurance contracts and investment contracts with discretionary participation features within the scope of IFRS 4 *Insurance Contracts*; and
- financial instruments within the scope of IAS 39 *Financial Instruments*.

The Group has adopted the standard using the full retrospective method for all periods presented.

The only impact on the revenue recognised by the combined entities for prior periods presented is a reclassification in the combined income statement to present certain expenses (such as rebates to clients of asset management fees) as a deduction against revenue. This has resulted in a reduction in revenue of £234m for the year ended 31 December 2018 (31 December 2017: £172m; 31 December 2016: £124m), and £82m for the six months ended 30 June 2018 with a corresponding deduction in expenses.

(B) Other interpretations and amendments

In addition to the above, various new accounting pronouncements became effective from 1 January 2016 and during the Track Record Period, however, none of these pronouncements had a material impact on the Group's financial statements.

(C) New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group, including those which have not yet been endorsed in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the Group's financial statements are discussed.

(i) IFRS 9 *Financial instruments* (endorsed by the EU)

In July 2014, the IASB published IFRS 9 *Financial Instruments* which is mandatorily effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 9 replaces the existing standard, IAS 39 *Financial Instruments – Recognition and Measurement*. The standard provides new principles for determining classification and measurement of financial instruments, introduces a new forward-looking impairment model based on expected losses (replacing the existing incurred loss model) and provides new guidance on application of hedge accounting.

In September 2016, the IASB published amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 *Insurance Contracts*. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect in 2021. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. In April 2019, the IASB decided that the effective date of IFRS 17 should be delayed by one year from periods beginning on or after 1 January 2021 to 1 January 2022. The IASB also decided in this meeting that IFRS 9 could be delayed for insurers by an additional year to keep the effective date of IFRS 9 and IFRS 17 aligned.

As the Group met the required eligibility criteria for temporary exemption, the adoption of IFRS 9 has been deferred until 1 January 2022 to coincide with the adoption of IFRS 17.

Entities within the Group whose activities are not primarily insurance related and which prepare financial statements on an IFRS basis (including the UK Financial Reporting Standard 101 Reduced Disclosure Framework) have adopted IFRS 9 in 2018 in their individual financial statements. In addition, Prudential Pensions Limited, a UK insurance subsidiary has adopted IFRS 9 in its individual financial statements as it did not meet the eligibility criteria for temporary exemption. Prudential Pensions Limited writes mostly unit-linked products that are classified as investment contracts without discretionary participation feature. The results for these entities continue to be accounted for on an IAS 39 basis in the HFI.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17. The adoption of IFRS 9 may result in the reclassification of certain of the Group's financial assets, resulting in a change in measurement basis from amortised cost to fair value. Furthermore, a revised impairment approach based on expected credit losses will need to be developed for financial assets that will continue to be carried at amortised cost. The Group is currently assessing the scope of assets to which these requirements will apply.

The Group does not currently apply hedge accounting.

Presented below are disclosures required by the amendments to IFRS 4 for entities deferring the adoption of IFRS 9. These are provided to enable users to compare results with those entities that have adopted IFRS 9.

As required by the amendment, the table shows the fair value of the Group's directly held financial assets at 30 June 2019, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ("**SPPI**") as defined by IFRS 9.

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the Group's statement of financial position	**Fair value as at 30 June 2019**	**Movement in fair value during the year**	**Fair value as at 30 June 2019**	**Movement in fair value during the year**
	£m	**£m**	**£m**	**£m**
Accrued investment income & other debtors	3,149	—	—	—
Loans	2,610	28	3,479	167
Equity securities and portfolio holdings in unit trusts	—	—	67,484	6,047
Debt securities	—	—	85,174	4,115
Derivative assets - net of derivative liabilities	—	—	206	17
Deposits	16,792	—	—	—
Cash and cash equivalents	4,624	—	—	—
Total financial assets, net of derivative liabilities	**27,175**	**28**	**156,343**	**10,346**

(ii) IFRS 17 *Insurance Contracts* (not yet endorsed by the EU)

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* to replace the existing interim standard, IFRS 4 *Insurance Contracts*. The standard applies to annual periods beginning on or after 1 January 2022. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date in 2022, alongside the adoption of IFRS 9.

IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin ("**CSM**") that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) such as the Group's with-profits products and certain unit-linked products, the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures currently reported in the income statement. In order to transition to IFRS 17 the amount of deferred profit, being the CSM at transition date, needs to be determined.

IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

The Group has commenced a project to implement IFRS 17 which will develop technical interpretations and the related operational capabilities to implement the standard by the prescribed adoption date. The impact from adoption of the standard cannot be assessed at this stage.

(iii) Other

In addition to the above, the following new accounting pronouncements have also been issued and are not yet effective, but the Group is not expecting them to have a significant impact on the Group's financial statements:

- Definition of a business (Amendments to IFRS 3), issued in October 2018 and effective from 1 January 2020;
- Definition of material (Amendments to IAS 1 and IAS 8), issued in October 2018 and effective from 1 January 2020; and
- Revised Conceptual Framework for Financial Reporting, issued in March 2018 and effective from 1 January 2020.

1.4 Judgements in applying accounting policies and sources of estimation uncertainty

(A) Judgements made in applying accounting policies

A full list of the Group's significant accounting policies is provided in section 1.5 of this Note below. The following table sets out the key judgements made by the Group in applying its accounting policies:

Financial statement area	Key judgement	Accounting policy
Consolidation of structured entities	IFRS 10 requires entities that the Group controls to be consolidated in the Group financial statements. Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Due to the nature of structured entities, judgement is required to determine whether the Group controls and therefore consolidates structured entities.	1.5(A)
Classification of insurance and investment contracts	IFRS 4 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk.	1.5(B)

(B) Sources of estimation uncertainty

The preparation of these financial statements requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The following table sets out the assets and liabilities measured using assumptions and estimates which have a significant risk of resulting in a material adjustment to their carrying value within the next financial year. Details of the nature of the estimate is provided in the related accounting policy and details of the assumptions applied at the statement of financial position date are provided in the related Note.

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Insurance contract liabilities	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The area where the assumptions could have a material impact are the assumed rates of policyholder mortality and the valuation rate of interest used when establishing policyholder contract liabilities for annuities.	1.5(B)	21
Equity securities and pooled investment funds, Investment property	Determination of fair value of financial assets classified as level 3 in the fair value hierarchy are determined based on inputs which are not observable in the market requiring a high degree of estimation which could result in a significant change.	1.5(D), 1.5(N)	18
Defined benefit pension scheme liability	The valuation of defined benefit pension scheme liability is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	1.5(O)	16

1.5 Accounting policies

(A) Basis of combination

Entities within the Group have been included in this HFI on a combined basis as detailed in 1.2.1. Within the Group investees which are deemed to be controlled are consolidated. The Group has control over an investee if all three of the following are met: (i) it has power over an investee; (ii) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (iii) it has the ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. Where the Group is deemed to control an entity (excluding the "Excluded Subsidiaries"), it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity but does not have control over the entity and it is not classified as a joint venture or associate accounted for using the equity method, the investments are carried at FVTPL within financial investments in the combined statement of financial position.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In these arrangements, the Group's share of the underlying net assets may be lower or higher than 50% but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party.

Associates are entities over which the Group has significant influence, but it does not control. Generally, it is presumed that the Group has significant influence if it holds between 20% and 50% of the voting rights of the entity.

Investments in associates and joint ventures held by the Group's insurance or investment funds, including venture capital business, mutual funds and unit trusts are accounted for at FVTPL. All other investments in joint ventures and associates are accounted for using the equity method of accounting. Under the equity method, the Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Collective investment vehicles including open-ended investment companies ("**OEICs**") and Luxembourg domiciled Sociétés d'Investissement à Capital Variable ("**SICAVs**");
- limited partnerships;
- collateralised debt obligations;
- mortgage-backed securities; and
- similar asset-backed securities.

(iv) Collective investment vehicles

The Group invests in collective investment vehicles, which invest mainly in equities, bonds, cash and cash equivalents, and properties.

When assessing control over collective investment vehicles, the Group determines whether it is acting as principal or agent. This includes an assessment of the scope of its decision-making authority, including its ability to direct the relevant activities of these vehicles and exposure to variability of returns from the perspective of the Group's direct interest in the vehicle and of the asset manager (if it is a Group company). In addition, the Group assesses rights held by other parties including substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power.

Holdings in such investments can fluctuate on a daily basis according to the participation of the Group and other investors in them. As a result, in determining control, the Group looks at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the Group's involvement. This is performed in line with the following principles:

- Where the Group manages the assets of the entity, and the Group's ownership holding in the entity exceeds 50%, the Group is judged to have control over the entity.
- Where the Group manages the assets of the entity, and the Group's ownership holding in the entity is between 20% and 50%, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity taking into account aggregate economic interest where relevant.
- Where the Group manages the assets of the entity, and the Group's ownership holding in the entity is less than 20%, the Group is judged to not have control over the entity.
- Where the assets of the entity are managed externally, an assessment is made of whether the Group has existing rights that give it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of collective investment vehicles where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as subsidiaries and are consolidated, with the interests of investors other than entities within the Group being classified as liabilities, presented as third party interest in consolidated funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at FVTPL within equity securities and pooled investments funds in the combined statement of financial position.

Where the Group initially sets up collective investment vehicles as part of its operations through its investment management business, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with collective investment vehicles. For these collective investment vehicles, the Group is not deemed to control the entities, but to be acting as an agent.

(v) Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities, in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

(vi) Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle, including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements taking into account aggregate economic interest where relevant.

(vii) Third party interests

Interests of parties other than the Group in entities which the Group controls are assessed to determine whether they should be classified as financial liabilities or as non-controlling interests in equity on the statement of financial position. Puttable third party interests such as units held by external investors in unit trusts are classified as financial liabilities. Third party interests in private equity vehicles set up with finite lives are also classified as financial liabilities.

(B) Insurance and investment contracts

(i) Classification

Contracts written by the Group's insurance operations are classified as either insurance contracts or investment contracts. Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. Judgement is applied in assessing whether the features of a contract gives rise to the transfer of significant insurance risk. This assessment is based on a readily identifiable scenario which is used to determine if there is a significant difference in the contract's cash outflows if the insured event occurs. This judgement is made at the point of contract inception and is not revisited.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts.

Some contracts, both insurance and investment, contain discretionary participation features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance. These contracts are classified as insurance or investment contracts with discretionary participation features.

The measurement of contracts depends on their classification. Those classified as either insurance contracts or investment contracts with discretionary participation features are accounted for as insurance contracts under IFRS 4. Investment contracts without discretionary participation features are accounted for as financial instruments under IAS 39. The classification of the Group's insurance operations' main contract types are shown below:

Type of contract	Classification
With-profits	Insurance contract / Investment contract with discretionary participation features
Unit-linked with significant insurance risk	Insurance contract
Unit-linked without significant insurance risk	Investment contract
Annuities	Insurance contract

(ii) Measurement: Insurance contracts and investment contracts with discretionary participation features

Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4 Insurance Contracts, which permits the continued use of previously applied Generally Accepted Accounting Practices ("**GAAP**"), which have been grandfathered by the Group. In particular, the Group uses a modified statutory basis, which is based on grandfathered regulatory requirements prior to the adoption of Solvency II, adjusted in accordance with the Statement of Recommended Practice issued by the Association of British Insurers ("**ABI SORP**"). An exception is for the Group's with-profits fund, which is measured on a realistic basis in accordance with FRS 27 Life Assurance. The measurement of the liabilities arising from the main types of contracts in scope of IFRS 4 is described further below.

Valuation of the with-profits fund's liabilities

The policyholder liabilities for the Group's with-profits fund are measured under FRS 27 Life Assurance, which requires the use of the realistic value of liabilities. In aggregate, this has the effect of placing a market consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits fund and current circumstances. The realistic basis requires the value of liabilities to be calculated as:

- a with-profits benefits reserve; plus
- future policy-related liabilities; plus
- the realistic current liabilities of the fund.

The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted 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. As such the majority of the policyholder liability for with-profits business is driven by investment performance.

The future policy-related liabilities must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using a stochastic approach. The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. The shareholders' share of profit is recognised in line with the distribution of bonuses to policyholders.

Unallocated surplus of the with-profits fund

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

Valuation of unit-linked contracts

For unit-linked contracts classified as insurance contracts, the attaching liability reflects the unit value obligation and an additional provision in respect of expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and discounted at an appropriate valuation interest rate.

Valuation of annuity contracts

The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The primary assumptions required are in respect of policyholder mortality, credit assumptions within the valuation interest rate, and future expense levels.

Liability adequacy test

The Group performs adequacy testing on its liabilities in respect of insurance contracts and investment contracts with discretionary participation features to ensure that the carrying amounts (net of related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement.

(iii) Investment contracts without discretionary participation features

Investment contracts without discretionary participation features, such as unit-linked savings and similar contracts are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a fair value basis. Where the contract includes a surrender option its carrying value is subject to a minimum carrying value equal to its surrender value.

Any incremental costs that are directly attributable relating to investment management services which vary with, and are related to, securing new contracts and renewal of existing contracts, are deferred and amortised over the period during which the service is provided on a straight line basis.

If the contracts involve up-front charges, this income is also deferred and amortised through the income statement over the period during which the service is provided on a straight line basis.

(C) Business acquisitions

Business acquisitions are accounted for by applying the acquisition method of accounting, where the assets and liabilities of the acquired company are mainly recorded at fair value on the date of acquisition. The excess of the acquisition consideration over the recorded value of the assets and liabilities of the acquired entity is recorded on the statement of financial position as goodwill.

Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

(D) Financial assets and liabilities

(i) Classification and measurement

The classification of financial assets and liabilities is determined at initial recognition. The Group classifies derivative financial assets and financial liabilities as held for trading. Financial assets which are managed and whose performance is evaluated on a fair value basis are designated at FVTPL. The vast majority of the Group’s financial assets fall into this category as the assets are held to back policyholder liabilities. Managing assets on a fair value basis maximises returns to policyholders and avoids accounting mismatches in the income statement.

Financial assets classified as held for trading or at FVTPL and financial liabilities classified as held for trading are measured at fair value with all changes thereon being recognised in investment return in the income statement.

The Group’s financial assets which are not derivatives or designated at FVTPL are classified as loans or receivables. These instruments comprise non-quoted investments that have fixed or determinable payments and include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.

The Group uses the trade date method to account for regular purchases and sales of financial assets. Transaction costs are expensed as incurred.

Financial liabilities other than derivatives are classified according to the substance of the contractual arrangements. The Group designates financial liabilities at FVTPL if these instruments are managed and their performance evaluated on a fair value basis. Investment contract liabilities without discretionary participation features are designated at FVTPL with changes recognised within benefits and claims in the combined income statement. The fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets.

Third party interest in consolidated funds which are classified as financial liabilities are designated as FVTPL to match the treatment of the underlying assets in the funds. Changes in fair value are recognised in movements in amounts attributable to external unit holders of consolidated investment funds in the combined income statement.

Financial liabilities which are not designated at FVTPL are measured at amortised cost using the effective interest method.

(ii) Determination of fair value

The Group uses current bid prices to value its investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties. Financial assets measured at fair value are classified into a three-level hierarchy as described in Note 27.

If the market for a financial investment of the Group is not active, the fair value is determined by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in Note 28.

(E) Earned premiums, policy fees and claims paid

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where the Group collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

(F) Reinsurance

The business seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Where the reinsurance contracts transfer significant insurance risk to the reinsurer, the asset arising from the contract is classified as the reinsurer's share of insurance contract liabilities.

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. Reinsurance premiums paid and reinsurance recoveries on claims paid are recognised when the corresponding insurance premium is received from the policyholder and when the reinsured claims are incurred, respectively. These items are disclosed separately on the face of the income statement. Any gains or losses arising on the purchase of reinsurance contracts are recognised in the income statement.

Where the reinsurance contract does not transfer significant insurance risk to the reinsurer, the contract is classified as a financial instrument and is measured at FVTPL.

(G) Fee income

Fee income is derived from investment management fees and performance fees.

Management fee revenue is based on assets under management and is recognised over time as the Group satisfies its performance obligation to provide the asset management services. Fee revenue is recognised net of rebates.

Performance fees and carried interest on investment management contracts are based on the achievement of prescribed performance hurdles. Performance fees are recognised when performance obligations are satisfied or upon any relevant crystallisation event occurring, and when it is highly probable that a significant reversal will not occur.

(H) Investment return

Investment return included in the combined income statement comprises interest income, rental income, dividends, foreign exchange gains and losses, realised and unrealised gains and losses on investments designated as FVTPL, and realised gains and losses (including impairment) on items held at amortised cost. Interest income is recognised as it accrues on an effective interest basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

(I) Deferred acquisition costs

The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For investment contracts without discretionary participating features, these acquisition costs are capitalised and amortised in line with the related revenue. For certain insurance contracts, such acquisition costs are also capitalised and amortised in line with the emergence of projected margins. These costs (deferred acquisition costs) are recognised as an asset in the combined statement of financial position.

The recoverability of any deferred acquisition costs is reviewed at each reporting date, and to the extent that these are no longer deemed recoverable from future revenue or projected margins, then the carrying value is written down to the recoverable amount and the related impairment charge recorded in the combined income statement.

For insurance contracts written in the UK regulated with-profits fund, in accordance with FRS 27 there is no deferral of acquisition costs and these costs are expensed as incurred. Similarly, for products where all of the acquisition costs are recovered upfront, such as annuities, no acquisition costs are deferred.

(J) Derivatives and hedge accounting

The primary areas of the Group's operations where derivative instruments are held are the UK with-profits fund and annuity business. Management designates derivatives on inception and those that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded within investment return in the combined income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39 and has had no fair value or cash flow hedges during the Track Record Period.

(K) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred, the contractual rights to the cashflows have expired or the Group has not retained control of the asset. Gains and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the combined income statement.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

(L) Securities lending and reverse repurchase agreements

The Group is party to various securities lending agreements and repurchase agreements under which securities are transferred to third parties on a short-term basis. The transferred securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities transferred is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of collateral under its securities lending programme, including cash collateral which is not legally separated from the Group, the corresponding obligation to return such collateral, is recognised as a financial liability in the combined statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments on the statement of financial position. The right to receive the return of any cash paid as purchase consideration plus interest is recognised as a financial asset in the combined statement of financial position.

(M) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs. Borrowings, excluding those backing buy to let mortgages which are managed on a fair value basis and designated at FVTPL, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) are amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

Borrowings backing buy to let mortgages are designated at FVTPL as they are managed on a fair value basis in line with the underlying loan assets.

(N) Investment property

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment property, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors ("**RICS**") valuation standards. Each property is externally valued at least once every three years.

(O) Defined benefit pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 *Employee Benefits* deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the defined benefit pension asset or liability recognised on the combined statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit obligation at the start of the period, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income. Contributions to the Group's defined contribution pension schemes are expensed when due.

Transfers in of pension scheme assets or liabilities to the Group are recognised in other comprehensive income.

(P) Tax

The Group is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's combined income statement, they are presented separately in the combined income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 *Income Taxes* does not require all temporary differences to be provided for. In particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

(Q) Goodwill

Goodwill arises when the Group acquires a business and the consideration paid exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the combined statement of financial position at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units. Goodwill impairment charges are recognised immediately in the income statement.

(R) Intangible assets

Intangible assets relating to insurance contacts acquired through business combinations are measured at fair value on acquisition. Other purchased intangible assets, such as service concessions, licenses and software, are valued initially at the price paid to acquire them. Intangible assets are subsequently carried at cost less amortisation and any accumulated impairment losses.

Impairment testing is conducted when there is an indication of impairment. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated. Amortisation and impairment of intangible assets is charged to the combined income statement.

(S) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, debt securities and money market funds with less than 90 days maturity from the date of acquisition.

(T) Share-based payments

Throughout the Track Record Period the Group has offered share award and option plans for certain key employees and a Save As You Earn plan ("**SAYE**") for all UK and certain overseas employees in relation to Prudential plc shares. The Group has both equity-settled plans and cash-settled plans.

Share options and awards of Prudential plc's equity instruments, for which there is an obligation to settle, are valued using the Prudential plc share price at the date of grant. These are accounted for as equity-settled in the Group financial statements as they are satisfied through a contribution by Prudential plc. Share options and awards for which the Group has the obligation to settle are valued using the Prudential plc share price at the statement of financial position date and are accounted for as cash-settled. The compensation costs for all awards and options are recognised in the income statement based upon the fair value of the options granted, the vesting period and the vesting conditions.

(U) Foreign exchange

The Group's combined financial statements are presented in Pounds Sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries are translated into the presentation currency of the Group from their functional currencies. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income. On disposal of foreign operations accumulated foreign exchange movements are reclassified to the income statement.

Foreign currency monetary assets and liabilities are translated at the spot exchange rate at the reporting date. Changes resulting from exchange rates are recognised in the income statement.

Foreign currency transactions are translated into functional currencies at the spot rate prevailing on the date of transactions.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

(V) Leases

Accounting policy under IFRS 16 – Effective from 1 January 2018

The Group leases office property to conduct its business. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception the Group allocates the consideration in a contract to each lease component. However, for leases of land and buildings, in which the Group acts as lessee, the Group has elected to account for the lease and non-lease components as a single lease component.

Where the Group acts as a lessee, it recognises a ‘right of use’ asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Group applies the cost model to right of use assets, except for those that meet the definition of an investment property, to which the fair value model is applied.

The asset is initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the earlier of: (i) the end of the right of use asset’s useful life; and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the Group’s own incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time the lease liability may be re-measured where there is a change in future lease payments, for example, where the Group reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right of use asset or an amount is recognised in the income statement if the carrying amount of the right of use asset has been reduced to zero.

The Group presents the right of use assets that do not meet the definition of investment property in ‘Property, plant and equipment’ (“**PPE**”) on the combined statement of financial position. The corresponding ‘Lease liabilities’ are presented in ‘Lease liabilities’ on the combined statement of financial position.

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

Where the Group acts as lessor, it classifies and accounts for its leases as operating or finance leases. Where the Group acts as an intermediate lessor, as it does with some of its property leases, it accounts for its interests in the head lease and the sub lease separately. The Group assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘investment return’.

Accounting policy under IAS 17 – Effective until 31 December 2017

Where the Group acted as lessee, it classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. As finance leases, the Group measured leased assets at an amount equal to the lower of: (i) their fair value; and (ii) the present value of the minimum lease payments.

Assets forming part of other lease arrangements were classified as operating leases and, unlike finance leases, were not recognised on the combined statement of financial position. Amounts paid under operating leases, net of any lease incentives received, were expensed to profit or loss over the lease term.

(W) Property, plant and equipment (“PPE”)

PPE includes owner occupied properties, right of use assets in respect of operating leases and other tangible assets, such as computer equipment, motor vehicles, leasehold improvements and fixtures and fittings.

PPE is initially measured at cost, which represents the original purchase price less any expenses incurred in bringing it to its working condition, and subsequently measured using the cost model.

Depreciation is charged to the combined income statement on a straight-line basis over its estimated useful life. Management determines useful lives and residual values for assets when they are acquired. The Group assesses the useful life, residual value and depreciation method for PPE on an annual basis and any adjustments are made where required.

An impairment review of PPE is carried out whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assess impairment at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which is the higher of the asset's fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the combined income statement.

(X) Assets and liabilities held for sale

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

Assets and liabilities held for sale are shown separately on the combined statement of financial position and are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on an asset which is classified as held for sale.

(Y) Provisions and contingent assets and liabilities

Provisions are recognised in the combined statement of financial position when the Group has a present legal or constructive obligation resulting from a past event, it is more probable than not that a loss will be made in settling obligation and the amounts can be estimated reliably.

Provisions are measured, based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

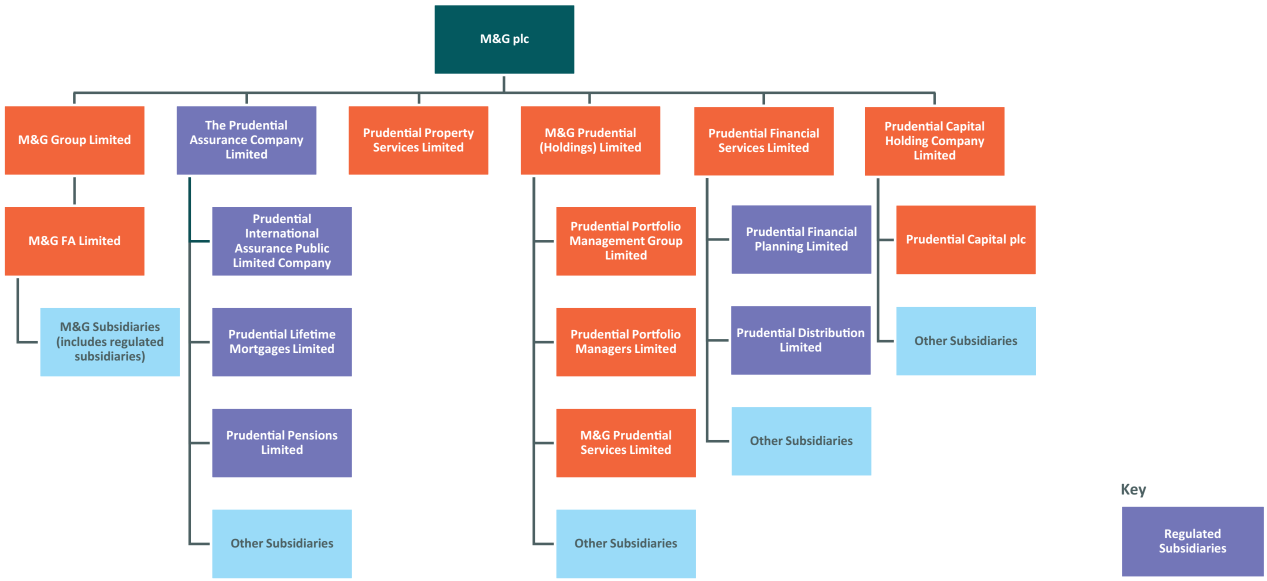
Contingent liabilities are possible obligations of the Group where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the combined statement of financial position. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

Contingent assets, which are possible benefits to the Group are disclosed only if it is probable that the Group will receive the benefit. If such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the combined statement of financial position as an asset.

2. Group overview

2.1 Group structure

The following diagram is an extract of the Group structure following Demerger:



(A) Gains/(losses) on disposal of businesses and corporate transactions

On 14 March 2018, Prudential plc announced the reinsurance of £12.0bn (as at 31 December 2017) of PAC's shareholder-backed annuity portfolio (the "Annuity Portfolio") to Rothesay Life plc ("Rothesay Life") by way of a collateralised reinsurance arrangement followed by an insurance business transfer scheme (the "Scheme") under Part VII of FSMA.

The reinsurance agreement became effective on 14 March 2018. A reinsurance premium of £12,149m has been recognised within outward reinsurance premiums in the combined income statement in the six months to 30 June 2018 and the year to 31 December 2018 and settled via the transfer of financial investments and other assets to Rothesay Life Plc. After allowing for the recognition of a reinsurance asset and associated changes to policyholder liabilities, a loss of £508m was recognised in relation to the transaction.

The reinsured annuity business intended to be transferred under the Scheme was classified as held for sale in these combined financial statements as at 30 June 2019 and 31 December 2018. On 16 August 2019, the High Court declined to sanction the Scheme. See Note 33 for further details.

The assets and liabilities of the annuity business classified as held for sale on the combined statement of financial position are as follows:

	As at 30 June 2019	As at 31 December 2018
	£m	£m
Assets		
Reinsurance asset	10,119	10,502
Other assets (including cash and cash equivalents)	45	66
Assets held for sale (i)	**10,164**	**10,568**
Liabilities		
Insurance contract liabilities	10,119	10,502
Other liabilities	45	66
Liabilities held for sale	**10,164**	**10,568**

(i) Assets held for sale in the statement of financial position as at 30 June 2019 also include £6m of investment property held for sale (31 December 2018: £10m; 31 December 2017: £37m; 31 December 2016: £29m). In addition, as at 31 December 2016, £697m of assets and £535m of liabilities held for sale were in relation to an operating business sold by the Group's consolidated infrastructure capital private equity vehicles and completed in January 2017.

(B) Acquisitions

On 13 April 2018, the Group increased its shareholding in Gigaclear plc ("**Gigaclear**") from 47% to 81%. The Group's interest is held through the Group's consolidated infrastructure capital private equity vehicles. Gigaclear is a broadband developer, developing reliable, high-speed Fibre-To-The-Premises ("**FTTP**") fibre optic broadband networks in the rural communities in the UK.

At the acquisition date the consideration, net assets acquired and resulting goodwill from the acquisition of additional shares in Gigaclear were as follows:

13 April 2018	**£m**
Fair value of previously held investment	117
Consideration	119
Third party interest in consolidated funds	20
Fair value of net assets acquired	
Property, plant and equipment	102
Accrued investment income and other debtors	4
Cash and cash equivalents	32
Total assets	**138**
Borrowings and subordinated liabilities	22
Accruals, deferred income and other liabilities	7
Total liabilities	**29**
Goodwill	**147**

The interest is held entirely through the with-profits fund and therefore does not contribute directly to profit for the period.

2.2 Insurance and investment contracts written by the Group's insurance entities

A description of the main contract types written by the Group's insurance entities is provided below.

(A) With-profits contracts

With-profits contracts provide returns to policyholders through bonuses that are smoothed which reduce the impact of volatility of the investment performance of the assets in the fund.

The Group's with-profits contracts are written in the PAC with-profits fund in which policyholders share in the profit of the fund. There are 3 with-profits sub-funds: the PAC With-Profits Sub-Fund ("**WPSF**"), the Defined Charge Participating Sub-Fund ("**DCPSF**"), and the Scottish Amicable Insurance Fund ("**SAIF**").

Conventional and accumulating with-profits contracts written in WPSF and DCPSF

Conventional and accumulating with-profits policyholders receive their share of the profit by way of regular and final bonuses.

Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers.

In normal investment conditions, the Group expects changes in regular bonus rates to be gradual over time. However, the Group retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

A final bonus which is normally declared annually, may be added when a claim is paid. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares of representative sample policies and are subject to smoothing.

Regular bonuses are typically declared once a year, and once credited, are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration.

Contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one ninth of the bonus declared, which is payable as a cash transfer from the with-profits fund.

For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders' profit arises as the difference between charges and expenses.

With-profits contracts with a PruFund investment option ('PruFund contracts')

These are a range of with-profits contracts offering policyholders a choice of investment profiles (PruFund funds). Unlike the with-profits contracts described above, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate ("EGR"). The EGR is adjusted for significant market movements.

The EGR may be applied for each of the different PruFund funds within the range, varying depending on the individual asset mix of that fund. The applicable EGR, net of the relevant charges, is applied to calculate the 'smoothed unit value' of policyholder funds. The EGRs are reviewed and updated quarterly, with the smoothed unit value calculated daily. In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term.

Policyholders are protected from some of the extreme short-term ups and downs of direct investments by using an established smoothing process. Prescribed adjustments are made to the smoothed unit value if it moves outside of a specified range relative to the value of the underlying assets.

PruFund contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one ninth of the difference between the smoothed unit value on withdrawal and the initial investment. The DCPSF also contains PruFund contracts, and for these contracts the shareholder receives profits or losses arising from the difference between the charges and expenses on this business.

SAIF with-profits contracts

SAIF is a ring-fenced with-profits sub-fund. No new business is written in SAIF, although regular premiums and top-ups are still being collected on in-force policies. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund. The process of determining policyholder bonuses of SAIF with-profits policies is similar to that for the with-profits policies of the WPSF. In addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.

The Group's main exposure to guaranteed annuity options arises through contracts in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 29.

(B) Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 4 (see Note 21).

Charges are deducted from the unit-linked funds for investment and administration services, and for certain contracts, insurance coverage. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges.

(C) Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life in exchange for an upfront premium. There are various types of annuity contracts written across the Group: level, fixed increase, inflation-linked (referred to as 'non-profit annuities') and with-profits annuities. Some non-profit annuities have been written in the with-profits fund, and profits relating to this business accrue to the with-profits fund.

- Level annuities provide a regular (for example, monthly) fixed annuity payment over the policyholder's life.
- Fixed increase annuities provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.
- Inflation-linked annuities provide for a regular annuity payment to which an additional amount is added periodically based on the increase in an inflation index.
- With-profits annuities are written in the with-profits fund. These combine the income features of annuity contracts with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the with-profits fund.

3. Reportable segments

Segmental analysis

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

3.1 Operating segments

The Group's operating segments are:

(A) Savings & Asset Management

The Group's savings and asset management business provides a range of retirement, savings and investment management solutions to its retail and institutional customers.

The Group's retirement and savings products are distributed to retail customers through intermediaries and through its own 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 & Asset Management segment. The PruFund proposition gives retail customers access to smoothed savings contracts with a wide choice of investment profiles.

The Group's investment management capability is offered to both retail and institutional investors. The Group's retail customers invest through either UK domiciled OEICs or Luxembourg domiciled 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 & Asset Management segment also earns investment management revenues from the significant proportion of Heritage assets it manages.

(B) 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.[17]

[17] The Group accepts new members to existing Corporate Pensions schemes and writes a small number of new annuity policies with customers that have a Prudential pension.

The annuity contracts written by the Group include level annuities, fixed increase annuities, inflation-linked annuities and with-profits annuities.

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

The Heritage business includes the closed Scottish Amicable Insurance Fund ("**SAIF**") with-profits sub-fund. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund although they are entitled to asset management fees on it. It also includes the Defined Charge Participating sub-fund ("**DCPSF**"), which consists of two types of business: (i) the Defined Charge Participating business, primarily business reinsured from Prudential International Assurance plc; and (ii) the with-profits annuities transferred from Equitable Life Assurance Society on 31 December 2007.

(C) Corporate Centre

Information about the Group's Corporate Centre, which includes central corporate costs incurred by the Group functions and debt costs, has been disclosed separately.

3.2 Adjusted operating profit before tax

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

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 costs. Exceptional 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. Short term temporary movements in the fair value of instruments held to mitigate equity risk in the transfer are excluded from adjusted operating profit before tax. These hedges are matched to the statutory transfer on an economic basis rather than an IFRS basis which may result in a mismatch between the movement in the instrument and the corresponding impact on the statutory transfer. Any such mismatch will be reflected in adjusted operating profit before tax for the current year's shareholder transfer.

For the Group's shareholder annuity products written by the Heritage segment, adjusted operating profit before tax excludes impacts that are the result of credit experience variance relative to assumptions including the impact of credit risk provisioning for actual upgrades and downgrades during the period, and the impact of defaults and other similar experience such as asset exchanges arising from debt restructuring. Total fair value movements on surplus assets backing the shareholder annuity capital are also excluded from adjusted operating profit before tax.

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or 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.

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

(A) 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 that do not relate to the current year.

(ii) Total fair value movements on surplus assets backing the shareholder annuity capital, and the difference between the assumed long-term credit experience used to determine adjusted operating profit before tax for the Group's shareholder annuity products and the actual credit experience over the period, specifically:

- The impact of credit risk provisioning for actual upgrades and downgrades during the period. 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.

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. 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 period. The credit risk premium assumption is a margin to allow for credit defaults and credit downgrades being worse than our best estimate and is held in addition to the best estimate allowance for credit defaults and credit downgrades. As the liabilities run off this premium is released.
- Actual income received in the period, such as coupon payments, redemption payments and rental income, on surplus assets backing the shareholder annuity capital, less an allowance for expenses.
- The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing.
- Changes to credit risk provisioning not included in the short-term fluctuations above.

(B) Loss on disposal of businesses and corporate transactions

The adjusting item of £513 million for the six months ended 30 June 2018 and £508 million for the year ended 31 December 2018 resulted from the reinsurance of £12bn of annuities to Rothesay Life prior to sale, which is considered to be non-recurring in nature and is therefore excluded from IFRS adjusted operating profit before tax. No non-operating loss or benefit was incurred in the six months to 30 June 2019 or the years ended 31 December 2017 and 2016.

(C) Restructuring costs

Restructuring costs primarily reflect costs associated with the Merger and Transformation Programme and costs associated with the Demerger. These costs represent fundamental one-off group-wide restructuring and transformation and are therefore excluded from IFRS adjusted operating profit.

Included within restructuring costs in the six months ended 30 June 2019 is £52m associated with the demerger primarily relating to the renegotiation of existing commercial arrangements as a result of the demerger.

3.3 Analysis of Group adjusted operating profit before tax by segment

	For the six months ended 30 June 2019			
	Savings & Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenues (i)	590	47	—	637
Annuity margin	—	311	—	311
With-profits shareholder transfer net of hedging gains/ (losses) (ii)	29	97	—	126
Total adjusted operating income	**619**	**455**	**—**	**1,074**
Adjusted operating expenses	(378)	(25)	(21)	(424)
Other shareholder profit	13	44	—	57
Share of profit from joint ventures and associates	8	—	—	8
Total adjusted operating profit before tax	**262**	**474**	**(21)**	**715**
Short-term fluctuations in investment returns	(49)	413	—	364
Restructuring costs (iii)	(26)	(54)	(2)	(82)
IFRS profit before tax attributable to equity holders	**187**	**833**	**(23)**	**997**

(i) Fee based revenues shown above includes internal revenue and other presentational differences which are excluded in the analysis of fee income by segment in Note 5.

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

(iii) Restructuring costs excluded from adjusted operating profit relate solely to merger and transformation costs.

	For the six months ended 30 June 2018 (unaudited)			
	Savings & Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenue (i)	631	62	—	693
Annuity margin	—	392	—	392
With-profits shareholder transfer net of hedging gains/ (losses) (ii)	23	91	—	114
Total adjusted operating income	**654**	**545**	**—**	**1,199**
Adjusted operating expenses	(361)	(52)	(7)	(420)
Other shareholder loss	(5)	(10)	—	(15)
Share of profit from joint ventures and associates	8	—	—	8
Total adjusted operating profit before tax	**296**	**483**	**(7)**	**772**
Short-term fluctuations in investment returns	(4)	(132)	—	(136)
Loss on disposal of businesses and corporate transactions	—	(513)	—	(513)
Restructuring costs (iii)	(31)	(10)	—	(41)
IFRS profit before tax attributable to equity holders	**261**	**(172)**	**(7)**	**82**

	For the year ended 31 December 2018			
	Savings & Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenue (i)	1,257	96	—	1,353
Annuity margin	—	1,129	—	1,129
With-profits shareholder transfer net of hedging gains/ (losses) (ii)	54	201	—	255
Total adjusted operating income	**1,311**	**1,426**	**—**	**2,737**
Adjusted operating expenses	(778)	(125)	(13)	(916)
Other shareholder loss	(81)	(139)	—	(220)
Share of profit from joint ventures and associates	16	—	—	16
Total adjusted operating profit before tax	**468**	**1,162**	**(13)**	**1,617**
Short-term fluctuations in investment returns	41	(44)	—	(3)
Loss on disposal of businesses and corporate transactions	—	(508)	—	(508)
Restructuring costs (iii)	(62)	(47)	—	(109)
IFRS profit before tax attributable to equity holders	**447**	**563**	**(13)**	**997**

	For the year ended 31 December 2017			
	Savings & Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenue (i)	1,205	106	—	1,311
Annuity margin	—	673	—	673
With-profits shareholder transfer net of hedging gains/ (losses) (ii)	39	164	—	203
Total adjusted operating income	**1,244**	**943**	**—**	**2,187**
Adjusted operating expenses	(723)	(103)	(8)	(834)
Other shareholder (loss)/profit	(13)	7	—	(6)
Share of profit from joint ventures and associates	15	—	—	15
Total adjusted operating profit before tax	**523**	**847**	**(8)**	**1,362**
Short-term fluctuations in investment returns	(20)	62	—	42
Loss on disposal of businesses and corporate transactions	—	—	—	—
Restructuring costs (iii)	(36)	(37)	—	(73)
IFRS profit before tax attributable to equity holders	**467**	**872**	**(8)**	**1,331**

	For the year ended 31 December 2016			
	Savings & Asset Management	Heritage	Corporate Centre	Total
	£m	£m	£m	£m
Fee based revenue (i)	1,046	118	—	1,164
Annuity margin	—	637	—	637
With-profits shareholder transfer net of hedging gains/ (losses) (ii)	32	179	—	211
Total adjusted operating income	**1,078**	**934**	**—**	**2,012**
Adjusted operating expenses	(644)	(112)	(5)	(761)
Other shareholder profit/(loss)	9	(69)	—	(60)
Share of profit from joint ventures and associates	12	—	—	12
Total adjusted operating profit before tax	**455**	**753**	**(5)**	**1,203**
Short-term fluctuations in investment returns	(22)	233	—	211
Loss on disposal of businesses and corporate transactions	—	—	—	—
Restructuring costs (iii)	(16)	—	—	(16)
IFRS profit before tax attributable to equity holders	**417**	**986**	**(5)**	**1,398**

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

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

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other net shareholder profit/(loss) includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio.

Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method.[18]

Adjusted operating income relates to revenues generated from external customers with the exception of fee based revenue in the Group's Savings & Asset Management segment, which includes investment management fees arising from intra-group transactions. On an IFRS statutory reporting basis intra-group fee based revenues totalled £81m for the six months ended 30 June 2019 (30 June 2018: £79m; for the year ended 31 December 2018:£165m; 31 December 2017: £231m; 31 December 2016: £196m). Of the £81m, £10m was incurred in respect of the shareholder annuity portfolio and is already deducted from the annuity margin (30 June 2018: £12m; for the year ended 31 December 2018: £23m; 31 December 2017: £31m; 31 December 2016: £30m), £71m was incurred by the with-profits fund (30 June 2018: £67m; for the year ended 31 December 2018: £139m; 31 December 2017: £173m; 31 December 2016:£137m), and the balance was incurred by other non-profit business and was reflected in total shareholder expenses.

18 Excludes operating profit from joint ventures in the with-profits fund.

3.4 Reconciliation of adjusted operating income and management expenses to total revenues and expenses as presented in the combined income statement

The following tables provide a reconciliation of adjusted operating income and adjusted operating expenses, presented in the tables above, to total revenue net of reinsurance and total charges net of reinsurance respectively, as presented in the combined income statement:

	For the six months ended 30 June			
			Unaudited	
	2019		2018	
	Income	Expense	Income	Expense
	£m	£m	£m	£m
Adjusted operating income and adjusted operating expenses	**1,074**	**(424)**	**1,199**	**(420)**
Other shareholder profit/(loss)	57	—	19	(34)
Benefits and claims and movement in unallocated surplus, net of reinsurance	16,464	(16,464)	(6,439)	6,439
Amounts attributable to third party interests in consolidated funds	428	(428)	(48)	48
Annuity and with-profits administration expenses	647	(647)	661	(661)
Tax charge attributable to policyholder returns	430	—	(10)	—
Adjusting items	364	(82)	(649)	(41)
Other	(17)	(8)	29	(41)
IFRS revenue and charges, net of reinsurance	**19,447**	**(18,053)**	**(5,238)**	**5,290**

	For the year ended 31 December					
	2018		2017		2016	
	Income	Expense	Income	Expense	Income	Expense
	£m	£m	£m	£m	£m	£m
Adjusted operating income and adjusted operating expenses	**2,737**	**(916)**	**2,187**	**(834)**	**2,012**	**(761)**
Other shareholder profit/(loss)	16	(236)	42	(48)	49	(109)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(5,070)	5,070	22,985	(22,985)	27,830	(27,830)
Amounts attributable to third party interests in consolidated funds	(291)	291	715	(715)	377	(377)
Annuity and with-profits administration expenses	1,447	(1,447)	1,337	(1,337)	1,045	(1,045)
Tax charge attributable to policyholder returns	(406)	—	425	—	782	—
Adjusting items	(511)	(109)	42	(73)	211	(16)
Other	(83)	47	143	(249)	279	(301)
IFRS revenue and charges, net of reinsurance	**(2,161)**	**2,700**	**27,876**	**(26,241)**	**32,585**	**(30,439)**

Adjusted operating income and adjusted operating expenses exclude policyholder items which have an equal and opposite effect on revenue and charges in the combined income statement, such as premiums, policyholder investment returns, benefits and claims, movement in unallocated surplus of the with-profits fund and movements in third party interest in consolidated funds.

Other differences include presentation differences between reporting requirements and the determination of adjusted operating income and adjusted operating expenses, including:

- administrative expenses in the annuity and with-profits portfolio, which are netted against adjusted operating income in the analysis of Group adjusted operating profit before tax by segment;
- revenues which are required to meet the tax charge or credit attributable to policyholder returns, which are not included in the analysis of Group adjusted operating profit before tax by segment; and

- any adjusting items, which are also not included in the analysis of Group adjusted operating profit before tax by segment.

(A) Total external revenue by geographical location

The following table provides a geographical segmentation of total 'earned premiums, net of reinsurance' and 'other income' (includes fee income and other income), as presented in the combined income statement.

	For the six months ended 30 June		For the year ended 31 December		
		Unaudited			
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
United Kingdom:					
Earned premiums, net of reinsurance	4,917	(6,437)	(999)	11,248	8,411
Other income from external customers	350	561	949	636	700
Total United Kingdom	**5,267**	**(5,876)**	**(50)**	**11,884**	**9,111**
Rest of the world:					
Earned premiums, net of reinsurance	503	394	923	828	874
Other income from external customers	293	326	649	599	420
Total Rest of the world	**796**	**720**	**1,572**	**1,427**	**1,294**
Total:					
Earned premiums, net of reinsurance	5,420	(6,043)	(76)	12,076	9,285
Other income from external customers	643	887	1,598	1,235	1,120
Total	**6,063**	**(5,156)**	**1,522**	**13,311**	**10,405**

The geographical analyses of revenues from long-term business are based on the territory of the operating unit assuming the risk. Other income from external customers in the asset management business is allocated based on client domicile.

(B) Total non-current, non-financial assets by geographical location

The following table provides a geographical segmentation of non-current, non-financial assets as presented in the combined statement of financial position.

	At 30 June	At 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
UK	15,505	15,429	13,374	12,726
Rest of the world	6,790	6,132	5,552	4,220
Total	**22,295**	**21,561**	**18,926**	**16,946**

Non-current, non-financial assets for this purpose consist of goodwill and intangible assets, deferred acquisition costs, property, plant and equipment, investment property, and investment in joint ventures and associates.

4. Investment return

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Interest income arising from:					
Cash and cash equivalents	7	9	13	8	6
Deposits with credit institutions	45	20	51	19	34
Loans	84	77	158	158	163
Debt securities	1,267	1,348	2,675	3,095	3,288
	1,403	**1,454**	**2,897**	**3,280**	**3,491**
Dividend income	**1,319**	**1,198**	**1,808**	**1,968**	**1,802**
Income from investment property:					
Rental income	507	466	927	876	781
Net fair value (losses) / gains on investment property	(246)	91	144	561	378
	261	**557**	**1,071**	**1,437**	**1,159**
Gains/(losses) on financial instruments at fair value through profit and loss arising from:					
Equity securities and pooled investment funds	6,047	(706)	(5,580)	6,956	9,563
Loans	208	(20)	(102)	86	262
Debt securities	4,115	(1,795)	(2,443)	122	9,440
Derivatives	17	(777)	(1,404)	736	(3,732)
	10,387	**(3,298)**	**(9,529)**	**7,900**	**15,533**
Foreign exchange gains/(losses)	**14**	**7**	**70**	**(20)**	**195**
Total investment return	**13,384**	**(82)**	**(3,683)**	**14,565**	**22,180**

5. Fee income

The following table disaggregates management fee revenue by segment:

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
Savings & Asset Management	£m	£m	£m	£m	£m
Management fees	591	653	1,298	1,156	953
Rebates	(25)	(28)	(55)	(65)	(71)
Total management fees, less rebates	**566**	**625**	**1,243**	**1,091**	**882**
Performance fees	5	8	8	15	23
Investment contracts without discretionary participation features	17	18	34	34	33
Other fees and commissions	29	22	49	37	1
Total Savings & Asset Management fee income	**617**	**673**	**1,334**	**1,177**	**939**
Heritage					
Investment contracts without discretionary participation features	10	13	27	34	34
Total Heritage fee income	**10**	**13**	**27**	**34**	**34**
Total fee income	**627**	**686**	**1,361**	**1,211**	**973**

6. Administrative and other expenses

	Note	For the six months ended 30 June 2019	For the six months ended 30 June Unaudited 2018	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
		£m	£m	£m	£m	£m
Staff and employment costs	7	230	355	712	733	628
Acquisition costs incurred:						
Insurance contracts		81	87	166	201	210
Investment contracts		11	15	27	24	19
Amortisation of deferred acquisition costs:	12					
Insurance contracts		4	2	5	5	5
Investment contracts		2	5	10	11	13
Depreciation	14	46	27	53	35	93
Amortisation of intangible assets	11	6	5	13	12	16
Impairment of goodwill and intangible assets	11	29	—	27	—	—
Restructuring costs		97	103	256	100	44
Interest expense		92	53	101	76	93
Commission expense		133	157	321	272	205
Other expenses		430	384	966	1,063	897
Total administrative and other expenses		**1,161**	**1,193**	**2,657**	**2,532**	**2,223**

In addition to interest expenses above, interest expenses incurred in respect of subordinated liabilities in the six months ended 30 June 2019 were £nil (30 June 2018: £4m; for the year ended 31 December 2018: £4m; 31 December 2017: £9m; 31 December 2016: £9m) as shown in finance costs in the combined income statement. Total finance costs incurred in the six months ended 30 June 2019 were £92m (30 June 2018: £57m; for the year ended 31 December 2018: £105m; 31 December 2017: £85m; 31 December 2016: £102m).

7. Staff and employment costs

The average number of staff employed by the Group during the year was:

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Average staff headcount	6,447	6,823	6,246

	For the six months ended 30 June 2019	For the six months ended 30 June Unaudited 2018	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
	£m	£m	£m	£m	£m
Wages and salaries	285	278	520	578	505
Social security costs	33	33	63	73	59
Share based payment	9	8	12	6	9
Pension costs:					
Defined benefit schemes	(117)	17	80	41	23
Defined contribution schemes	20	19	37	35	32
Total	**230**	**355**	**712**	**733**	**628**

8. Fees payable to the auditor

	For the year ended 31 December		
	2018	2017	2016
	£m	£m	£m
Fees payable to the Company's auditor and its associates for other services:			
Audit of subsidiaries pursuant to legislation	4.7	4.3	4.1
Audit-related assurance services	1.1	1.0	0.9
Other assurance services	0.4	0.3	0.3
All other services	—	0.3	0.3
Total fees payable to the auditor	**6.2**	**5.9**	**5.6**

For the year ended 31 December 2018, fees of £0.2m (31 December 2017: £0.1m; 31 December 2016: £0.1m) were incurred in relation to the audit of the Group's defined benefit pension schemes.

9. Tax

9.1 Tax charge in the combined income statement

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Current tax	**525**	**88**	**391**	**614**	**766**
Deferred tax					
Origination and reversal of temporary differences in the year	176	(91)	(636)	82	394
Total deferred tax charge/(credit)	**176**	**(91)**	**(636)**	**82**	**394**
Adjustments in respect of prior years	(68)	8	30	(14)	(114)
Total tax charge/(credit)	**633**	**5**	**(215)**	**682**	**1,046**
Tax charge/(credit) attributable to policyholders' returns	430	(10)	(406)	425	782
Tax charge attributable to equity holders' returns	203	15	191	257	264
	633	**5**	**(215)**	**682**	**1,046**

The total deferred tax charge/credit arises as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Short-term temporary differences	18	(9)	(34)	(22)	(34)
Unrealised gains and losses on investments	160	(81)	(602)	102	433
Capital allowances	(2)	(1)	—	2	(5)
Deferred tax charge/(credit)	**176**	**(91)**	**(636)**	**82**	**394**

The profit before tax reflected in the combined income statement for the six months ended 30 June 2019 of £1,427m (30 June 2018: £72m; for the year ended 31 December 2018: £591m; 31 December 2017: £1,756m; 31 December 2016: £2,180m) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of with-profits funds. This is the formal measure of profit before tax under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, this measure of profit before all taxes is not representative of pre-tax profits attributable to equity holders.

Profit before tax attributable to equity holders for the six months ended 30 June 2019 of £997m (30 June 2018: £82m; for the year ended 31 December 2018: £997m; 31 December 2017: £1,331m; 31 December 2016: £1,398m) is derived by removing the tax attributable to policyholders' returns for the six months ended 30 June 2019 of £430m (30 June 2018: £10m credit; for the year ended 31 December 2018: £406m credit; 31 December 2017: £425m; 31 December 2016: £782m) from IFRS measure of profit before tax.

(A) Six months ended 30 June 2019 against six months ended 30 June 2018

The increase in current tax expense from £88m for the six months ended 30 June 2018 to £525m for the six months ended 30 June 2019 principally relates to higher investment returns achieved in 2019. Similarly, the increase in deferred tax expense from a credit of £91m for the six months ended 30 June 2018 to a charge of £176m for the six months ended 30 June 2019 also principally relates to higher unrealised investment returns achieved in 2019.

The tax charge attributable to policyholders returns of £430m for the six months ended 30 June 2019 (30 June 2018: credit of £10m) reflects the increase in both current and deferred tax liabilities resulting from higher investment returns during the period.

(B) Year ended 31 December 2018 against year ended 31 December 2017

The reduction in the current tax expense from £614m for the year ended 31 December 2017 to £391m for the year ended 31 December 2018 principally relates to negative investment returns achieved in 2018 compared to the positive returns achieved in 2017.

The tax credit attributable to policyholders' returns of £406m for the year ended 31 December 2018 (31 December 2017: charge of £425m) reflects the reduction in deferred tax liabilities on unrealised gains on investments in the with-profits fund, reflecting market movements on investments.

(C) Year ended 31 December 2017 against year ended 31 December 2016

The reduction in the current tax expense from £766m for the year ended 31 December 2016 to £614m for the year ended 31 December 2017 principally relates to a fall in investment returns in 2017 compared to 2016, but in both years positive market returns were achieved.

The principal reason for the decrease in the tax charge attributable to policyholders is a smaller increase in deferred tax liabilities on unrealised gains on investments in the with-profits fund in 2017 compared to 2016, combined with a £92m credit due to the remeasurement of US net deferred tax liabilities on unrealised gains of US investments in the with-profits fund following the reduction in the US corporate tax rate to 21% from 35%, which was substantially enacted on 22 December 2017.

9.2 Reconciliation of effective tax rate

Tax charge attributable to equity holders' returns differs from the tax calculated on the profit before tax attributable to equity holders at the standard UK corporate tax rates as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Profit before tax	1,427	72	591	1,756	2,180
Tax calculated at 19% (2018: 19%, 2017: 19%, 2016: 20%)	271	14	112	334	436
Effects of recurring tax reconciliation items:					
Tax charge / (credit) attributable to policyholder	348	(8)	(329)	344	626
Income not taxable	(1)	(1)	(6)	(2)	(14)
Deductions not allowed for tax purposes	6	2	21	13	9
Items related to taxation of life insurance businesses	—	1	(2)	(2)	2
Deferred tax adjustments	(1)	—	2	(1)	2
Effect of profit of joint ventures and associates	(1)	(2)	(3)	(3)	(2)
Other	2	—	3	2	—
Non-recurring reconciling items:					
Adjustments in respect of prior years	7	(1)	(11)	(3)	(7)
Changes in local statutory tax rates	—	—	—	—	(6)
Movement in provisions for open tax matters	2	—	(2)	—	—
Total tax charge/(credit)	**633**	**5**	**(215)**	**682**	**1,046**

Profit before tax is not representative of pre-tax profits 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. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits fund after adjusting for taxes borne by policyholders. Taxes borne by policyholders have no impact on the effective tax rate. The analysis of effective tax rates below therefore only discusses other items in the reconciliation above.

The effect of profit of joint ventures and associates arises from the Group's share of profit from joint ventures and associates being presented after tax in the measure of profit before tax.

(A) Six months ended 30 June 2019

The effective tax rate for the period was 44.4% compared to the statutory rate of 19.0%. The rate was higher primarily due to the detrimental impacts of adjustments to prior periods recognised in the period of £7m together with expenses not allowable for tax purposes of £6m.

(B) Six months ended 30 June 2018

The effective tax rate for the period was 6.4% compared to the statutory rate of 19.0%. The rate was lower due to the relatively low profit before tax for the period rather than any significant reconciling items.

(C) Year ended 31 December 2018

The effective tax rate for the year was -36.3% compared to the statutory rate of 19.0%. The rate was marginally lower primarily due to the beneficial impact of adjustments to prior period recognised in 2018 of £11m and income not subject to tax of £6m, partially offset by the detrimental impact of expenses not allowable for tax purposes of £21m.

(D) Year ended 31 December 2017

The effective tax rate for the year was 38.8% compared to the statutory rate of 19.0%. The rate was higher primarily due to the detrimental impact of expenses not allowable for tax purposes of £13m.

(E) Year ended 31 December 2016

The effective tax rate for the year was 48% compared to the statutory rate of 20.0%. The rate was lower predominantly due to the beneficial impacts of income not subject to tax of £14m (primarily relating to non-taxable revaluation of equity release mortgages) and £7m on adjustments to prior period recognised in 2016. In addition, a one-off tax rate benefit in 2016 of £6m from the changes in local statutory tax rates. This benefit arose from the re-measurement of deferred tax balances due to the reduction in the UK corporate tax rate from 18% to 17%, which takes effect from 1 April 2020. These beneficial tax rate impacts were partially offset by the detrimental impact of expenses not allowable for tax purposes of £9m.

9.3 Deferred tax – combined statement of financial position

Deferred tax assets and liabilities have been recognised or provided for temporary differences. The recognition of deferred tax assets in respect of temporary differences is supported by management's best estimate of future taxable profits to absorb temporary differences in future years.

Deferred tax assets and liabilities presented on the combined statement of financial position have been offset to the extent it is permissible under the relevant accounting standards. The breakdown of deferred tax assets and liabilities was as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Deferred tax assets				
Short-term temporary differences	96	107	135	157
Unrealised losses or gains on investments	4	—	—	1
Capital allowances	10	11	11	12
Total	**110**	**118**	**146**	**170**
Deferred tax liabilities				
Short-term temporary differences	156	183	226	235
Unrealised losses or gains on investments	991	827	1,426	1,323
Capital allowances	40	51	51	33
Total	**1,187**	**1,061**	**1,703**	**1,591**

The UK Government made substantial changes to the rules relating to the taxation of life insurance companies, effective from 1 January 2013. A deferred tax liability was recognised for the adjustment that arose on transition of the new regime. The adjustment is required to be spread and taxed over a 10 year period.

PAC is the lead litigant in a group action against HM Revenue and Customs ("**HMRC**") concerning the correct historic 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. PAC and HMRC are working through the mechanics of implementing the Supreme Court decision. This work has led to a reduction in the estimate for policyholder tax credit recoverable during 2019 together with the estimate of interest receivable (see below). As at 30 June 2019, PAC has recognised a total policyholder tax credit of £122m (31 December 2018: £150m; 31 December 2017: £150m; 31 December 2016: £nil) in respect of its claim against HMRC. Of this amount, £38m has been paid by HMRC to PAC in relation to interest and the remaining balance is held as an amount of tax due from HMRC.

The estimate for interest receivable from HMRC reduced during 2019 as a result of working through the mechanics of the Supreme Court decision. The total amount of interest recognised for the six months ended 30 June 2019 is £25.7m (for the year ended 31 December 2018: £40m; 31 December 2017: £40m; 31 December 2016: £nil). Under the terms of the agreement governing the domestication of PAC's Hong Kong branch in 2014, its Hong Kong subsidiary, an Excluded Subsidiary, was entitled to a proportionate share of any tax and interest ultimately paid to PAC. As at 30 June 2019, PAC is holding a provision of £12m (31 December 2018: £12m; 31 December 2017: £12m; 31 December 2016: £nil) in respect of this liability which is included within other liabilities. It is expected the issue will be finalised in the next twelve months at which point PAC should receive full and final payment of both the tax and interest elements.

9.4 Current tax – combined statement of financial position

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Tax recoverable within 12 months	263	222	230	304
Tax recoverable after 12 months	8	14	7	3
Total current tax assets	**271**	**236**	**237**	**307**
Tax due within 12 months	427	245	299	546
Tax due after 12 months	—	—	—	—
Total current tax liabilities	**427**	**245**	**299**	**546**

10. Dividends

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Dividends paid - cash	356	429	526	649	590
Dividends paid - in specie	752	—	—	30	—
Total dividends paid	**1,108**	**429**	**526**	**679**	**590**

Dividends paid represents aggregate amounts remitted to Prudential plc during the Track Record Period, by its direct subsidiaries included in this combined HFI.

As dividends paid represent an aggregation of cash remittances and transfer of assets, there is no meaningful disclosure on dividend per share.

On 7 August 2019 and 20 September 2019 the Company declared a dividend of £97m and £187m respectively to its parent, Prudential plc.

11. Goodwill and intangible assets

	As at 30 June			As at 31 December								
	2019			2018			2017			2016		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost												
At start of period	**1,360**	**154**	**1,514**	**1,208**	**197**	**1,405**	**1,306**	**164**	**1,470**	**1,338**	**143**	**1,481**
Additions	—	20	20	162	12	174	39	33	72	6	22	28
Disposals and transfers	—	(12)	(12)	(10)	(56)	(66)	(138)	—	(138)	(41)	(3)	(44)
Exchange differences	—	—	—	—	1	1	1	—	1	3	2	5
At end of period	**1,360**	**162**	**1,522**	**1,360**	**154**	**1,514**	**1,208**	**197**	**1,405**	**1,306**	**164**	**1,470**
Accumulated amortisation and impairment												
At start of period	**(5)**	**(63)**	**(68)**	**—**	**(84)**	**(84)**	**—**	**(72)**	**(72)**	**—**	**(56)**	**(56)**
Amortisation	—	(6)	(6)	—	(13)	(13)	—	(12)	(12)	—	(16)	(16)
Impairment	—	(29)	(29)	(5)	(22)	(27)	—	—	—	—	—	—
Disposals and transfers	—	3	3	—	55	55	—	—	—	—	—	—
Exchange differences	—	—	—	—	1	1	—	—	—	—	—	—
At end of period	**(5)**	**(95)**	**(100)**	**(5)**	**(63)**	**(68)**	**—**	**(84)**	**(84)**	**—**	**(72)**	**(72)**
Net book amount	**1,355**	**67**	**1,422**	**1,355**	**91**	**1,446**	**1,208**	**113**	**1,321**	**1,306**	**92**	**1,398**

11.1 Goodwill

Goodwill comprises:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Arising on acquisition of M&G Group Limited	1,154	1,154	1,154	1,154
Arising on acquisition of subsidiaries held by the with-profits fund	201	201	54	152
	1,355	**1,355**	**1,208**	**1,306**

(A) Impairment assessment

Goodwill does not generate cash flows independently of other groups of assets, and thus, is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

Goodwill is tested annually for impairment by comparing the cash-generating units' carrying amount, including any goodwill, with its recoverable amount.

(i) M&G Group Limited

There were no indications of impairment of M&G Group Limited goodwill at 30 June 2019. The carrying value of goodwill in respect of M&G Group Limited was tested for impairment as at 31 December 2018 and no impairment was identified. The recoverable amount for the goodwill in respect of M&G Group Limited at 31 December 2018 was determined by calculating the value in use of the cash-generating unit (M&G Group Limited and its subsidiaries). The value in use was determined by calculating the present value of future cash flows based on a three-year plan, approved by management, and cash flow projections for later years. The value in use is particularly sensitive to a number of key assumptions as follows:

- the set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, are considered by management in arriving at the expectations for the final projections for the plan;
- the assumed growth rate on forecast cash flows beyond the terminal year of the plan after considering expected future and past growth rates. As at 31 December 2018 a growth rate of 1.7% (31 December 2017: 1.7%; 31 December 2016: 2.0%) was used to extrapolate beyond the plan period;
- various risk discount rates were applied in accordance with the nature of the individual component businesses. For the most material components of retail and institutional business, as at 31 December 2018 a risk discount rate of 12% (31 December 2017: 12%; 31 December 2016: 12%) was applied to post-tax cash flows. The pre-tax risk discount rate as at 31 December 2018 was 15% (31 December 2017: 15%; 31 December 2016: 16%); and
- that asset management contracts continue on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its carrying amount and therefore there is no impact on the carrying value of goodwill.

At 30 June 2019, there was no change in the above assumptions and there were no indicators of impairment. Accordingly no impairment has been recognised.

(ii) Acquisition of subsidiaries held by the with-profits fund

Goodwill arising on acquisition of subsidiaries relates to acquisitions made within consolidated infrastructure private equity vehicles which are held by the PAC with-profits fund. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its carrying amount.

11.2 Intangible assets

Intangible assets comprise insurance contracts acquired through business combinations, software, service concessions and licences.

12. Deferred acquisition costs

	As at 30 June			As at 31 December								
	2019			2018			2017			2016		
	Insurance contracts	Other contracts	Total	Insurance contracts	Other contracts	Total	Insurance contracts	Other contracts	Total	Insurance contracts	Other contracts	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At start of period	**49**	**56**	**105**	**39**	**51**	**90**	**30**	**59**	**89**	**24**	**71**	**95**
Additions	8	—	8	15	15	30	14	3	17	11	1	12
Amortisation to the income statement	(4)	(2)	(6)	(5)	(10)	(15)	(5)	(11)	(16)	(5)	(13)	(18)
Disposals and transfers	—	—	—	—	—	—	—	—	—	—	—	—
At end of period	**53**	**54**	**107**	**49**	**56**	**105**	**39**	**51**	**90**	**30**	**59**	**89**

13. Investments in joint ventures and associates

13.1 Investments in joint ventures and associates accounted for using the equity method

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Interests in joint ventures	566	697	464	409
Interests in associates	39	45	40	39
Total	**605**	**742**	**504**	**448**

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Share of profit from joint ventures	24	11	35	106	22
Share of profit from associates	9	9	16	15	12
Share of profit from joint ventures and associates	**33**	**20**	**52**	**121**	**34**

There is no share of other comprehensive income from joint ventures or associates.

(A) Interests in joint ventures accounted for using the equity method

All of the Group's investments in joint ventures which are accounted for using the equity method are property vehicles held in the WPSF. The results of the Group's joint ventures are reflected in the movement in the unallocated surplus of the WPSF and therefore do not affect shareholders' results.

No joint ventures are considered to be material individually or in aggregate from the Group's perspective for any of the reported periods. None of the Group's joint ventures are listed and financial information of these investments covering the same periods as that of the Group has been used for accounting for these investments using the equity method.

(B) Interests in associates accounted for using the equity method

The Group has interests in associates which are accounted for using the equity method in the combined financial statements. All of the Group's associates which are accounted for using the equity method are held by the shareholder-backed business. No associates are considered to be material individually or in aggregate from a Group perspective for any of the reported periods. None of the Group's equity-accounted associates are listed and the reporting date and reporting period of the Group's equity-accounted associates are the same as the Group.

13.2 Interests in associates accounted for at fair value through profit or loss ("FVTPL")

The Group has investments in collective investment vehicles, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the WPSF where the Group has significant influence. These investments are accounted for on a FVTPL basis and are included within equity securities and portfolio holdings in unit trusts in the combined statement of financial position. None of the associates accounted for at FVTPL are considered individually material to the Group during the periods reported in this HFI.

The aggregate fair value of associates accounted for at FVTPL was £267m as at 30 June 2019 (31 December 2018: £237m; 31 December 2017: £2,271m, 31 December 2016: £2,952m).

14. Property, plant and equipment (“PPE”)

PPE comprises right of use assets, Group occupied property and other tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the period is as follows:

	For the six months ended 2019				For the year ended 31 December 2018				2017			2016		
	Right of use assets (i) £m	Group occupied property £m	Other tangible assets (ii) £m	Total £m	Right of use assets (i) £m	Group occupied property £m	Other tangible assets (ii) £m	Total £m	Group occupied property £m	Other tangible assets (ii) £m	Total £m	Group occupied property £m	Other tangible assets (ii) £m	Total £m
Cost														
At start of period	**298**	**80**	**1,109**	**1,487**	**39**	**80**	**541**	**660**	**131**	**556**	**687**	**134**	**961**	**1,095**
Additions	7	13	158	**178**	259	2	187	**448**	16	39	**55**	2	250	**252**
Arising on acquisition of subsidiaries	—	—	6	**6**	—	5	517	**522**	—	177	**177**	—	—	**—**
Disposals and transfers	—	(4)	(14)	**(18)**	—	(8)	(139)	**(147)**	(76)	(241)	**(317)**	(28)	(688)	**(716)**
Net exchange differences	—	—	(5)	**(5)**	—	1	3	**4**	9	10	**19**	23	33	**56**
At end of period	**305**	**89**	**1,254**	**1,648**	**298**	**80**	**1,109**	**1,487**	**80**	**541**	**621**	**131**	**556**	**687**
Accumulated depreciation														
At start of period	**(17)**	**(13)**	**(192)**	**(222)**	**—**	**(11)**	**(206)**	**(217)**	**(30)**	**(386)**	**(416)**	**(22)**	**(350)**	**(372)**
Depreciation charge for the period	(12)	(1)	(33)	**(46)**	(17)	(2)	(34)	**(53)**	(13)	(22)	**(35)**	(8)	(85)	**(93)**
Disposals and transfers	—	—	1	**1**	—	—	47	**47**	33	213	**246**	5	54	**59**
Net exchange differences	—	—	2	**2**	—	—	1	**1**	(1)	(11)	**(12)**	(5)	(5)	**(10)**
At end of period	**(29)**	**(14)**	**(222)**	**(265)**	**(17)**	**(13)**	**(192)**	**(222)**	**(11)**	**(206)**	**(217)**	**(30)**	**(386)**	**(416)**
Net book amount	**276**	**75**	**1,032**	**1,383**	**281**	**67**	**917**	**1,265**	**69**	**335**	**404**	**101**	**170**	**271**

(i) Right of use assets: On adoption of IFRS 16 on 1 January 2018 the Group recognised right of use assets of £39m for leases of land and buildings which are used as office space across various locations. Some leases include lease break options that are exercisable at the option of the Group. As at 30 June 2019, £18m (31 December 2018: £21m) of right of use assets were held by the WPSF.

(ii) Other tangible assets: As at 30 June 2019, £875m (31 December 2018: £782m; 31 December 2017: £296m; 31 December 2016: £127m) of other tangible assets were held by the WPSF.

15. Investment property

Investment property principally relates to the PAC with-profits fund and is carried at fair value. A reconciliation of the carrying amount of investment property from the beginning of the year to the end of the period is set out below:

	As at 30 June	As at 31 December		
	2019 £m	2018 £m	2017 £m	2016 £m
At start of period	**18,003**	**16,607**	**14,740**	**13,539**
Additions:				
Resulting from property acquisitions	989	1,332	1,999	1,458
Resulting from expenditure capitalised	170	183	39	189
Disposals	(46)	(211)	(712)	(878)
Net (loss)/gain from fair value adjustments	(246)	144	561	378
Net foreign exchange differences	(91)	(52)	(20)	95
Transfers to held for sale assets	(1)	—	—	(41)
At end of period	**18,778**	**18,003**	**16,607**	**14,740**

For the six months ended 30 June 2019 rental income from investment property was £507m (30 June 2018: £466m; for the year ended 31 December 2018: £927m; 31 December 2017: £876m; 31 December 2016: £781m). Direct operating expenses, including repairs and maintenance arising from these properties for the six months ended 30 June 2019 were £24m (30 June 2018: £29m; for the year ended 31 December 2018: £56m; 31 December 2017: £82m; 31 December 2016: £67m).

The Group's policy is to let investment property to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Group's freehold investment property are receivable in the following periods:

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Less than 1 year	361	293	307	315	308
1 to 5 years	1,291	982	1,049	1,048	1,053
Over 5 years	2,599	2,097	2,217	2,259	2,602
Total minimum future rental income	**4,251**	**3,372**	**3,573**	**3,622**	**3,963**

The total minimum future rentals to be received on non-cancellable sub-leases for the Group's investment property held under finance leases for the six months ended 30 June 2019 were £1,540m (30 June 2018: £1,581m, for the year ended 31 December 2018: £1,596m; 31 December 2017: £1,527m; 31 December 2016: £2,238m).

16. Defined benefit pension schemes

16.1 Background and summary economic and IAS 19 financial positions

The Group operates three defined pension schemes, which historically have been funded by the Group and Prudential plc. The largest defined benefit scheme as at 30 June 2019 is the Prudential Staff Pension Scheme (PSPS) which accounts for 82% (31 December 2018: 82%; 31 December 2017: 82%; 31 December 2016: 82%) of the economic present value of the defined benefit pension liabilities.

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 prior to their acquisition.

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 defined benefit pension asset is restricted up to the Group's present value of the economic benefit, which is calculated as the difference between the full future cost of service for active members and the estimated future ongoing contributions. In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from the schemes (if any) would be recognised in full. Currently, both the M&GGPS and SASPS scheme are in deficit based on the IAS 19 valuation.

Prior to 30 June 2019, the PSPS net economic defined benefit pension asset was attributed 70% to the with-profits fund (part of the Group). This attribution has been determined following detailed consideration of the sourcing of previous contributions. The remainder of the PSPS scheme was outside the Group and was attributable to Prudential plc. On 30 June 2019, in preparation for the Demerger, the 30% attributable to Prudential plc was formally reallocated to the Group's shareholders. The HFI presented up to 30 June 2019 includes only the element of the PSPS scheme related to the with-profits fund, being the element of the scheme within the perimeter. As at 30 June 2019, the full value of the scheme surplus allowable under IFRIC 14 was attributed to the Group and is therefore reflected on the combined statement of financial position at this date. This resulted in an incremental defined benefit pension asset of £15m recognised on the combined statement of financial position, with the corresponding gain recognised in other comprehensive income.

M&GGPS's net pension defined benefit liability is the obligation of the Group's shareholders. The reason for the deficit is that the defined benefit 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. These policies are eliminated on consolidation. If the insurance policies were not eliminated the scheme would have a net defined benefit pension asset.

SASPS's net economic defined benefit pension liability, is funded 40% by the with-profits fund and 60% by the Group's shareholders.

Changes to scheme rules

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

The pension scheme valuations for the schemes as at 30 June 2019 incorporate the effect of these changes in scheme rules. The reduction in the defined benefit obligation as a result of these changes is recognised in the income statement as a past service credit.

The pension assets and liability by defined benefit pension schemes are as follows:

	As at 30 June 2019			
	PSPS (i)	**SASPS**	**M&GGPS**	**Total**
	£m	**£m**	**£m**	**£m**
Fair value of plan assets	7,428	868	658	8,954
Present value of defined benefit obligation	(6,474)	(906)	(484)	(7,864)
Effect of restriction on surplus	(903)	—	—	(903)
Net economic defined benefit pension asset/(liability) (ii)	51	(38)	174	187
Inter company insurance policies	—	—	(256)	(256)
Net defined benefit pension asset/(liability)	**51**	**(38)**	**(82)**	**(69)**
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	15	(21)	(82)	(92)
With-profits fund	36	(17)	—	23
	51	**(38)**	**(82)**	**(69)**

(i) As at 30 June 2019, the surplus of PSPS has been allocated 70% to the with-profits fund and 30% to the Group's shareholders. Until 30 June 2019, the shareholder's share of surplus was attributable to Prudential plc. Hence, the related amounts have been shown as attributable to external parties. No deficit funding is required for PSPS.

(ii) The economic basis reflects the underlying position of the defined benefit schemes, adjusted for the effect of IFRIC 14 for the derecognition of PSPS's unrecognisable surplus. The economic basis is prior to elimination of inter-company insurance arrangements.

	As at 31 December 2018			
	PSPS (i)	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	7,075	806	598	8,479
Present value of defined benefit obligation	(6,167)	(885)	(467)	(7,519)
Effect of restriction on surplus	(677)	—	—	(677)
Net economic defined benefit pension asset/(liability) (ii)	231	(79)	131	283
Inter company insurance policies	—	—	(225)	(225)
Net defined benefit pension asset/(liability)	231	(79)	(94)	58
Less: amount attributable to Prudential plc	(69)	—	—	(69)
Net defined benefit pension asset/(liability) attributable to the Group	**162**	**(79)**	**(94)**	**(11)**
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	—	(45)	(94)	(140)
With-profits fund	162	(34)	—	129
	162	**(79)**	**(94)**	**(11)**

	As at 31 December 2017			
	PSPS (i)	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	7,474	822	617	8,913
Present value of defined benefit obligation	(6,753)	(959)	(508)	(8,220)
Effect of restriction on surplus	(485)	—	—	(485)
Net economic defined benefit pension asset/(liability) (ii)	236	(137)	109	208
Inter company insurance policies	—	—	(151)	(151)
Net defined benefit pension asset/(liability)	236	(137)	(42)	57
Less: amount attributable to Prudential plc	(71)	—	—	(71)
Net defined benefit pension asset/(liability) attributable to the Group	**165**	**(137)**	**(42)**	**(14)**
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	—	(82)	(42)	(124)
With-profits fund	165	(55)	—	110
	165	**(137)**	**(42)**	**(14)**

	As at As at 31 December 2016			
	PSPS (i)	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	7,627	801	573	9,001
Present value of defined benefit obligation	(6,910)	(1,038)	(489)	(8,437)
Effect of restriction on surplus	(558)	—	—	(558)
Net economic defined benefit pension asset/(liability) (ii)	159	(237)	84	6
Inter company insurance policies	—	—	(134)	(134)
Net defined benefit pension asset/(liability)	159	(237)	(50)	(128)
Less: amount attributable to Prudential plc	(48)	—	—	(48)
Net defined benefit pension asset/(liability) attributable to the Group	**111**	**(237)**	**(50)**	**(176)**
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	—	(142)	(50)	(192)
With-profits funds	111	(95)	—	16
	111	**(237)**	**(50)**	**(176)**

(A) Triennial actuarial valuations

A full actuarial valuation is required for defined benefit pension schemes every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high-quality corporate bonds while a more ‘prudent’ assumption is typically used for the actuarial valuation.

Summary information on the latest completed actuarial valuation for each of the schemes is shown in the table below:

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	5 April 2017	31 March 2017	31 December 2017
Funding level at the last valuation	105%	75%	120%
Deficit funding arrangement agreed with the Trustees based on the last completed valuation	No deficit funding required	Deficit funding of £26m per annum from 1 April 2017 until 31 March 2027, or earlier if the scheme’s funding level reaches 100%. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required
Current level of employer contributions for active members	Approximately £3.5m per annum	Approximately £7m per annum	Approximately £5.5m per annum
Contributions to cover ongoing administration and other expenses	Approximately £5m per annum	Approximately £1m per annum	Approximately £1.5m per annum

(B) Risks to which the defined benefit schemes expose the Group

The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where there is a deficit, the employers of the schemes would agree a deficit recovery plan. Accordingly, the pension schemes expose the Group to a number of risks, the most significant of which are interest rate risk, equity risk, inflation risk, credit risk and mortality risk.

(C) Corporate governance

The Group's pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by 'the Pension Regulator' in accordance with the Pensions Act 2004. Each scheme has a corporate trustee to which some directors are appointed by Group employers with the remaining directors nominated by members in accordance with UK legal requirements. The trustees have the ultimate responsibility to ensure that each scheme is managed in accordance with its Trust Deed and Rules. The trustees act in the best interests of the schemes' beneficiaries; this includes taking appropriate account of each employers' legal obligation and financial ability to support the schemes when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored, with the trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's defined benefit pension schemes are final salary schemes, which are closed to new entrants. Going forward, pensionable salaries for most members will be capped at their levels as at 30 September 2019. The trustee of each scheme sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the investment managers. The trustees consult with the principal employer for each scheme on the investment principles, but the ultimate responsibility for the investment of the assets of the schemes lies with the trustees.

The relevant trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members. For all three schemes and especially PSPS, a significant portion of the scheme assets are invested in liability matching assets such as bonds and gilts, including index-linked gilts, to partially hedge against inflation. In addition, the schemes maintain portfolios of interest rate and inflation swaps to match more closely the duration and inflation profiles of their assets to their liabilities.

Both SASPS and M&GGPS have invested in a mix of both return-seeking assets, such as equities and property, and matching assets, including leveraged liability driven investment portfolios to reflect the liability profile of the scheme. They manage the risks of the return-seeking exposure by investing in a diversified mix of investments.

16.2 Assumptions

(A) Demographic assumptions:

(i) Post-retirement mortality

The calculation of the defined benefit obligation for the Group's schemes requires assumptions to be set for both current mortality and the allowance for future improvements in mortality. The below table sets out the base mortality table and assumptions for future longevity improvements used for the Group's schemes over the historical period, along with the associated life expectancies.

			Expectation of life from retirement at aged 60			
As at	Mortality Tables (with scaling factors applied to reflect experience)	Mortality improvements model (calibrated to reflect scheme-specific views)	Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
30 June 2019	S2PMA/S2PFA for males/females	CMI 2016	27.5	29.8	28.4	30.4
31 December 2018	S2PMA/S2PFA for males/females	CMI 2015	28.1	30.9	29.0	31.4
31 December 2017	PNMA00/PNFA00 for males/females	CMI 2014	28.3	30.8	30.0	32.7
31 December 2016	PNMA00/PNFA00 for males/females	CMI 2014	28.2	30.7	29.9	32.6

(ii) Withdrawal assumptions for changes in scheme rules

As a result of the changes in scheme rules, an update as at 30 June 2019 was made to the withdrawal assumptions used for the pension scheme valuation to reflect the expected increase in opt-outs (withdrawals) from the schemes. The effect of this assumption change is reflected within actuarial gains and losses in the combined statement of comprehensive income.

(B) Economic assumptions

The actuarial assumptions used in determining defined benefit obligations and the net periodic benefit costs are as follows. These assumptions were used for all schemes.

	For the six months ended June		For the year ended 31 December		
	2019 %	2018 %	2018 %	2017 %	2016 %
Discount rate (i)	2.2	2.6	2.8	2.5	2.6
Rate of increase in salaries (where applicable) (ii)	3.2	3.1	3.3	3.1	3.2
Rate of inflation (iii)					
Retail prices index (RPI)	3.2	3.1	3.3	3.1	3.2
Consumer prices index (CPI)	2.2	2.1	2.3	2.1	2.2
PSPS rate of increase of pensions in payment for inflation (iv):					
Guaranteed (maximum 5%)	2.5	2.5	2.5	2.5	2.5
Guaranteed (maximum 2.5%)	2.5	2.5	2.5	2.5	2.5
Discretionary	2.5	2.5	2.5	2.5	2.5

(i) The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable to allow for the difference in duration between the index and the pension liabilities.

(ii) Note that due to the scheme changes during H1 2019, the pensionable salary used to determine scheme benefits will for most members be frozen at their 30 September 2019 levels.

(iii) The rate of inflation used reflects the long-term assumption for UK RPI or CPI depending on the particular tranche of scheme benefits.

(iv) Certain tranches of scheme benefits within PSPS have statutory pension increases in line with CPI up to a maximum level of inflation, whereas others are not guaranteed and determined by the employer on a discretionary basis. Over the historical period, the rate of increase in pensions in payment for inflation has been the same for all tranches of scheme benefits.

(C) Other assumptions

In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("**GMPs**"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. In light of this Court ruling, at 30 June 2019 and 31 December 2018, the Group has recognised an estimated allowance for GMP equalisation within the net defined benefit pension asset/liability of £32m for PSPS, £18m for SASPS, and £5m for M&GGPS as at 30 June 2019 (£22m for PSPS, £17m for SASPS and £5m for M&GGPS as at 31 December 2018).

(D) Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries and rate of increase of pensions in payment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the profit or loss attributable to the Group due to the effect of restriction on surplus for PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the with-profits fund as described above. The Group's shareholders' exposure to changes in the PSPS liability increased on 30 June 2019 as a result of the transfer of the 30% surplus from Prudential plc to the Group.

	Impact of sensitivity on scheme liabilities on an IAS 19 basis					
	Sensitivity – change in assumptions		As at 30 June 2019	As at 31 December 2018	2017	2016
Discount rate	Decrease by 0.2%	Increase in scheme liabilities of:				
		PSPS	3.3%	3.5%	3.5%	3.5%
		Other schemes	5.0%	5.0%	5.4%	5.3%
Discount rate	Increase by 0.2%	Decrease in scheme liabilities of:				
		PSPS	3.2%	3.3%	3.4%	3.5%
		Other schemes	4.7%	4.7%	4.9%	5.0%
Rate of inflation	RPI: Decrease by 0.2%	Decrease in scheme liabilities of:				
	CPI: Decrease by 0.2%	PSPS	0.5%	0.6%	0.6%	0.6%
	with consequent reduction in salary increases (where applicable)	Other schemes	3.5%	3.9%	3.9%	4.1%
Mortality rate	Increase in life expectancy by 1 year	Increase in scheme liabilities of:				
		PSPS	4.0%	3.9%	4.0%	3.5%
		Other schemes	4.1%	3.9%	3.8%	3.7%

16.3 Plan assets of the schemes under the economic basis

	As at 30 June 2019				2018				As at 31 December 2017				2016			
	PSPS	Other schemes	Total		PSPS	Other schemes	Total		PSPS	Other schemes	Total		PSPS	Other schemes	Total	
	£m	£m	£m	%	£m	£m	£m	%	£m	£m	£m	%	£m	£m	£m	%
Equities																
UK	—	7	7	—	8	6	14	—	9	67	76	1	18	85	103	1
Overseas	17	60	77	1	204	53	257	3	226	272	498	6	293	368	661	7
Bonds (i)																
Government	4,731	665	5,396	60	4,596	538	5,134	61	5,040	655	5,695	63	5,411	550	5,961	66
Corporate	1,654	473	2,127	24	1,586	454	2,040	24	1,491	248	1,739	20	1,169	196	1,365	15
Asset-backed securities	259	14	273	3	263	12	275	3	164	—	164	2	144	6	150	2
Derivatives	174	(1)	173	2	103	4	107	1	188	(6)	182	2	252	(2)	250	3
Property	147	144	291	3	143	143	286	3	140	130	270	3	71	109	180	2
Other assets	446	164	610	7	172	194	366	5	216	73	289	3	269	62	331	4
Total value of assets (ii)	**7,428**	**1,526**	**8,954**	**100**	**7,075**	**1,404**	**8,479**	**100**	**7,474**	**1,439**	**8,913**	**100**	**7,627**	**1,374**	**9,001**	**100**

(i) As at 30 June 2019, 89% of the bonds are investment grade (31 December 2018: 87%; 31 December 2017: 89%; 31 December 2016: 93%).

(ii) As at 30 June 2019, 94% of the total value of the scheme assets are derived from quoted prices in an active market (31 December 2018: 94%; 31 December 2017: 96%; 31 December 2016: 98%). None of the scheme assets included property occupied by the Group. The IAS 19 basis plan assets as at 30 June 2019 of £8,698m (31 December 2018: £8,254m; 31 December 2017: £8,762m; 31 December 2016: £8,886m) is different from the economic basis plan assets of £8,954m (31 December 2018: £8,479m; 31 December 2017: £8,913m; 31 December 2016: £9,001m) as shown above due to the exclusion of investment in Group insurance policies by M&GGPS as described in Note 16.1.

16.4 Reconciliation in movement of defined benefit pension asset/liability

	Economic basis						Attributable to	
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjust-ments	Net defined benefit pension asset/ (liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/ (liability) at 1 January 2019	**8,479**	**(7,519)**	**(677)**	**283**	**(225)**	**58**	**69**	**(11)**
Total expense recognised in combined income statement:								
Current service cost	—	(14)	—	(14)	—	(14)	(4)	(10)
Past service costs	—	150	—	150	—	150	20	130
Net interest	114	(101)	(9)	4	(3)	1	—	1
Administration expenses	(5)	—	—	(5)	—	(5)	(1)	(4)
Total expense recognised in combined income statement (i)	**109**	**35**	**(9)**	**135**	**(3)**	**132**	**15**	**117**
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	563	—	—	563	(7)	556	130	426
Gains/(losses) on changes in demographic assumptions	—	145	—	145	—	145	36	109
Gains/(losses) on changes in financial assumptions	—	(739)	—	(739)	—	(739)	(170)	(569)
Experience gains on scheme liabilities	—	(8)	—	(8)	—	(8)	(5)	(3)
Unrecognisable surplus	—	—	(217)	(217)	—	(217)	(62)	(155)
Remeasurements gains/(losses) (ii)	**563**	**(602)**	**(217)**	**(256)**	**(7)**	**(263)**	**(71)**	**(192)**

	Economic basis						Attributable to	
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjust-ments	Net defined benefit pension asset/ (liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Transfer in of net defined benefit pension asset	**—**	**—**	**—**	**—**	**—**	**—**	**(15)**	**15**
Benefit payments	(222)	222	—	—	—	—	—	—
Employers' contributions	25	—	—	25	—	25	2	23
Employees' contributions	—	—	—	—	—	—	—	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(21)	(21)	—	(21)
Net defined benefit pension asset/ (liability) at 30 June 2019	**8,954**	**(7,864)**	**(903)**	**187**	**(256)**	**(69)**	**—**	**(69)**

(i) Included in the total expense recognised in the combined income statement attributable to the Group for the six months ended 30 June 2019 are amounts relating to the with-profits fund totalling £60m (for the year ended 31 December 2018: £47m; 2017: £19m; 2016: £9m).

(ii) Included in the share of remeasurement gains and losses attributable to the Group for the six months ended 30 June 2019 are losses relating to shareholders totalling £13m (for the year ended 31 December 2018: gains of £68m; 2017: gains of £72m; 2016: losses of £107m) which are recognised in other comprehensive income. The amounts attributable to the with-profits fund for the six months ended 30 June 2019 amount to losses of £179m (for the year ended 31 December 2018: gains of £46m; 2017: gains of £93m; 2016: losses of £78m) are recognised in other comprehensive income and transferred to unallocated surplus of the with-profits fund.

	Economic basis						Attributable to	
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjust-ments	Net defined benefit pension asset/ (liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/ (liability) at 1 January 2018	**8,913**	**(8,220)**	**(485)**	**208**	**(151)**	**57**	**71**	**(14)**
Total expense recognised in combined income statement:								
Current service cost	—	(44)	—	(44)	—	(44)	(15)	(29)
Past service costs	—	(53)	—	(53)	—	(53)	(9)	(44)
Net interest	216	(200)	(13)	3	(4)	(1)	1	(2)
Administration expenses	(8)	—	—	(8)	—	(8)	(3)	(5)
Total expense recognised in combined income statement (i)	**208**	**(297)**	**(13)**	**(102)**	**(4)**	**(106)**	**(26)**	**(80)**

	Economic basis						Attributable to	
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjust-ments	Net defined benefit pension asset/ (liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	(221)	—	—	(221)	10	(211)	(56)	(155)
Gains/(losses) on changes in demographic assumptions	—	168	—	168	—	168	37	131
Gains/(losses) on changes in financial assumptions	—	330	—	330	—	330	85	245
Experience gains on scheme liabilities	—	27	—	27	—	27	—	27
Unrecognisable surplus	—	—	(179)	(179)	—	(179)	(45)	(134)
Remeasurements gains/(losses) (ii)	**(221)**	**525**	**(179)**	**125**	**10**	**135**	**21**	**114**
Benefit payments	(473)	473	—	—	—	—	—	—
Employers' contributions	51	—	—	51	—	51	2	49
Employees' contributions	1	—	—	1	—	1	1	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(80)	(80)	—	(80)
Net defined benefit pension asset/ (liability) at 31 December 2018	**8,479**	**(7,519)**	**(677)**	**283**	**(225)**	**58**	**69**	**(11)**

	Economic basis						Attributable to	
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/ (liability)	Other adjust-ments	Net defined benefit pension asset/ (liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/(liability) at 1 January 2017	**9,001**	**(8,437)**	**(558)**	**6**	**(134)**	**(128)**	**48**	**(176)**
Total expense recognised in combined income statement:								
Current service cost	—	(46)	—	(46)	—	(46)	(15)	(31)
Net interest	228	(214)	(14)	—	(3)	(3)	1	(4)
Administration expenses	(8)	—	—	(8)	—	(8)	(2)	(6)
Total expense recognised in combined income statement (i)	**220**	**(260)**	**(14)**	**(54)**	**(3)**	**(57)**	**(16)**	**(41)**
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	120	—	—	120	(6)	114	12	102
Gains/(losses) on changes in demographic assumptions	—	(10)	—	(10)	—	(10)	(3)	(7)
Gains/(losses) on changes in financial assumptions	—	(101)	—	(101)	—	(101)	(28)	(73)
Experience gains on scheme liabilities	—	110	—	110	—	110	21	89
Unrecognisable surplus	—	—	87	87	—	87	33	54
Remeasurements gains/ (losses) (ii)	**120**	**(1)**	**87**	**206**	**(6)**	**200**	**35**	**165**
Benefit payments	(479)	479	—	—	—	—	—	—
Employers' contributions	50	—	—	50	—	50	4	46
Employees' contributions	1	(1)	—	—	—	—	—	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(8)	(8)	—	(8)
Net defined benefit pension asset/(liability) at 31 December 2017	**8,913**	**(8,220)**	**(485)**	**208**	**(151)**	**57**	**71**	**(14)**

	Economic basis						Attributable to	
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/ (liability)	Other adjust-ments	Net defined benefit pension asset/ (liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/ (liability) at 1 January 2016	**7,815**	**(6,853)**	**(800)**	**162**	**(77)**	**85**	**51**	**34**
Total expense recognised in combined income statement:								
Current service cost	—	(33)	—	(33)	—	(33)	(13)	(20)
Net interest	291	(254)	(32)	5	(3)	2	1	1
Administration expenses	(5)	—	—	(5)	—	(5)	(1)	(4)
Total expense recognised in combined income statement (i)	**286**	**(287)**	**(32)**	**(33)**	**(3)**	**(36)**	**(13)**	**(23)**
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	1,203	—	—	1,203	(13)	1,190	285	905
Gains/(losses) on changes in demographic assumptions	—	(18)	—	(18)	—	(18)	(10)	(8)
Gains/(losses) on changes in financial assumptions	—	(1,733)	—	(1,733)	—	(1,733)	(384)	(1,349)
Experience gains on scheme liabilities	—	106	—	106	—	106	26	80
Unrecognisable surplus	—	—	274	274	—	274	87	187
Remeasurements gains/(losses) (ii)	**1,203**	**(1,645)**	**274**	**(168)**	**(13)**	**(181)**	**4**	**(185)**
Benefit payments	(350)	350	—	—	—	—	—	—
Employers' contributions	45	—	—	45	—	45	6	39
Employees' contributions	2	(2)	—	—	—	—	—	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(41)	(41)	—	(41)
Net defined benefit pension asset/ (liability) at 31 December 2016	**9,001**	**(8,437)**	**(558)**	**6**	**(134)**	**(128)**	**48**	**(176)**

16.5 Maturity analysis of benefit obligations

The following table provides an expected maturity analysis of the undiscounted benefit obligations:

	All schemes						
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total
	£m	£m	£m	£m	£m	£m	£m
As at 30 June 2019	246	1,099	1,518	1,532	1,507	6,163	12,065
As at 31 December 2018	257	1,142	1,593	1,641	1,631	7,426	13,690
As at 31 December 2017	255	1,108	1,589	1,667	1,661	7,889	14,169
As at 31 December 2016	243	1,090	1,585	1,694	1,704	8,508	14,824

Total employer contributions paid into the defined benefit schemes which were attributable to the Group for the six months ended 30 June 2019 were £25m (for the year ended 31 December 2018: £50m; 31 December 2017: £47m, 31 December 2016: £42m).

17. Loans

The amounts included in the statement of financial position are analysed as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Mortgage loans	4,433	4,458	4,582	2,796
Policy loans	3	3	4	6
Other loans	1,561	1,448	1,859	1,256
Total	**5,997**	**5,909**	**6,445**	**4,058**

17.1 Mortgage Loans

During 2017, the WPSF invested in an entity that holds a portfolio of buy-to-let mortgage loans which are carried at fair value through profit or loss. The vehicle financed its acquisitions through the issue of debt instruments, largely to external parties, securitised upon the loans acquired. See Note 22 for further details.

As at 30 June 2019, 80% of the £2,172m (31 December 2018: 79% of £1,997m; 31 December 2017: 81% of £2,140m; 31 December 2016: 80% of £2,129m) mortgage loans held by the shareholder-backed business related to lifetime (equity release) mortgage business. The equity release mortgages are carried at fair value through profit or loss.

17.2 Other Loans

Other loans are mainly comprised of syndicated and bridge commercial loans.

The carrying value of loans held at amortised cost are reported net of allowance for loan losses of £39m as at 30 June 2019 (31 December 2018: £38m; 31 December 2017: £36m; 31 December 2016: £32m).

18. Classification of financial instruments

18.1 Financial assets

As at 30 June 2019

		Fair value through profit or loss			
		Designated	Held for trading	Loans and receivables	Total
	Note	£m	£m	£m	£m
Loans	17	3,379	—	2,618	5,997
Derivative assets	28	—	2,883	—	2,883
Equity securities and pooled investment funds		67,484	—	—	67,484
Deposits		—	—	16,792	16,792
Debt securities	28	85,174	—	—	85,174
Accrued investment income and other debtors		—	—	3,117	3,117
Cash and cash equivalents	20	—	—	4,624	4,624
Total financial assets	..	**156,037**	**2,883**	**27,151**	**186,071**

As at 31 December 2018

		Fair value through profit or loss			
		Designated	Held for trading	Loans and receivables	Total
	Note	£m	£m	£m	£m
Loans	17	3,281	—	2,628	5,909
Derivative assets	28	—	2,513	—	2,513
Equity securities and pooled investment funds		60,793	—	—	60,793
Deposits		—	—	12,020	12,020
Debt securities	28	85,956	—	—	85,956
Accrued investment income and other debtors		—	—	4,090	4,090
Cash and cash equivalents	20	—	—	4,739	4,739
Total financial assets	..	**150,030**	**2,513**	**23,477**	**176,020**

As at 31 December 2017

		Fair value through profit or loss			
		Designated	Held for trading	Loans and receivables	Total
	Note	£m	£m	£m	£m
Loans	17	3,708	—	2,737	6,445
Derivative assets	28	—	2,954	—	2,954
Equity securities and pooled investment funds		68,487	—	—	68,487
Deposits		—	—	10,050	10,050
Debt securities	28	92,707	—	—	92,707
Accrued investment income and other debtors		—	—	3,482	3,482
Cash and cash equivalents	20	—	—	5,799	5,799
Total financial assets	..	**164,902**	**2,954**	**22,068**	**189,924**

As at 31 December 2016

	Note	Fair value through profit or loss: Designated	Fair value through profit or loss: Held for trading	Loans and receivables	Total
		£m	£m	£m	£m
Loans	**17**	1,706	—	2,352	4,058
Derivative assets	**28**	—	2,927	—	2,927
Equity securities and pooled investment funds		59,729	—	—	59,729
Deposits		—	—	10,790	10,790
Debt securities	**28**	90,795	—	—	90,795
Accrued investment income and other debtors		—	—	4,084	4,084
Cash and cash equivalents	**20**	—	—	5,056	5,056
Total financial assets		**152,230**	**2,927**	**22,282**	**177,439**

Financial assets expected to be recovered after one year as at 30 June 2019 are £84,432m (31 December 2018: £84,690m; 31 December 2017: £94,663m; 31 December 2016: £93,424m).

18.2 Financial liabilities

As at 30 June 2019

	Note	Fair value through profit or loss: Designated	Fair value through profit or loss: Held for trading	Loans and receivables	Total
		£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	**21**	15,695	—	—	15,695
Third party interest in consolidated funds	**28**	9,040	—	—	9,040
Borrowings and subordinated liabilities	**22**	1,504	—	2,208	3,712
Derivative liabilities		—	2,677	—	2,677
Other financial liabilities	**28**	—	—	2,723	2,723
Accruals, deferred income and other liabilities		379	—	6,206	6,585
Total financial liabilities		**26,618**	**2,677**	**11,137**	**40,432**

As at 31 December 2018

	Note	Fair value through profit or loss: Designated	Fair value through profit or loss: Held for trading	Loans and receivables	Total
		£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	**21**	15,560	—	—	15,560
Third party interest in consolidated funds	**28**	9,383	—	—	9,383
Borrowings and subordinated liabilities	**22**	1,606	—	2,449	4,055
Derivative liabilities		—	2,208	—	2,208
Other financial liabilities	**28**	—	—	2,592	2,592
Accruals, deferred income and other liabilities		355	—	4,873	5,228
Total financial liabilities		**26,904**	**2,208**	**9,914**	**39,026**

As at 31 December 2017		Fair value through profit or loss			
		Designated	Held for trading	Loans and receivables	Total
	Note	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	**21**	17,069	—	—	17,069
Third party interest in consolidated funds	**28**	5,638	—	—	5,638
Borrowings and subordinated liabilities	**22**	1,887	—	1,990	3,877
Derivative liabilities		—	1,661	—	1,661
Other financial liabilities	**28**	—	—	3,255	3,255
Accruals, deferred income and other liabilities		367	—	4,233	4,600
Total financial liabilities		**24,961**	**1,661**	**9,478**	**36,100**

As at 31 December 2016		Fair value through profit or loss			
		Designated	Held for trading	Loans and receivables	Total
	Note	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	**21**	16,171	—	—	16,171
Third party interest in consolidated funds	**28**	6,034	—	—	6,034
Borrowings and subordinated liabilities	**22**	—	—	1,507	1,507
Derivative liabilities		—	1,861	—	1,861
Other financial liabilities	**28**	—	—	3,269	3,269
Accruals, deferred income and other liabilities		384	—	3,843	4,227
Total financial liabilities		**22,589**	**1,861**	**8,619**	**33,069**

Other financial liabilities relate to obligations under funding, securities lending and sale and repurchase agreements. Financial liabilities expected to be settled in more than one year as at 30 June 2019 are £5,126m (31 December 2018: £4,659m; 31 December 2017: £5,232m; 31 December 2016: £3,481m).

19. Accrued investment income and other debtors

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Interest receivable	781	895	1,035	1,136
Other	664	527	493	781
Total accrued investment income	**1,445**	**1,422**	**1,528**	**1,917**
Other	1,704	2,684	1,982	2,179
Total other debtors	**1,704**	**2,684**	**1,982**	**2,179**
Total accrued investment income and other debtors	**3,149**	**4,106**	**3,510**	**4,096**
Analysed as:				
Expected to be settled within one year	2,951	3,935	3,366	3,950
Expected to be settled after one year	198	171	144	146
Total accrued investment income and other debtors	**3,149**	**4,106**	**3,510**	**4,096**

20. Cash and cash equivalents

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Cash	3,086	3,642	4,251	3,498
Cash equivalents	1,538	1,097	1,548	1,558
Total cash and cash equivalents	**4,624**	**4,739**	**5,799**	**5,056**

Cash equivalents consist solely of money market fund investments with a maturity of less than 90 days at acquisition.

21. Policyholder liabilities and unallocated surplus

21.1 Determination of insurance and investment contract liabilities for different contracts

Note 2.2 describes the different types of insurance products across the business. A description relating to the determination of the policyholder liabilities and the main assumptions for each main product group is set out below:

(A) With-profits business

The with-profits fund mainly contains with-profits contracts but also contains some non-profit business (unit-linked, term assurances and annuities). 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 realistic basis is consistent with the detailed methodology included in regulations contained in the rules issued previously by the Prudential Regulatory Authority (the "**PRA**") for the determination of reserves on the PRA's realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits fund and current circumstances.

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

- a with-profits benefits reserve; plus
- future policy-related liabilities; plus
- the realistic current liabilities of the fund.

The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted 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. As such the value of the policyholder liabilities for with-profits business is primarily driven by investment performance.

The future policy-related liabilities comprise 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 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 below:

- Persistency assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business.
- Management actions under which the fund is managed in different scenarios.
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the

period, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the 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.

With the exception of the reinsurance of part of the non-profit annuity business contained within the with-profits fund to Prudential Hong Kong Limited, a subsidiary of Prudential plc, there are no significant external reinsurance arrangements in place in respect of the with-profits fund's liabilities. The reinsurance asset in respect of this reinsurance arrangement is valued in a manner consistent with the valuation of the underlying liabilities.

(i) Unallocated surplus

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

(ii) Determination of bonuses

Determining discretionary bonuses for traditional types of with-profits business requires the PAC Board to apply significant judgement, including in particular the following:

- determining what constitutes fair treatment of customers;
- smoothing of investment returns; and
- determining at what level to set bonuses to ensure that they are competitive.

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. The Group determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business.

The Group's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent with the Principles and Practices of Financial Management ("**PPFM**") that explains how the Group manages its with-profits fund. In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A Chief Actuary who provides the PAC Board with all actuarial advice;
- A With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed; and
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting interests and rights have been addressed.

In determining bonus rates for the with-profits policies, smoothing is applied to the allocation of the overall earnings of the with-profits fund of which the investment return is a significant element. The degree of smoothing is illustrated numerically by comparing in the following table the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution, with the more volatile movement in investment return and other items of income and expenditure of the with-profits fund.

	For the year ended 31 December		
	2018	2017	2016
	£m	£m	£m
Net income of the with-profits fund:			
Investment return	(2,359)	9,986	13,171
Claims incurred	(8,776)	(8,449)	(7,410)
Movement in policyholder liabilities	(554)	(10,011)	(11,824)
Add back policyholder bonus for the year (as shown below)	2,345	2,071	1,934
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**(6,985)**	**(16,389)**	**(17,300)**
Earned premium, net of reinsurance	12,505	12,508	9,261
Other income	36	36	73
Acquisition costs and other expenditure	(1,064)	(1,746)	(1,161)
Share of profits from joint ventures and associates	36	106	22
Tax charge	273	(440)	(739)
Net income of the with-profits fund before movement in unallocated surplus	**2,442**	**4,061**	**3,327**
Movement in unallocated surplus of the with-profits fund	162	(1,757)	(1,178)
Surplus for distribution	**2,604**	**2,304**	**2,149**
Surplus for distribution allocated as follows:			
- 90% policyholders' bonus (as shown above)	2,345	2,071	1,934
- 10% shareholders' transfers	259	233	215
Surplus for distribution	**2,604**	**2,304**	**2,149**

As the amount of surplus available for distribution among with-profits policyholders and shareholders is determined annually, this table is not provided for the six months ended 30 June 2019 or 30 June 2018.

(B) 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 expenses 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 expense inflation, and also the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

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

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

(C) Annuities and other long-term business

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

As discussed in Note 2, on 14 March 2018 part of the annuity liability was reinsured externally to Rothesay Life Plc. In addition, some of the longevity risk in respect of the remaining annuity business is reinsured externally by way of longevity swaps. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

The key assumptions for the annuity business are as follows:

(i) 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.

Over the historical period, there have been declining mortality improvements observed in recent population data, and these have been considered as part of the judgement exercised in setting the mortality basis for each period. New mortality projection models are released annually by the Continuous Mortality Investigation ("**CMI**"). The CMI tables used are adjusted as appropriate each reporting period to reflect anticipated mortality improvements, including an appropriate margin for prudence. The mortality improvement assumptions used are summarised in the table below:

CMI Model, with calibration to reflect future mortality improvements*

30 June 2019	**CMI 2017**	For males: with a long-term improvement rate of 2.25% pa
		For females: with a long-term improvement rate of 2.00% pa
31 December 2018	**CMI 2016**	For males: with a long-term improvement rate of 2.25% pa
		For females: with a long-term improvement rate of 2.00% pa
31 December 2017	**CMI 2015**	For males: with a long-term improvement rate of 2.25% pa
		For females: with a long-term improvement rate of 2.00% pa
31 December 2016	**CMI 2014**	For males: with a long-term improvement rate of 2.25% pa
		For females: with a long-term improvement rate of 1.50% pa

* As at 30 June 2019 and 31 December 2018, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence. As at 31 December 2017 and 31 December 2016, prudence was considered to be sufficiently allowed for through the long-term improvement rate.

For annuities in deferment, the mortality tables used as at 31 December 2017 and 31 December 2016 were AM92 – four years (males) and AF92 – four years (females). As at 30 June 2019 and 31 December 2018, the mortality assumptions for in-force vested annuities were extended to cover annuities in deferment.

(ii) 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. For 2016 and 2017 reporting, investment properties were valued using the lower of the rental yield and the redemption yield, but for 2018 onwards they were valued using the redemption yield. Equities are valued using the greater of the dividend yield and the average of the dividend yield and the earnings yield.

An adjustment is made to the yield on non-risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short term defaults. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities.

(iii) Expenses

Maintenance 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 allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for adverse deviation is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.

The sensitivity of IFRS profit before tax to changes in the above assumptions are shown in Note 28.

21.2 Analysis of movements in policyholder liabilities and unallocated surplus of the with-profits fund

The following tables show the movement in policyholder liabilities and unallocated surplus of the with-profits fund by business component. The analysis includes the impact of premiums, claims and investment movements on policyholder liabilities. The impact does not represent premiums, claims, and investment movements as reported in the income statement as the analysis includes the impact of investment contracts accounted for as financial instruments. Additionally the premiums shown below will exclude any deductions for fees / charges, as the table only shows the impact on the insurance and investment contract liabilities and unallocated surplus of the with-profits fund.

Claims (surrenders, maturities, and deaths) represent the liability released rather than the claim amount paid to the policyholder.

		Shareholder-backed funds				
	With-profits sub-funds†	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance asset	Net total
	£m	£m	£m	£m	£m	£m
At 1 January 2016	**100,147**	**21,442**	**31,745**	**153,334**	**(2,156)**	**151,178**
Comprising:						
Insurance contract liabilities	46,789	5,692	31,682	84,163		
Investment contract liabilities with dpf	42,709	—	—	42,709		
Investment contract liabilities without dpf	28	15,750	63	15,841		
Unallocated surplus of the with-profits fund	10,621	—	—	10,621		
Net Flows:						
Premiums	9,287	1,227	615	11,129		
Surrenders	(3,854)	(2,888)	(78)	(6,820)		
Maturities/deaths	(4,314)	(583)	(1,938)	(6,835)		
Net flows	1,119	(2,244)	(1,401)	(2,526)		
Shareholders' transfers post-tax	(215)	—	—	(215)		
Switches	(152)	152	—	—		
Investment-related items and other movements	11,806	2,770	4,166	18,742		
Foreign exchange translation differences	528	—	—	528		
At 31 December 2016/1 January 2017	**113,233**	**22,120**	**34,510**	**169,863**	**(2,589)**	**167,274**

	Shareholder-backed funds					
	With-profits sub-funds†	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance asset	Net total
	£m	£m	£m	£m	£m	£m
Comprising:						
Insurance contract liabilities	49,001	6,029	34,434	89,464		
Investment contract liabilities with dpf	52,477	—	13	52,490		
Investment contract liabilities without dpf	17	16,091	63	16,171		
Unallocated surplus of the with-profits fund	11,738	—	—	11,738		
Net Flows:						
Premiums	12,527	1,922	361	14,810		
Surrenders	(4,506)	(2,342)	(91)	(6,939)		
Maturities/deaths	(4,564)	(612)	(1,959)	(7,135)		
Net flows	3,457	(1,032)	(1,689)	736		
Shareholders' transfers post-tax	(233)	—	—	(233)		
Switches	(192)	192	—	—		
Investment-related items and other movements	8,411	1,865	845	11,121		
Foreign exchange translation differences	113	—	(1)	112		
At 31 December 2017/ 1 January 2018	**124,789**	**23,145**	**33,665**	**181,599**	**(2,521)**	**179,078**
Comprising:						
Insurance contract liabilities	48,894	6,097	33,632	88,623		
Investment contract liabilities with dpf	62,323	—	17	62,340		
Investment contract liabilities without dpf	5	17,048	16	17,069		
Unallocated surplus of the with-profits fund	13,567	—	—	13,567		
Net Flows:						
Premiums	12,525	1,147	339	14,011		
Surrenders	(4,764)	(1,950)	(66)	(6,780)		
Maturities/deaths	(4,552)	(619)	(1,625)	(6,796)		
Net flows	3,209	(1,422)	(1,352)	435		
Reclassification of reinsured UK annuity contracts as held for sale (i)	—	—	(10,858)	(10,858)		
Shareholders' transfers post-tax	(259)	—	—	(259)		
Switches	(165)	165	—	—		
Investment-related items and other movements	(3,332)	(1,171)	(1,071)	(5,574)		
Foreign exchange translation differences	(14)	—	—	(14)		
At 31 December 2018/ 1 January 2019	**124,228**	**20,717**	**20,384**	**165,329**	**(2,812)**	**162,517**

	Shareholder-backed funds					
	With-profits sub-funds†	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance asset	Net total
	£m	£m	£m	£m	£m	£m
Comprising						
Insurance contract liabilities	43,775	5,219	20,304	69,298		
Investment contract liabilities with dpf	67,018	—	20	67,038		
Investment contract liabilities without dpf	2	15,498	60	15,560		
Unallocated surplus of the with-profits fund	13,433	—	—	13,433		
Net Flows:						
Premiums	5,669	447	151	6,267		
Surrenders	(2,462)	(1,548)	(25)	(4,035)		
Maturities/deaths	(2,309)	(224)	(617)	(3,150)		
Net flows	898	(1,325)	(491)	(918)		
Shareholders' transfers post-tax	(130)	—	—	(130)		
Switches	(56)	56	—	—		
Investment-related items and other movements	8,426	1,670	838	10,934		
Foreign exchange translation differences	(6)	54	—	48		
At 30 June 2019	**133,360**	**21,172**	**20,731**	**175,263**	**(2,690)**	**172,573**
Comprising:						
Insurance contract liabilities	50,499	5,532	20,649	76,680		
Investment contract liabilities with dpf	67,531	—	29	67,560		
Investment contract liabilities without dpf	2	15,640	53	15,695		
Unallocated surplus of the with-profits fund	15,328	—	—	15,328		

† Includes the WPSF, the DCPSF and the SAIF.

(i) The reclassification as held for sale during 2018 reflects the value of the policyholder liabilities held at 1 January 2018 covered by the reinsurance agreement between PAC and Rothesay Life Plc discussed in Note 2.

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 with-profits fund, net of reinsurance' line in the combined income statement, along with benefits and claims paid to policyholders, net of amounts recovered from reinsurers.

	Insurance contract liabilities	Reinsurance asset (iii)	Investment contract liabilities (iv)	Unallocated surplus of the with-profits fund
	£m	£m	£m	£m
At 1 January 2016	**84,163**	**(2,156)**	**58,550**	**10,621**
Income and expense included in the income statement (i)	5,169	(433)	11,867	1,178
Other movements including amounts included in other comprehensive income (ii)	—	—	(1,771)	(58)
Foreign exchange translation differences	132	—	15	(3)
At 31 December 2016/1 January 2017	**89,464**	**(2,589)**	**68,661**	**11,738**
Income and expense included in the income statement (i)	(858)	68	11,037	1,757
Other movements including amounts included in other comprehensive income (ii)	—	—	(336)	75
Foreign exchange translation differences	17	—	47	(3)
At 31 December 2017/1 January 2018	**88,623**	**(2,521)**	**79,409**	**13,567**
Income and expense included in the income statement (i)	(8,838)	(10,793)	3,932	(162)
Other movements including amounts included in other comprehensive income (ii)	(10,502)	10,502	(713)	27
Foreign exchange translation differences	15	—	(30)	1
At 31 December 2018/1 January 2019	**69,298**	**(2,812)**	**82,598**	**13,433**
Income and expense included in the income statement (i)	7,005	504	1,656	2,047
Other movements including amounts included in other comprehensive income (ii)	382	(382)	(1,053)	(151)
Foreign exchange translation differences	(5)	—	54	(1)
At 30 June 2019	**76,680**	**(2,690)**	**83,255**	**15,328**

(i) The total charge for the 'benefits and claims and movement in unallocated surplus of with-profits fund, net of reinsurance' shown in the combined income statement comprises the amounts shown as 'income and expense included in the income statement' in the table above together with benefits and claims paid of £6,163m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £12,228m; 31 December 2017: £12,082m; 31 December 2016: £11,148m), net of amounts recovered from reinsurers of £911m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £1,437m; 31 December 2017: £1,101m; 31 December 2016: £1,099m).

(ii) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39, changes in the unallocated surplus of the with-profits fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income, and balance sheet reallocations which totalled £382m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £10,502m; 31 December 2017: £nil; 31 December 2016: £nil). The amount for reallocations represents the reclassification of the reinsured UK annuity business as held for sale as at 31 December 2018, and the movement in the held for sale liability and corresponding reinsurance asset over the six months ended 30 June 2019.

(iii) Includes reinsurers' share of claims outstanding of £146m as at 30 June 2019 (31 December 2018: £149m; 31 December 2017: £151m; 31 December 2016: £156m).

(iv) This comprises investment contracts with discretionary participation features of £67,560m as at 30 June 2019 (31 December 2018: £67,038m; 31 December 2017: £62,340m; 31 December 2016: £52,490m) and investment contracts without discretionary participation features of £15,695m as at 30 June 2019 (31 December 2018: £15,560m; 31 December 2017: £17,069m; 31 December 2016: £16,171m).

21.3 Duration of liabilities

The tables below show the expected timing of the cash flows which make up the policyholder liabilities, over the historical period. The expected timing of the cash flows will depend on the contract term and also expectations of future mortality, longevity and persistency, depending on the type of contract. For with-profits and unit-linked contracts, actual amounts payable will vary with future investment performance of the funds. The following tables show the carrying value of the policyholder liabilities and the expected timing of the cash flows, on a discounted basis:

	As at 30 June 2019									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	**40,970**	**67,533**	**108,503**	**9,529**	**19,779**	**29,308**	**6,402**	**15,722**	**22,124**	**159,935**
Expected cash flow timing:										
0 to 5 years	34%	38%	37%	31%	25%	27%	44%	32%	36%	35%
5 to 10 years	24%	26%	25%	27%	24%	25%	25%	24%	24%	25%
10 to 15 years	16%	17%	17%	18%	19%	19%	15%	18%	17%	17%
15 to 20 years	11%	9%	10%	11%	14%	13%	8%	12%	11%	10%
20 to 25 years	7%	5%	5%	6%	9%	8%	4%	7%	6%	6%
over 25 years	8%	5%	6%	7%	9%	8%	4%	7%	6%	7%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

(i) The cash flow projections of expected liability payments used in the expected cash flow timing table above are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.

(ii) Liability payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

(iii) Shareholder-backed annuity business includes the legacy shareholder annuity business but for 31 December 2018 excludes the amount held for sale.

	As at 31 December 2018									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	**34,242**	**67,020**	**101,262**	**9,533**	**19,460**	**28,993**	**6,063**	**15,578**	**21,641**	**151,896**
Expected cash flow timing:										
0 to 5 years	34%	37%	36%	33%	27%	29%	44%	32%	36%	35%
5 to 10 years	23%	27%	26%	26%	23%	24%	25%	24%	24%	25%
10 to 15 years	16%	17%	17%	17%	19%	18%	15%	18%	17%	17%
15 to 20 years	11%	9%	10%	11%	14%	13%	8%	12%	11%	10%
20 to 25 years	7%	4%	5%	6%	9%	8%	4%	7%	6%	6%
over 25 years	9%	6%	6%	7%	8%	8%	4%	7%	6%	7%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

	As at 31 December 2017									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	**38,285**	**62,328**	**100,613**	**10,609**	**33,015**	**43,624**	**6,714**	**17,081**	**23,795**	**168,032**
Expected cash flow timing:										
0 to 5 years	33%	37%	36%	31%	26%	27%	41%	31%	34%	34%
5 to 10 years	23%	27%	25%	24%	23%	23%	26%	22%	23%	25%
10 to 15 years	16%	17%	17%	17%	18%	18%	15%	18%	17%	17%
15 to 20 years	11%	10%	10%	11%	13%	13%	9%	13%	12%	11%
20 to 25 years	7%	4%	5%	7%	9%	9%	5%	8%	7%	6%
over 25 years	10%	5%	7%	10%	11%	10%	4%	8%	7%	7%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

	As at 31 December 2016									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	**37,848**	**52,494**	**90,342**	**11,153**	**33,881**	**45,034**	**6,582**	**16,167**	**22,749**	**158,125**
Expected cash flow timing:										
0 to 5 years	37%	37%	37%	29%	25%	26%	40%	34%	37%	34%
5 to 10 years	23%	29%	26%	24%	22%	23%	23%	23%	23%	25%
10 to 15 years	15%	16%	16%	18%	18%	18%	12%	17%	15%	17%
15 to 20 years	9%	10%	10%	12%	14%	13%	7%	12%	10%	11%
20 to 25 years	7%	4%	5%	7%	9%	9%	4%	7%	6%	6%
over 25 years	9%	4%	6%	10%	12%	11%	14%	7%	9%	7%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

22. Borrowings and subordinated liabilities

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Operational borrowings	132	106	148	167
Borrowings attributable to the with-profits fund	3,580	3,949	3,729	1,340
Total borrowings	**3,712**	**4,055**	**3,877**	**1,507**

22.1 Operational borrowings attributable to shareholder-financed operations

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Bank loans and overdrafts	—	—	21	—
Other borrowings	132	106	127	167
Total	**132**	**106**	**148**	**167**

In addition, other borrowings include amounts for which repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

In March 2019 the Group entered into revolving credit facilities of £1.5bn with several banks and financial institutions and these are due to mature in 2024. As at 30 June 2019 these remain undrawn.

22.2 Borrowings attributable to the with-profits fund

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Non-recourse borrowings of consolidated investment funds (i)	3,501	3,872	3,593	1,185
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc (ii)	—	—	100	100
Bank loans and overdrafts	40	40	—	—
Other borrowings	39	37	36	55
Total	**3,580**	**3,949**	**3,729**	**1,340**

(i) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds. The significant increase as at 31 December 2017 primarily relates to debt instruments issued by new consolidated securitisation entities backed by a portfolio of mortgage loans (see Note 17 for further details). These debt instruments, which were valued at £1,504m as at 30 June 2019 (31 December 2018: £1,606m; 31 December 2017: £1,887m) are carried at fair value through profit or loss, consistent with the underlying mortgage portfolio. A new fund was added in 2018 that had additional borrowings of £230m.

(ii) The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of SAIF, were subordinated to the entitlements of the policyholders of that fund.

22.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's borrowings as recognised in the statement of financial position:

	Operational borrowings £m						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
As at 30 June 2019	37	92	—	—	—	3	**132**
As at 31 December 2018	15	88	—	—	—	3	**106**
As at 31 December 2017	22	—	123	—	—	3	**148**
As at 31 December 2016	—	—	—	164	—	3	**167**

	Borrowings attributable to the with-profits fund £m						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
As at 30 June 2019	225	120	10	166	52	3,007	**3,580**
As at 31 December 2018	584	71	90	5	102	3,097	**3,949**
As at 31 December 2017	370	371	184	59	1	2,744	**3,729**
As at 31 December 2016	114	48	108	8	146	916	**1,340**

23. Leases

The Group adopted IFRS 16 on 1 January 2018. For further details see Note 1.3(A).

The Group leases various land and buildings to utilise as office space. Information about leases for which the Group is a lessee is presented below.

As at 30 June 2019, £18m (31 December 2018: £21m) of the lease liabilities are attributable to the with-profits fund.

Movement of the lease liabilities is as follows:

	As at 30 June 2019 £m	As at 31 December 2018 £m
As at the start of the period	**316**	**40**
Additions	8	274
Interest expense	5	11
Lease repayments	(6)	(9)
As at end of period	**323**	**316**

	As at 30 June 2019 £m	As at 31 December 2018 £m
Non-current	313	307
Current	10	9
Total lease liabilities	**323**	**316**

Some of the leases of office buildings contain lease break options exercisable by the Group. The Group assesses at lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances.

The undiscounted value of lease payments beyond the break period not recognised in the lease liabilities as at 30 June 2019 is £61m.

24. Provisions

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Regulatory	262	326	371	177
Staff benefits	99	123	151	143
Restructuring	3	4	4	7
Other	52	59	20	18
Total provisions	**416**	**512**	**546**	**345**

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
At start of period	512	546	345	247
Charged to combined income statement:				
Additional provisions	40	71	(113)	218
Unused amounts released	(18)	(7)	(5)	(44)
Used during the year	(118)	(98)	319	(76)
	416	**512**	**546**	**345**

Regulatory Provisions – FCA Thematic Review of non-advised Annuity Sales Practices (“TRASP”)

Regulatory provisions includes a provision for review of past annuity sales of £261m as at 30 June 2019 (31 December 2018: £324m; 31 December 2017: £369m; 31 December 2016: £175m). PAC has agreed with the Financial Conduct Authority (the “**FCA**”) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. A gross provision of £175m was established in 2016 to cover the costs of undertaking the review and any related redress and increased by £225m to a gross provision of £400m in 2017. Following a reassessment, no change was made in 2018 or at 30 June 2019. The majority of the provision is being utilised in 2019. The ultimate amount that will be expended by PAC on the review will remain uncertain until the project is completed. If the population subject to redress increased or decreased by 10%, then the provision would be expected to increase or decrease by circa 7% accordingly. Additionally, in 2018, PAC agreed with its professional indemnity insurers that they will meet £166m of claims costs, which will be paid as PAC incurs costs/ redress. This income has been recognised in other income in the combined income statement for the year ended 31 December 2018 and on the combined statement of financial position within other debtors as at 31 December 2018. There has been no further income recognised in the six months to 30 June 2019. In addition, the FCA has been conducting an enforcement investigation in relation to historic annuity sales sold without advice, which is currently in stage 1 (stage 1 is where the FCA seeks to resolve its findings by agreement in which case a discount of 30% is applied to any financial penalty imposed). This enforcement investigation may result in PAC agreeing to a financial penalty, however this is not expected to have a material impact on the combined income statement or combined statement of financial position.

Staff benefits

Staff benefits primarily relates to performance related bonuses expected to be paid to staff over the next three years.

25. Accruals, deferred income and other liabilities

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Accruals and deferred income	1,270	1,282	890	839
Creditors arising from insurance operations	1,318	1,329	1,507	1,538
Interest payable	14	12	10	5
Other	4,538	3,639	2,465	2,189
Total accruals, deferred income and other liabilities	**7,140**	**6,262**	**4,872**	**4,571**
Analysed as:				
Expected to be settled within one year	6,290	5,474	4,021	3,900
Expected to be settled after one year	850	788	851	671
Total accruals, deferred income and other liabilities	**7,140**	**6,262**	**4,872**	**4,571**

26. Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group invests in structured entities such as:

- Pooled investment vehicles, including OEICs, unit trusts, SICAVs and limited partnerships.
- Debt securitisation vehicles, including collateralised debt obligations, mortgage-backed securities and other similar asset-backed securities

Structured entities which the Group is deemed to control are consolidated in the Group's financial statements. As at 30 June 2019, 31 December 2018, 31 December 2017 and 31 December 2016 the Group has not provided, and has no intention to provide, non-contractual financial or other support to consolidated or unconsolidated structured entities that could expose the Group to a loss.

26.1 Investments in unconsolidated structured entities

The table below shows aggregate carrying amounts of the investments in unconsolidated structured entities reported in the combined statement of financial position:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Statement of financial position line item				
Equity securities and pooled investment funds	12,342	8,318	12,245	10,396
Debt securities	3,070	4,491	4,609	4,288
Total	**15,412**	**12,809**	**16,854**	**14,684**

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments. Further details on risks associated with financial assets and how they are managed are provided in Note 28.

Included in equity securities and pooled investment funds as at 30 June 2019 were £5,780m (31 December 2018: £2,987m; 31 December 2017: £4,814m; 31 December 2016: £3,985m) of investments in structured entities managed by the Group. Investment management fees recognised in the period from managing these entities were for the six months ended 30 June 2019, £330m (30 June 2018: £318m; for the year ended 31 December 2018: £593m; 31 December 2017: £657m; 31 December 2016: £605m).

The maximum exposure to loss for unconsolidated structured entities in which the Group holds an investment is the carrying value of the Group's investment and the loss of future fees.

The Group also has interests in structured entities managed by the Group in which it holds no investment through the collection of investment management fees. The maximum exposure to loss for these interests is loss of future fees. Investment management fees recognised for the six months ended 30 June 2019 from managing these entities were £48m (30 June 2018: £81m; for the year ended 31 December 2018: £157m; 31 December 2017: £135m; 31 December 2016: £110m).

27. Fair value methodology

27.1 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.

(A) 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 period end valuation is based on a traded price in an active market.

(B) 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 non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without discretionary participation features that are valued using observable inputs.

(C) 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.

27.2 Level 2 assets and liabilities

(A) Valuation approach for level 2

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or quotes from third-party brokers. These valuations are determined using independent external quotations from multiple sources and 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. Where pricing service providers are used, a single valuation is obtained and applied.

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

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (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 as 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 the lowest level significant inputs are not based on observable market data.

Of the total level 2 debt securities of £71,074m at 30 June 2019 (31 December 2018: £70,851m; 31 December 2017: £74,475m; 31 December 2016: £72,994m), £10,092m were valued internally (31 December 2018: £9,566m; 31 December 2017: £9,369m; 31 December 2016: £8,002m). The majority of such securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. This is the lowest level input that is significant to the measurement which is readily observable in the market and, therefore, is not subject to judgement.

27.3 Level 3 assets and liabilities

(A) Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions 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.

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 2019, the Group held £25,977m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (31 December 2018: £24,205m; 31 December 2017: £22,064m; 31 December 2016: £18,821m). This included £1,637m of loans (31 December 2018: £1,703m; 31 December 2017: £1,983m) and corresponding borrowings of £1,504m (31 December 2018: £1,606m; 31 December 2017: £1,887m) held by a subsidiary of the Group, attaching to a portfolio of buy-to-let mortgages and other loans financed largely by external third-party (non-recourse) borrowings (see Note 22 for further details). The Group's exposure is limited to the investments held by the WPSF, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenant and location. The variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

(B) Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 30 June 2019 were £1,526m (31 December 2018: £1,387m; 31 December 2017: £1,751m; 31 December 2016: £547m), representing 1.0% of the total fair valued financial assets net of financial liabilities (31 December 2018: 0.9%; 31 December 2017: 1.1%; 31 December 2016: 0.4%).

Internal valuations are inherently more subjective than external valuations. Included within these internally valued net assets and liabilities are:

- Debt securities of £506m as at 30 June 2019 (31 December 2018: £582m; 31 December 2017: £500m; 31 December 2016: £422m), which were either valued on a discounted cash flow method with an internally developed discount rate or using other valuation methodologies including enterprise valuation and estimated recovery (such as liquidators reports).
- Private equity and venture capital investments in both debt and equity securities of £611m as at 30 June 2019 (31 December 2018: £511m; 31 December 2017: £248m; 31 December 2016: £954m) which were valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association Valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
- Equity release mortgage loans of £1,742m as at 30 June 2019 (31 December 2018: £1,579m; 31 December 2017: £1,726m) and a corresponding liability of £379m (31 December 2018: £355m; 31 December 2017: £366m) which were valued internally using discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values.

During 2017, the assumptions used within the discounted cash flow model used to value these loans were refined to reflect developing market practice, including considerations of the PRA's industry-wide review in this area and resulting guidance. This refinement incorporated inputs relevant to determining discount rates which are not market observable. As a result these loans and corresponding liability, which were previously classified as level 2 in the fair value hierarchy, were re-classified as level 3.

- Liabilities of £1,013m as at 30 June 2019 (31 December 2018: £948m; 31 December 2017: £439m; 31 December 2016: £925m) 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.

(C) Sensitivity of the fair value of level 3 instruments to changes in key assumptions

If the value of all of the level 3 internally valued net assets above held to support annuity and other long-term business decreased by 10%, the change in valuation as at 30 June 2019 would be £172m (31 December 2018: £154m; 31 December 2017: £169m; 31 December 2016: £28m), which would reduce shareholders' profit and equity by this amount before tax.

(D) Governance of level 3

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

The tables that follow present an analysis of the Group's financial assets and investment property measured at fair value, net of derivative liabilities, by level of the fair value hierarchy for each component of business as set out in Note 28.

As at 30 June 2019	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Analysis of assets measured at fair value, net of derivative liabilities				
With-profits:				
Investment property	—	—	16,550	16,550
Loans	—	—	1,637	1,637
Derivative assets	66	2,288	—	2,354
Equity securities and pooled investment funds	42,985	4,752	5,502	53,239
Debt securities	7,534	46,410	852	54,796
Total assets	**50,585**	**53,450**	**24,541**	**128,576**
Derivative liabilities	(60)	(1,407)	—	(1,467)
Total with-profits	**50,525**	**52,043**	**24,541**	**127,109**
Unit-linked:				
Investment property	—	—	580	580
Derivative assets	2	—	—	2
Equity securities and pooled investment funds	13,050	940	17	14,007
Debt securities	1,818	6,909	—	8,727
Total assets	**14,870**	**7,849**	**597**	**23,316**
Derivative liabilities	(4)	(8)	—	(12)
Total unit-linked	**14,866**	**7,841**	**597**	**23,304**
Annuity and other long-term business:				
Investment property	—	—	1,648	1,648
Loans	—	—	1,742	1,742
Derivative assets	—	527	—	527
Equity securities and pooled investment funds	2	—	2	4
Debt securities	3,555	17,722	337	21,614
Total assets	**3,557**	**18,249**	**3,729**	**25,535**
Derivative liabilities	—	(1,198)	—	(1,198)
Total annuity and other long-term business	**3,557**	**17,051**	**3,729**	**24,337**
Other:				
Equity securities and pooled investment funds	216	—	18	234
Debt securities	4	33	—	37
Total other	**220**	**33**	**18**	**271**
Group total:				
Investment property	—	—	18,778	18,778
Loans	—	—	3,379	3,379
Derivative assets	68	2,815	—	2,883
Equity securities and pooled investment funds	56,253	5,692	5,539	67,484
Debt securities	12,911	71,074	1,189	85,174
Total assets	**69,232**	**79,581**	**28,885**	**177,698**
Derivative liabilities	(64)	(2,613)	—	(2,677)
Total assets measured at fair value, net of derivative liabilities	**69,168**	**76,968**	**28,885**	**175,021**

As at 31 December 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Analysis of assets measured at fair value, net of derivative liabilities				
With-profits:				
Investment property	—	—	15,725	15,725
Loans	—	—	1,702	1,702
Derivative assets	57	1,900	—	1,957
Equity securities and pooled investment funds	38,149	4,977	4,707	47,833
Debt securities	8,375	44,619	805	53,799
Total assets	**46,581**	**51,496**	**22,939**	**121,016**
Derivative liabilities	(64)	(1,201)	—	(1,265)
Total with-profits	**46,517**	**50,295**	**22,939**	**119,751**
Unit-linked:				
Investment property	—	—	618	618
Derivative assets	1	—	—	1
Equity securities and pooled investment funds	12,345	318	16	12,679
Debt securities	1,750	8,762	—	10,512
Total assets	**14,096**	**9,080**	**634**	**23,810**
Derivative liabilities	(1)	(2)	—	(3)
Total unit-linked	**14,095**	**9,078**	**634**	**23,807**
Annuity and other long-term business:				
Investment property	—	—	1,660	1,660
Loans	—	—	1,579	1,579
Derivative assets	—	555	—	555
Equity securities and pooled investment funds	48	—	2	50
Debt securities	3,803	17,470	372	21,645
Total assets	**3,851**	**18,025**	**3,613**	**25,489**
Derivative liabilities	—	(939)	—	(939)
Total annuity and other long-term business	**3,851**	**17,086**	**3,613**	**24,550**
Other:				
Equity securities and pooled investment funds	223	—	8	231
Total assets	**223**	**—**	**8**	**231**
Derivative liabilities	—	(1)	—	(1)
Total other	**223**	**(1)**	**8**	**230**
Group total:				
Investment property	—	—	18,003	18,003
Loans	—	—	3,281	3,281
Derivative assets	58	2,455	—	2,513
Equity securities and pooled investment funds	50,765	5,295	4,733	60,793
Debt securities	13,928	70,851	1,177	85,956
Total assets	**64,751**	**78,601**	**27,194**	**170,546**
Derivative liabilities	(65)	(2,143)	—	(2,208)
Total assets measured at fair value, net of derivative liabilities	**64,686**	**76,458**	**27,194**	**168,338**

As at 31 December 2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Analysis of assets measured at fair value, net of derivative liabilities				
With-profits:				
Investment property	—	—	14,272	14,272
Loans	—	—	1,982	1,982
Derivative assets	61	2,359	—	2,420
Equity securities and pooled investment funds	44,724	4,364	3,754	52,842
Debt securities	7,705	42,615	341	50,661
Total assets	**52,490**	**49,338**	**20,349**	**122,177**
Derivative liabilities	(67)	(557)	—	(624)
Total with-profits	**52,423**	**48,781**	**20,349**	**121,553**
Unit-linked:				
Investment property	—	—	682	682
Derivative assets	7	1	—	8
Equity securities and pooled investment funds	15,071	292	18	15,381
Debt securities	2,249	4,462	—	6,711
Total assets	**17,327**	**4,755**	**700**	**22,782**
Derivative liabilities	—	(1)	—	(1)
Total unit-linked	**17,327**	**4,754**	**700**	**22,781**
Annuity and other long-term business:				
Investment property	—	—	1,653	1,653
Loans	—	—	1,726	1,726
Derivative assets	1	525	—	526
Equity securities and pooled investment funds	121	—	—	121
Debt securities	7,632	27,398	305	35,335
Total assets	**7,754**	**27,923**	**3,684**	**39,361**
Derivative liabilities	—	(1,036)	—	(1,036)
Total annuity and other long-term business	**7,754**	**26,887**	**3,684**	**38,325**
Other:				
Equity securities and pooled investment funds	119	—	24	143
Total other	**119**	**—**	**24**	**143**
Group total:				
Investment property	—	—	16,607	16,607
Loans	—	—	3,708	3,708
Derivative assets	69	2,885	—	2,954
Equity securities and pooled investment funds	60,035	4,656	3,796	68,487
Debt securities	17,586	74,475	646	92,707
Total assets	**77,690**	**82,016**	**24,757**	**184,463**
Derivative liabilities	(67)	(1,594)	—	(1,661)
Total assets measured at fair value, net of derivative liabilities	**77,623**	**80,422**	**24,757**	**182,802**

As at 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Analysis of assets measured at fair value, net of derivative liabilities				
With-profits:				
Investment property	—	—	12,496	12,496
Loans	—	—	—	—
Derivative assets	54	2,334	—	2,388
Equity securities and pooled investment funds	36,788	3,423	4,021	44,232
Debt securities	7,322	40,931	683	48,936
Total assets	**44,164**	**46,688**	**17,200**	**108,052**
Derivative liabilities	(51)	(802)	—	(853)
Total with-profits	**44,113**	**45,886**	**17,200**	**107,199**
Unit-linked:				
Investment property	—	—	661	661
Derivative assets	5	9	—	14
Equity securities and pooled investment funds	14,917	246	26	15,189
Debt securities	2,461	3,816	—	6,277
Total assets	**17,383**	**4,071**	**687**	**22,141**
Derivative liabilities	(4)	(19)	—	(23)
Total unit-linked	**17,379**	**4,052**	**687**	**22,118**
Annuity and other long-term business:				
Investment property	—	—	1,583	1,583
Loans	—	1,706	—	1,706
Derivative assets	—	525	—	525
Equity securities and pooled investment funds	138	—	1	139
Debt securities	7,083	28,247	252	35,582
Total assets	**7,221**	**30,478**	**1,836**	**39,535**
Derivative liabilities	—	(985)	—	(985)
Total annuity and other long-term business	**7,221**	**29,493**	**1,836**	**38,550**
Other:				
Equity securities and pooled investment funds	141	5	23	169
Total other	**141**	**5**	**23**	**169**
Group total:				
Investment property	—	—	14,740	14,740
Loans	—	1,706	—	1,706
Derivative assets	59	2,868	—	2,927
Equity securities and pooled investment funds	51,984	3,674	4,071	59,729
Debt securities	16,866	72,994	935	90,795
Total assets	**68,909**	**81,242**	**19,746**	**169,897**
Derivative liabilities	(55)	(1,806)	—	(1,861)
Total assets measured at fair value, net of derivative liabilities	**68,854**	**79,436**	**19,746**	**168,036**

27.4 Fair value hierarchy for liabilities measured at fair value in the statement of financial position

The tables below present the Group's liabilities, excluding derivative liabilities, measured at fair value by level of the fair value hierarchy.

As at 30 June 2019	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	15,695	—	15,695
Third party interest in consolidated funds	4,826	3,189	1,025	9,040
Borrowings and subordinated liabilities	—	—	1,504	1,504
Accruals, deferred income and other liabilities	—	—	379	379
Total liabilities at fair value, excluding derivative liabilities	**4,826**	**18,884**	**2,908**	**26,618**

As at 31 December 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	15,560	—	15,560
Third party interest in consolidated funds	5,700	2,655	1,028	9,383
Borrowings and subordinated liabilities	—	—	1,606	1,606
Accruals, deferred income and other liabilities	—	—	355	355
Total liabilities at fair value, excluding derivative liabilities	**5,700**	**18,215**	**2,989**	**26,904**

As at 31 December 2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	17,069	—	17,069
Third party interest in consolidated funds	3,303	1,896	439	5,638
Borrowings and subordinated liabilities	—	—	1,887	1,887
Accruals, deferred income and other liabilities	—	—	367	367
Total liabilities at fair value, excluding derivative liabilities	**3,303**	**18,965**	**2,693**	**24,961**

As at 31 December 2016	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	16,171	—	16,171
Third party interest in consolidated funds	3,543	1,566	925	6,034
Accruals, deferred income and other liabilities	—	384	—	384
Total liabilities at fair value, excluding derivative liabilities	**3,543**	**18,121**	**925**	**22,589**

27.5 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.

(A) Transfers between levels

For the six months ended 30 June 2019	Financial assets and liabilities - Transfers between levels					
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2 . . .	—	104	—	—	—	104
From level 1 to level 3 . . .	19	—	—	—	—	19
From level 2 to level 1 . . .	—	1	—	—	—	1
From level 2 to level 3 . . .	58	—	—	—	—	58
From level 3 to level 2 . . .	—	118	—	—	—	118
	77	**223**	**—**	**—**	**—**	**300**

For the year ended 31 December 2018	Financial assets and liabilities - Transfers between levels					
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2 . . .	—	45	—	—	—	45
From level 1 to level 3 . . .	8	—	—	—	—	8
From level 2 to level 1 . . .	675	11	—	—	—	686
	683	**56**	**—**	**—**	**—**	**739**

For the year ended 31 December 2017	Financial assets and liabilities - Transfers between levels					
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2 . . .	—	19	—	—	—	19
From level 1 to level 3 . . .	2	—	—	—	—	2
From level 2 to level 1 . . .	230	—	—	—	—	230
From level 2 to level 3 . . .	—	—	1,726	—	385	2,111
From level 3 to level 2 . . .	69	22	—	—	—	91
	301	**41**	**1,726**	**—**	**385**	**2,453**

For the year ended 31 December 2016	Financial assets and liabilities - Transfers between levels					
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2 . . .	112	38	—	—	—	150
From level 1 to level 3 . . .	10	—	—	—	—	10
From level 2 to level 1 . . .	574	79	—	—	—	653
From level 2 to level 3 . . .	129	—	—	—	—	129
From level 3 to level 2 . . .	389	—	—	—	—	389
	1,214	**117**	**—**	**—**	**—**	**1,331**

(B) Reconciliation of movements in level 3 assets and liabilities

The movements in level 3 assets and liabilities held at fair value are analysed in the tables below.

2019	**At 1 January**	**Total gains/(losses) in income statement**	**Foreign exchange**	**Purchases**	**Sales**	**Reclassified to held for sale**	**Settled**	**Issued**	**Transfers into level 3**	**Transfers out of level 3**	**At 30 June**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Level 3 assets:											
Investment property	18,003	(246)	(91)	1,159	(46)	(1)	—	—	—	—	18,778
Loans	3,281	164	—	14	(80)	—	—	—	—	—	3,379
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	4,733	529	—	590	(383)	—	(7)	—	77	—	5,539
Debt securities	1,177	59	(1)	90	(45)	—	(11)	38	—	(118)	1,189
Total level 3 assets	**27,194**	**506**	**(92)**	**1,853**	**(554)**	**(1)**	**(18)**	**38**	**77**	**(118)**	**28,885**
Level 3 liabilities:											
Third party interest in consolidated funds	1,028	27	—	—	—	—	(110)	80	—	—	1,025
Borrowings and subordinated liabilities	1,606	(22)	—	—	—	—	(80)	—	—	—	1,504
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	355	28	—	—	—	—	(4)	—	—	—	379
Total level 3 liabilities	**2,989**	**33**	**—**	**—**	**—**	**—**	**(194)**	**80**	**—**	**—**	**2,908**

2018	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	16,607	144	(52)	1,515	(211)	—	—	—	—	—	18,003
Loans	3,708	(206)	—	58	(121)	—	(158)	—	—	—	3,281
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	3,796	386	77	1,134	(668)	—	—	—	8	—	4,733
Debt securities	646	(8)	1	661	(123)	—	—	—	—	—	1,177
Total level 3 assets	**24,757**	**316**	**26**	**3,368**	**(1,123)**	**—**	**(158)**	**—**	**8**	**—**	**27,194**
Level 3 liabilities:											
Third party interest in consolidated funds	439	(73)	6	—	—	—	(57)	713	—	—	1,028
Borrowings and subordinated liabilities	1,887	23	—	—	—	—	(304)	—	—	—	1,606
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	367	(6)	—	—	—	—	(6)	—	—	—	355
Total level 3 liabilities	**2,693**	**(56)**	**6**	**—**	**—**	**—**	**(367)**	**713**	**—**	**—**	**2,989**

2017	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	14,740	561	(20)	2,038	(712)	—	—	—	—	—	16,607
Loans	—	20	—	2,115	—	—	(153)	—	1,726	—	3,708
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	4,071	152	(50)	736	(1,040)	—	(6)	—	2	(69)	3,796
Debt securities	935	50	(11)	215	(521)	—	—	—	—	(22)	646
Total level 3 assets	**19,746**	**783**	**(81)**	**5,104**	**(2,273)**	**—**	**(159)**	**—**	**1,728**	**(91)**	**24,757**
Level 3 liabilities:											
Third party interest in consolidated funds	925	559	—	—	—	—	(1,275)	230	—	—	439
Borrowings and subordinated liabilities	—	13	—	—	—	—	(115)	1,989	—	—	1,887
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	—	(12)	—	—	—	—	(6)	—	385	—	367
Total level 3 liabilities	**925**	**560**	**—**	**—**	**—**	**—**	**(1,396)**	**2,219**	**385**	**—**	**2,693**

2016	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	13,539	378	95	1,647	(878)	(41)	—	—	—	—	14,740
Loans	—	—	—	—	—	—	—	—	—	—	—
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	3,931	515	237	644	(996)	—	(9)	—	138	(389)	4,071
Debt securities	728	81	6	185	(65)	—	—	—	—	—	935
Total level 3 assets	**18,198**	**974**	**338**	**2,476**	**(1,939)**	**(41)**	**(9)**	**—**	**138**	**(389)**	**19,746**
Level 3 liabilities:											
Third party interest in consolidated funds	1,034	18	—	—	—	—	(271)	144	—	—	925
Borrowings and subordinated liabilities	—	—	—	—	—	—	—	—	—	—	—
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—	—	—	—	—
Total level 3 liabilities	**1,034**	**18**	**—**	**—**	**—**	**—**	**(271)**	**144**	**—**	**—**	**925**

(C) Gains and losses in respect of level 3 assets and liabilities

Of the total gains and losses recognised in the income statement in respect of assets and liabilities classified as level 3 for the six months ended 30 June 2019, £399m (30 June 2018: £94m; for the year ended 31 December 2018: £353m; 31 December 2017: £417m; 31 December 2016: £720m) related to unrealised gains on assets and liabilities classified as level 3 which were still held at the end of the period. The unrealised gains can be further analysed as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Investment property	(267)	—	193	508	414
Loans	164	(45)	(196)	20	—
Equity securities and pooled investment funds	514	133	318	18	253
Debt securities	21	(9)	(18)	(5)	71
Third party interest in consolidated funds	(27)	20	73	(123)	(18)
Borrowings and subordinated liabilities	22	(2)	(23)	(13)	—
Other financial liabilities	(28)	(3)	6	12	—
Total	399	94	353	417	720

27.6 Fair value of assets and liabilities at amortised cost

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

As at 30 June 2019	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,748	962	2,710	2,618
Liabilities					
Borrowings and subordinated liabilities	—	2,091	81	2,172	2,208

As at 31 December 2018	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,620	1,077	2,697	2,628
Liabilities					
Borrowings and subordinated liabilities	—	2,376	73	2,449	2,449

As at 31 December 2017	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,570	1,258	2,828	2,737
Liabilities					
Borrowings and subordinated liabilities	—	1,919	75	1,994	1,990

As at 31 December 2016	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,472	970	2,442	2,352
Liabilities					
Borrowings and subordinated liabilities	—	1,378	136	1,514	1,507

The fair value of the 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 where this is the lowest level input significant to the entire measurement. Otherwise, they are included as level 3 assets or liabilities.

28. Risk management and sensitivity analysis

28.1 Risk overview

The Group's business involves the acceptance and management of risk. The Group's risk management process is governed by the Group Risk Framework. The Group Risk Framework has been designed to identify, assess, measure, manage, monitor and report on the principal risks of the Group. Risk management is designed to increase the Group's understanding of the risks inherent in the business, improve decision-making and prevent the Group from failing to achieve its business objective, including delivery of fair customer outcomes.

The Group Risk Framework is codified through risk policies and business standards which set out the management framework for key risk types, including risk appetite, and minimum standards for the Group's operations. To ensure completeness and consistency when comparing risk information across the Group, a common methodology for categorising risk has been adopted.

Risk appetite is the amount and type of risk that is acceptable to the Group, as determined by the Board, and is a function of the Group's strategic and business objectives and its capital resources. Risk appetite therefore refers to the Group's attitude towards risk-taking and whether it is willing and able to tolerate either a high or a low level to specific risks or risk groups. As a result, risk appetite has a central role in informing decision-making across the Group and assisting in the optimisation of return on capital invested.

A number of risk factors affect the Group's results and financial position. The financial risk categories affecting the Group's financial instruments and insurance assets and liabilities are set out below:

Risk Type	Definition
Market risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Demographic risk	The risk of loss for the Group, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of a number of demographic risk drivers. These include: • Mortality/longevity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse mortality and/or longevity experience than estimated within pricing, underwriting and valuation. • Morbidity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse morbidity experience than estimated within pricing, underwriting and valuation. • Persistency risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from an adverse persistency experience than estimated within pricing and valuation.
Expense and margin pricing risk	The risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse experience in expenses relative to those estimated within pricing and valuation when considering insurance contracts or funds under management.
Treasury liquidity risk	The risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and planned dividends) as they fall due.

The Group's exposure to risks arising from financial instruments and insurance assets and liabilities is different for each component of the Group's business. The Group's combined statement of financial position is presented on the following page for the different components of business.

Analysis of Segment Statement of Financial Position by Business Type

As at 30 June 2019

		Shareholder-backed funds			
	With-profits	**Unit-linked**	**Annuity and other long-term business**	**Other**	**Total**
Assets	**£m**	**£m**	**£m**	**£m**	**£m**
Goodwill and intangible assets	249	—	20	1,153	1,422
Deferred acquisition costs	—	—	90	17	107
Investment in joint ventures and associates accounted for using the equity method	566	—	—	39	605
Property, plant and equipment	968	—	46	369	1,383
Investment property	16,550	580	1,648	—	18,778
Defined benefit pension asset	36	—	—	15	51
Deferred tax assets	58	—	35	17	110
Reinsurance assets	1,136	119	1,435	—	2,690
Loans	3,756	—	2,241	—	5,997
Derivative assets	2,354	2	527	—	2,883
Equity securities and pooled investment funds	53,239	14,007	4	234	67,484
Deposits	13,421	1,235	2,135	1	16,792
Debt securities	54,796	8,727	21,614	37	85,174
Current tax assets	215	—	44	12	271
Accrued investment income and other debtors	1,725	593	485	346	3,149
Assets held for sale	6	—	10,164	—	10,170
Cash and cash equivalents	3,310	169	740	405	4,624
Total assets	**152,385**	**25,432**	**41,228**	**2,645**	**221,690**
Invested capital	—	—	6,465	2,033	8,498
Total invested capital	**—**	**—**	**6,465**	**2,033**	**8,498**
Insurance contract liabilities	50,499	5,532	20,649	—	76,680
Investment contract liabilities with discretionary participation features	67,531	—	29	—	67,560
Investment contract liabilities without discretionary participation features	2	15,640	53	—	15,695
Unallocated surplus of with-profits fund	15,328	—	—	—	15,328
Third party interest in consolidated funds	5,315	3,700	7	18	9,040
Borrowings and subordinated liabilities	3,580	4	128	—	3,712
Defined benefit pension liability	15	—	23	82	120
Lease liabilities	17	—	9	297	323
Deferred tax liabilities	995	—	160	32	1,187
Current tax liabilities	292	36	64	35	427
Derivative liabilities	1,467	12	1,198	—	2,677
Other financial liabilities	2,515	—	208	—	2,723
Provisions	6	—	302	108	416
Accruals, deferred income and other liabilities	4,823	508	1,769	40	7,140
Liabilities held for sale	—	—	10,164	—	10,164
Total liabilities	**152,385**	**25,432**	**34,763**	**612**	**213,192**
Total equity and liabilities	**152,385**	**25,432**	**41,228**	**2,645**	**221,690**

As at 31 December 2018		Shareholder-backed funds			
	With-profits	Unit-linked	Annuity and other long-term business	Other	Total
Assets	£m	£m	£m	£m	£m
Goodwill and intangible assets	285	—	7	1,154	1,446
Deferred acquisition costs	—	—	87	18	105
Investment in joint ventures and associates accounted for using the equity method	705	—	—	37	742
Property, plant and equipment	869	—	49	347	1,265
Investment property	15,725	618	1,660	—	18,003
Defined benefit pension asset	162	—	—	—	162
Deferred tax assets	62	—	36	20	118
Reinsurance assets	1,131	115	1,566	—	2,812
Loans	3,852	—	2,057	—	5,909
Derivative assets	1,957	1	555	—	2,513
Equity securities and pooled investment funds	47,833	12,679	50	231	60,793
Deposits	10,117	1,138	765	—	12,020
Debt securities	53,799	10,512	21,645	—	85,956
Current tax assets	58	6	166	6	236
Accrued investment income and other debtors	1,721	499	1,011	875	4,106
Assets held for sale	10	—	10,568	—	10,578
Cash and cash equivalents	3,519	190	669	361	4,739
Total assets	**141,805**	**25,758**	**40,891**	**3,049**	**211,503**
Invested capital	—	—	6,625	2,174	8,799
Total invested capital	**—**	**—**	**6,625**	**2,174**	**8,799**
Liabilities					
Insurance contract liabilities	43,775	5,219	20,304	—	69,298
Investment contract liabilities with discretionary participation features	67,018	—	20	—	67,038
Investment contract liabilities without discretionary participation features	2	15,498	60	—	15,560
Unallocated surplus of with-profits funds	13,433	—	—	—	13,433
Third party interest in consolidated fund	4,678	4,684	21	—	9,383
Borrowings and subordinated liabilities	3,949	4	102	—	4,055
Defined benefit pension liability	32	—	48	93	173
Lease liabilities	20	—	12	284	316
Deferred tax liabilities	892	—	147	22	1,061
Current tax liabilities	29	—	188	28	245
Derivative liabilities	1,265	3	939	1	2,208
Other financial liabilities	2,367	—	225	—	2,592
Provisions	—	—	377	135	512
Accruals, deferred income and other liabilities	4,345	350	1,255	312	6,262
Liabilities held for sale	—	—	10,568	—	10,568
Total liabilities	**141,805**	**25,758**	**34,266**	**875**	**202,704**
Total equity and liabilities	**141,805**	**25,758**	**40,891**	**3,049**	**211,503**

As at 31 December 2017	Shareholder-backed funds				
	With-profits	Unit-linked	Annuity and other long-term business	Other	Total
Assets	£m	£m	£m	£m	£m
Goodwill and intangible assets	148	—	19	1,154	1,321
Deferred acquisition costs	—	—	84	6	90
Investment in joint ventures and associates accounted for using the equity method	464	—	—	40	504
Property, plant and equipment	365	—	35	4	404
Investment property	14,272	682	1,653	—	16,607
Defined benefit pension asset	165	—	—	—	165
Deferred tax assets	71	—	52	23	146
Reinsurance assets	1,269	133	1,119	—	2,521
Loans	4,268	—	2,177	—	6,445
Derivative assets	2,420	8	526	—	2,954
Equity securities and pooled investment funds	52,842	15,381	121	143	68,487
Deposits	7,679	1,138	1,233	—	10,050
Debt securities	50,661	6,711	35,335	—	92,707
Current tax assets	63	—	174	—	237
Accrued investment income and other debtors	1,316	182	1,171	841	3,510
Assets held for sale	37	—	—	—	37
Cash and cash equivalents	4,096	693	576	434	5,799
Total assets	**140,136**	**24,928**	**44,275**	**2,645**	**211,984**
Invested capital	—	—	6,454	1,901	8,355
Total invested capital	**—**	**—**	**6,454**	**1,901**	**8,355**
Liabilities					
Insurance contract liabilities	48,894	6,097	33,632	—	88,623
Investment contract liabilities with discretionary participation features	62,323	—	17	—	62,340
Investment contract liabilities without discretionary participation features	5	17,048	16	—	17,069
Unallocated surplus of with-profits fund	13,567	—	—	—	13,567
Third party interest in consolidated funds	3,764	1,667	207	—	5,638
Borrowings and subordinated liabilities	3,729	4	123	21	3,877
Defined benefit pension liability	55	—	82	42	179
Lease liabilities	—	—	—	—	—
Deferred tax liabilities	1,410	—	274	19	1,703
Current tax liabilities	119	76	58	46	299
Derivative liabilities	624	1	1,036	—	1,661
Other financial liabilities	2,645	—	610	—	3,255
Provisions	—	—	385	161	546
Accruals, deferred income and other liabilities	3,001	35	1,381	455	4,872
Total liabilities	**140,136**	**24,928**	**37,821**	**744**	**203,629**
Total equity and liabilities	**140,136**	**24,928**	**44,275**	**2,645**	**211,984**

As at 31 December 2016		Shareholder-backed funds			
	With-profits	Unit-linked	Annuity and other long-term business	Other	Total
Assets	£m	£m	£m	£m	£m
Goodwill and intangible assets	226	—	19	1,153	1,398
Deferred acquisition costs	—	—	81	8	89
Investment in joint ventures and associates accounted for using the equity method	409	—	—	39	448
Property, plant and equipment	228	—	38	5	271
Investment property	12,496	661	1,583	—	14,740
Defined benefit pension asset	111	—	—	—	111
Deferred tax assets	82	—	66	22	170
Reinsurance assets	1,351	134	1,104	—	2,589
Loans	1,892	—	2,166	—	4,058
Derivative assets	2,388	14	525	—	2,927
Equity securities and pooled investment funds	44,232	15,189	139	169	59,729
Deposits	8,549	1,009	1,232	—	10,790
Debt securities	48,936	6,277	35,582	—	90,795
Current tax assets	1	—	281	25	307
Accrued investment income and other debtors	1,565	423	1,304	804	4,096
Assets held for sale	726	—	—	—	726
Cash and cash equivalents	3,209	694	806	347	5,056
Total assets	**126,401**	**24,401**	**44,926**	**2,572**	**198,300**
Invested capital	—	—	6,071	1,820	7,891
Total invested capital	**—**	**—**	**6,071**	**1,820**	**7,891**
Liabilities					
Insurance contract liabilities	49,001	6,029	34,434	—	89,464
Investment contract liabilities with discretionary participation features	52,477	—	13	—	52,490
Investment contract liabilities without discretionary participation features	17	16,091	63	—	16,171
Unallocated surplus of with-profits fund	11,738	—	—	—	11,738
Third party interest in consolidated funds	3,915	2,104	15	—	6,034
Borrowings and subordinated liabilities	1,341	4	162	—	1,507
Defined benefit pension liability	95	—	142	50	287
Lease liabilities	—	—	—	—	—
Deferred tax liabilities	1,278	—	298	15	1,591
Current tax liabilities	90	59	333	64	546
Derivative liabilities	853	23	985	—	1,861
Other financial liabilities	2,529	—	740	—	3,269
Provisions	—	—	190	155	345
Accruals, deferred income and other liabilities	2,532	91	1,480	468	4,571
Liabilities held for sale	535	—	—	—	535
Total liabilities	**126,401**	**24,401**	**38,855**	**752**	**190,409**
Total equity and liabilities	**126,401**	**24,401**	**44,926**	**2,572**	**198,300**

The financial assets and liabilities attaching to the Group's business are, to varying degrees, subject to the risks described previously and these risks may have a material effect on profit or loss and shareholders' equity. This is discussed below by component of business.

(A) With-profits business

The with-profits statement of financial position includes SAIF which, as at 30 June 2019, had total assets and liabilities of £4,887m (31 December 2018: £4,844m; 31 December 2017: £5,768m; 31 December 2016: £6,102m), and also asset and liabilities in respect of the DCPSF. The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). As at 30 June 2019, the WPSF includes £9,529m (31 December 2018: £9,533m; 31 December 2017: £10,609m; 31 December 2016: £11,153m) of non-profit annuity liabilities.

(i) The Prudential Assurance Company With-Profits Sub-Fund ("WPSF") business

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is only sensitive to market and credit risk through the indirect effect of investment performance on declared policyholder bonuses. The investment assets of the with-profits fund are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS 4, movements in its value do not affect shareholders' profit and equity, so the shareholder is not directly exposed to changes in the assets and liabilities within the with-profits fund.

The shareholder's interest in the WPSF is one-ninth of the cost of bonuses declared to with-profits policyholders. For certain with-profits contracts, such as those invested in the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the 'smoothed' basis of bonus declaration, the sensitivity to short-term investment performance and other insurance risks is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, and this is described in Note 28.6(A).

(ii) Defined Charge Participating Sub-Fund ("DCPSF") business

The DCPSF is shown as part of the with-profits statement of financial position. For similar reasons to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges incurred on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

(iii) Scottish Amicable Insurance Fund ("SAIF") business

SAIF is a ring-fenced fund, shown as part of the with-profits statement of financial position in which, apart from asset management fees, shareholders have no entitlement to the profit of the fund. Accordingly, the Group's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities.

(B) Unit-linked business

Unit-linked business represents a comparatively small proportion of the in-force business of the Group's insurance operations. Due to policyholder liabilities moving in line with attaching asset value movements, the unit-linked business is not directly affected by market or credit risk. Profits from unit-linked contracts primarily arise from the excess of charges to policyholders for management of assets, over expenses incurred. The charges incurred are most sensitive to the movement in funds under management due to investment performance, as well as lapse and timing of death. The accounting impact of the expenses incurred is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profit is relatively insensitive to changes in mortality experience. Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

In the combined statement of financial position, the unit-linked business is shown as having no contribution to shareholders' equity, this is because the surplus assets of the unit-linked business have been allocated to the 'annuity and other long-term business' component for presentation purposes, as they are pooled with the surplus assets of this business. Despite this presentation, the shareholder is exposed to the risks from unit-linked business as described above.

(C) Annuity and other long-term business

The Group's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with covering assets of an appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors and therefore it is possible for a degree of mis-matching exposure to arise. Aside from the extent of any asset/liability duration mismatch, the sensitivity of the Group's shareholder-backed fund's annuity business' results to market risk for movements in the value of liabilities net of movements in covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk, as there are no offsetting liabilities. These assets are primarily debt securities.

The shareholder is directly exposed to credit risk (asset default, downgrade, and spread widening) arising on the assets held within the shareholder-backed funds, and the corresponding impact on the measurement of the liabilities.

The shareholder-backed annuity results are particularly sensitive to changes in assumptions about future mortality improvements which impact the measurement of the liabilities, and also to the variance between actual and expected mortality experience each year. The results are also sensitive to changes in maintenance expense levels over the longer term.

The assets and liabilities of the other long-term business, which includes legacy protection business, are not significant in the context of the Group's financial assets and liabilities and therefore do not contribute significantly to the Group's risk exposure.

(D) Other

This includes the financial assets and liabilities of the Group's asset management business. The Group is exposed to market and credit risk in respect of financial assets held by the 'other' business component, although this direct exposure to market and credit risk is not significant to the results of the Group.

The ongoing profit arising from the asset management business is exposed to the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and property will affect income earned from investment management activities. The profit arising from this business is also sensitive to the level of net flows, and also to the level of expenses.

28.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation of the Group's business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

Market risk comprises six types of risk, namely:

- interest rate risk: fluctuations in the level and volatility of interest rates or the shape or curvature of the yield curve or spread relationships;
- inflation risk: fluctuations in actual or implied inflation rates;
- equity risk: fluctuations in the level or volatility of equity investments;
- property risk: fluctuations in the level or volatility of property investments;
- currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures; and
- alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above).

The primary market risks that the Group faces are equity risk, property risk, and interest rate risk because most assets are investments that are either equity type investments and subject to equity price risk, or bonds, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. The amount of risk borne by the Group's shareholders depends on the extent to which its customers share the investment risk through the structure of the Group's products. In particular, the shareholder is only directly exposed to market risk on the assets held within the 'annuities and other long-term business' and 'other' components of the statement of financial position, which are predominantly debt securities and investment properties in respect of the annuity funds.

The split of the Group's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Group has available. This mix of liabilities allows the Group to invest a substantial portion of its investment funds in equity and property investments that the Group believes produce greater returns over the long term.

(A) Interest rate risk

The majority of the Group's interest rate exposure arises from shareholder-backed annuities. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors and therefore it is possible for a degree of mismatching exposure to arise. In addition, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in an exposure to interest rate risk, as there are no offsetting liabilities.

The assets and liabilities for the with-profits business component are sensitive to interest rates, but as described in Note 28.1 the shareholder is not directly exposed to movements in these assets and liabilities.

The liabilities for the unit-linked business component are sensitive to interest rates, but as these move in line with the underlying assets there is no direct exposure to the shareholder.

The estimated sensitivity of profit to a movement in interest rates of 1% and 2% are as follows. The majority of this impact arises from the shareholder-backed annuities. These results do not include the impact from the 'other' component of business, but the exposure to interest rate risk from this component is not significant in the context of the Group.

	As at 30 June 2019			
	Decrease of 2%	Decrease of 1%	Increase of 1%	Increase of 2%
	£m	£m	£m	£m
Carrying value of debt securities and derivatives	7,382	3,323	(2,798)	(5,205)
Policyholder liabilities	(4,956)	(2,239)	1,864	3,431
Related deferred tax effects	(414)	(183)	155	291
Net sensitivity of profit after tax and shareholders' equity	**2,012**	**901**	**(779)**	**(1,483)**

	As at 31 December 2018			
	Decrease of 2%	Decrease of 1%	Increase of 1%	Increase of 2%
	£m	£m	£m	£m
Carrying value of debt securities and derivatives	7,369	3,317	(2,792)	(5,193)
Policyholder liabilities	(4,784)	(2,162)	1,801	3,317
Related deferred tax effects	(446)	(199)	171	323
Net sensitivity of profit after tax and shareholders' equity	**2,139**	**956**	**(820)**	**(1,553)**

	As at 31 December 2017			
	Decrease of 2%	Decrease of 1%	Increase of 1%	Increase of 2%
	£m	£m	£m	£m
Carrying value of debt securities and derivatives	13,497	5,805	(4,659)	(8,541)
Policyholder liabilities	(9,426)	(4,210)	3,443	6,295
Related deferred tax effects	(658)	(254)	190	348
Net sensitivity of profit after tax and shareholders' equity	**3,413**	**1,341**	**(1,026)**	**(1,898)**

	As at 31 December 2016			
	Decrease of 2%	Decrease of 1%	Increase of 1%	Increase of 2%
	£m	£m	£m	£m
Carrying value of debt securities and derivatives	12,353	5,508	(4,527)	(8,313)
Policyholder liabilities	(10,023)	(4,466)	3,636	6,635
Related deferred tax effects	(396)	(177)	151	285
Net sensitivity of profit after tax and shareholders' equity	**1,934**	**865**	**(740)**	**(1,393)**

Inflation risk primarily arises from certain annuity contracts that have benefit escalation linked to a price index. The Group manages this exposure by matching inflation-linked annuity liabilities with corresponding inflation-linked assets.

(B) Equity and property risk

While the Group holds significant amounts of equity and property assets on its statement of financial position, the direct exposure to equity and property risk for the with-profits and unit-linked business is minimal. Instead, the Group's direct exposure to this risk arises from the 'annuities and other long-term business' component's holdings in equity securities and property, which are not hedged or matched by corresponding liabilities.

Excluding any longer term, indirect effects on profit due to the impact of policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business, a fall in the fair value of these investments would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity. These results exclude the impact from the 'other' component of business, but the direct exposure on the statement of financial position from this business is not significant in the context of the Group. The majority of the sensitivity arises in respect of property assets held in the annuity funds.

	For the six months ended 30 June 2019		For the year ended 31 December 2018		2017		2016	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
	£m	£m	£m	£m	£m	£m	£m	£m
Pre-tax profit	(330)	(165)	(342)	(171)	(354)	(177)	(344)	(172)
Related deferred tax effects	56	28	58	29	60	30	70	35
Net sensitivity of profit after tax and shareholders' equity	**(274)**	**(137)**	**(284)**	**(142)**	**(294)**	**(147)**	**(274)**	**(137)**

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20% fall in equity markets. If equity markets were to fall by more than 20%, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

As noted above, the analysis excludes the indirect exposure of ongoing profit to equity and property risk through the impact on policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business. For with-profits business, the impact of market risk is reduced due to the 'smoothed' basis of bonus declaration, so the sensitivity to short-term investment performance is relatively low. However, long-term investment performance may affect future shareholder transfers. The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The impact of these equity hedges is not allowed for in the above sensitivities, as the offsetting impact from the shareholder transfers occurs over the longer term. The impact of the sensitivities allowing for the equity hedges is shown below.

	For the six months ended 30 June 2019		For the year ended 31 December 2018		2017		2016	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
	£m	£m	£m	£m	£m	£m	£m	£m
Pre-tax profit	16	8	(35)	(19)	(8)	(6)	(16)	(12)
Related deferred tax effects	(3)	(1)	6	3	1	1	3	3
Net sensitivity of profit after tax and shareholders' equity	**13**	**7**	**(29)**	**(16)**	**(7)**	**(5)**	**(13)**	**(9)**

(C) Currency risk

The Group invests significant amounts of policyholder funds in overseas assets as part of its investment strategy. The direct currency risk exposure to the shareholder from the with-profits and unit-linked business components is minimal. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity and other long-term business is mitigated through the use of derivatives.

As at 30 June 2019, the Group held 39% (31 December 2018: 38%; 31 December 2017: 35%; 31 December 2016: 34%) and 10% (31 December 2018: 9%; 31 December 2017: 10%; 31 December 2016: 11%) of its financial assets and financial liabilities respectively, in currencies, mainly US Dollar and Euro, other than Pounds Sterling, the functional currency of the Group.

Of these financial assets, as at 30 June 2019, 90% (31 December 2018: 87%; 31 December 2017: 88%; 31 December 2016: 85%) are held by the with-profits fund, allowing the fund to obtain exposure to foreign equity markets. Of these financial liabilities, 64% (31 December 2018: 62%; 31 December 2017: 69%; 31 December 2016: 66%) are held by the with-profits fund, mainly relating to foreign currency borrowings. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

For the six months ended 30 June 2019, exchange gains of £14m (for the year ended 31 December 2018: gains of £70m; 31 December 2017: losses of £20m; 31 December 2016: gains of £195m) were recognised in the combined income statement; mainly arising on investments held by the with-profits fund. This excludes exchange gains and losses arising on financial instruments measured at FVTPL which are included in investment return. The majority of this movement is offset by changes in with-profits and unit-linked liabilities and changes in the fair value of derivatives attributable to foreign exchange rates recognised in the combined income statement.

The Group is also exposed to structural currency translation risk as a result of overseas operations which contribute to equity. The assets and liabilities of foreign operations are translated into the Group's presentational currency, Pounds Sterling. Foreign exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

28.3 Credit risk

The Group's exposure to credit risk primarily arises from the annuity funds which hold investments on which a certain level of defaults and downgrades are expected. For the shareholder-backed annuity business, a decrease in credit default and downgrade assumptions of five basis points would increase pre-tax profit for the six months ended 30 June 2019 by £101m (for the year ended 31 December 2018: £99m; 31 December 2017: £198m; 31 December 2016: £200m).

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 shareholder's equity to credit default risk in the 'Other' component of the business is small in the context of the Group. However, the shareholder is indirectly exposed to credit risk on these components through lower shareholder transfers in respect of the with-profits business and lower charges levied in respect of 'unit-linked' and 'other' components of the business.

(A) Debt securities

Debt securities are analysed below by component of business according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

As at 30 June 2019	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	5,401	8,488	13,446	15,641	2,824	8,996	54,796
Unit-linked	762	2,066	1,744	2,933	875	347	8,727
Annuity and other long-term business	2,790	6,115	4,615	1,654	176	6,264	21,614
Other	1	—	—	1	35	—	37
Total debt securities	**8,770**	**16,628**	**20,020**	**19,745**	**3,970**	**16,041**	**85,174**

As at 31 December 2018	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	6,890	9,332	11,779	14,712	2,892	8,194	53,799
Unit-linked	1,041	2,459	2,215	3,502	395	900	10,512
Annuity and other long-term business	3,007	6,413	4,651	1,514	158	5,902	21,645
Total debt securities	**10,938**	**18,204**	**18,645**	**19,728**	**3,445**	**14,996**	**85,956**

As at 31 December 2017	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	6,492	9,378	11,666	12,857	2,877	7,391	50,661
Unit-linked	670	2,732	1,308	1,792	91	118	6,711
Annuity and other long-term business	5,118	11,005	9,625	3,267	258	6,062	35,335
Total debt securities	**12,280**	**23,115**	**22,599**	**17,916**	**3,226**	**13,571**	**92,707**

As at 31 December 2016	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	5,738	9,747	10,678	12,799	3,290	6,684	48,936
Unit-linked	461	2,660	1,157	1,699	213	87	6,277
Annuity and other long-term business	4,238	10,371	10,558	4,515	397	5,503	35,582
Total debt securities	**10,437**	**22,778**	**22,393**	**19,013**	**3,900**	**12,274**	**90,795**

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In the table above, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as below BBB. Debt securities with no external credit rating are classified as 'Other'.

Securities with credit ratings classified as 'Other' can be further analysed as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Internal ratings or unrated:				
AAA to A-	8,323	8,148	7,993	6,940
BBB to B-	2,812	3,034	3,141	3,258
Below B- or unrated	4,472	3,814	2,437	2,076
Total	**15,607**	**14,996**	**13,571**	**12,274**

Excluded from the table above is £4,704m (at 31 December 2018: £6,676m; at 31 December 2017: £6,729m; at 31 December 2016: £6,641m) of assets backing unit-linked and index-linked contracts which are included within the unit-linked business component. The holders of these contracts bear the credit risk arising from these assets.

(i) Asset-backed securities

The Group has holdings in Asset-Backed Securities ("**ABS**") which are presented within debt securities on the combined statement of financial position. The Group's holdings in ABS, which comprise Residential Mortgage-Backed Securities ("**RMBS**"), Commercial Mortgage-Backed Securities ("**CMBS**"), Collateralised Debt Obligations ("**CDO**") funds and other asset-backed securities were as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
With-profits fund	3,621	5,270	5,659	5,177
Shareholder-backed funds	1,083	1,406	1,070	1,464
Total	**4,704**	**6,676**	**6,729**	**6,641**

The majority of holdings in the shareholder-backed funds are UK securities and relate to the Group's annuity business. Of the holdings of the with-profits fund, £231m (at 31 December 2018: £1,823m; at 31 December 2017: £1,913m; at 31 December 2016: £1,623m) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(ii) Sovereign debt and bank debt exposure

The Group exposures held by the with-profits fund and shareholder-backed funds in sovereign debts and bank debt securities are analysed as follows:

Exposure to sovereign debt securities

	As at 30 June 2019		As at 31 December 2018		2017		2016	
	With-profits fund	Shareholder-backed funds	With-profits fund	Shareholder-backed funds	With-profits fund	Shareholder-backed funds	With-profits fund	Shareholder-backed funds
	£m	£m	£m	£m	£m	£m	£m	£m
Italy	59	—	57	—	63	58	61	56
Spain	19	49	18	36	18	34	18	33
France	—	23	50	—	38	23	—	22
Germany	324	240	281	239	301	693	329	573
Other Eurozone	33	100	34	103	31	82	33	83
Total Eurozone	**435**	**412**	**440**	**378**	**451**	**890**	**441**	**767**
United Kingdom	2,636	2,235	3,012	2,285	3,287	4,828	2,868	4,448
United States	632	—	1,261	—	979	1	1,388	—
Other	207	59	199	56	259	58	252	54
Total	**3,910**	**2,706**	**4,912**	**2,719**	**4,976**	**5,777**	**4,949**	**5,269**

Exposure to bank debt securities

The exposure to bank debt securities is shown below by type of debt and also by economy. Subordinated debt is a fixed interest debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. The senior debt ranks above subordinated debt in the event of liquidation, whereas covered senior debt is also backed by other assets in the event of insolvency. These debt tier classifications are consistent with the treatment of capital for regulatory purposes.

As at 30 June 2019	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	39	39	—	—	—	39
Spain	—	26	26	—	—	—	26
France	6	363	369	—	74	74	443
Germany	116	63	179	—	8	8	187
Netherlands	—	288	288	—	—	—	288
Other Eurozone	—	86	86	—	—	—	86
Total Eurozone	**122**	**865**	**987**	**—**	**82**	**82**	**1,069**
United Kingdom	877	872	1,749	52	322	374	2,123
United States	—	2,771	2,771	16	335	351	3,122
Canada	245	298	543	—	—	—	543
Australia	88	254	342	—	—	—	342
Other	172	573	745	15	35	50	795
Total	**1,504**	**5,633**	**7,137**	**83**	**774**	**857**	**7,994**

As at 30 June 2019	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
Annuity and other long-term business fund							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	21	36	57	—	—	—	57
Germany	—	—	—	—	89	89	89
Netherlands	—	37	37	—	—	—	37
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	**21**	**73**	**94**	**—**	**89**	**89**	**183**
United Kingdom	450	243	693	—	67	67	760
United States	—	252	252	—	29	29	281
Canada	—	—	—	—	—	—	—
Australia	—	—	—	—	—	—	—
Other	—	—	—	—	36	36	36
Total	**471**	**568**	**1,039**	**—**	**221**	**221**	**1,260**

As at 31 December 2018	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	38	38	—	—	—	38
Spain	—	17	17	—	—	—	17
France	6	247	253	—	95	95	348
Germany	140	46	186	—	—	—	186
Netherlands	—	248	248	—	1	1	249
Other Eurozone	—	74	74	—	—	—	74
Total Eurozone	**146**	**670**	**816**	**—**	**96**	**96**	**912**
United Kingdom	909	825	1,734	35	329	364	2,098
United States	—	2,398	2,398	16	295	311	2,709
Canada	314	267	581	—	—	—	581
Australia	65	238	303	—	—	—	303
Other	197	601	798	13	25	38	836
Total	**1,631**	**4,999**	**6,630**	**64**	**745**	**809**	**7,439**
Annuity and other long-term business fund							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	20	—	20	—	—	—	20
Germany	—	—	—	—	83	83	83
Netherlands	—	17	17	—	—	—	17
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	**20**	**17**	**37**	**—**	**83**	**83**	**120**
United Kingdom	445	168	613	—	63	63	676
United States	—	227	227	—	26	26	253
Canada	—	—	—	—	—	—	—
Australia	—	—	—	—	—	—	—
Other	—	6	6	—	34	34	40
Total	**465**	**418**	**883**	**—**	**206**	**206**	**1,089**

As at 31 December 2017	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	31	31	—	—	—	31
Spain	—	16	16	—	—	—	16
France	9	213	222	—	62	62	284
Germany	120	20	140	—	—	—	140
Netherlands	—	186	186	—	—	—	186
Other Eurozone	—	27	27	—	—	—	27
Total Eurozone	**129**	**493**	**622**	**—**	**62**	**62**	**684**
United Kingdom	859	567	1,426	—	410	410	1,836
United States	—	2,192	2,192	16	296	312	2,504
Canada	315	243	558	—	—	—	558
Australia	66	247	313	—	—	—	313
Other	150	421	571	15	39	54	625
Total	**1,519**	**4,163**	**5,682**	**31**	**807**	**838**	**6,520**
Annuity and other long-term business fund							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	28	41	69	—	—	—	69
Germany	—	—	—	—	80	80	80
Netherlands	—	38	38	—	—	—	38
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	**28**	**79**	**107**	**—**	**80**	**80**	**187**
United Kingdom	588	197	785	—	213	213	998
United States	—	348	348	—	141	141	489
Canada	—	—	—	—	—	—	—
Australia	16	—	16	—	—	—	16
Other	1	60	61	—	48	48	109
Total	**633**	**684**	**1,317**	**—**	**482**	**482**	**1,799**

As at 31 December 2016	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	62	62	—	—	—	62
Spain	153	60	213	—	—	—	213
France	8	140	148	—	61	61	209
Germany	96	18	114	—	—	—	114
Netherlands	—	187	187	—	—	—	187
Other Eurozone	—	31	31	—	—	—	31
Total Eurozone	**257**	**498**	**755**	**—**	**61**	**61**	**816**
United Kingdom	544	369	913	—	403	403	1,316
United States	—	1,844	1,844	58	319	377	2,221
Canada	155	96	251	—	—	—	251
Australia	79	176	255	—	—	—	255
Other	78	418	496	14	40	54	550
Total	**1,113**	**3,401**	**4,514**	**72**	**823**	**895**	**5,409**

As at 31 December 2016	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
Annuity and other long-term business fund							
Italy	—	32	32	—	—	—	32
Spain	122	10	132	—	—	—	132
France	28	47	75	—	66	66	141
Germany	22	—	22	—	74	74	96
Netherlands	—	38	38	—	—	—	38
Other Eurozone	—	19	19	—	—	—	19
Total Eurozone	**172**	**146**	**318**	**—**	**140**	**140**	**458**
United Kingdom	471	178	649	—	226	226	875
United States	—	413	413	—	145	145	558
Canada	—	—	—	—	—	—	—
Australia	16	13	29	—	—	—	29
Other	1	85	86	—	49	49	135
Total	**660**	**835**	**1,495**	**—**	**560**	**560**	**2,055**

The tables above exclude assets held to cover unit-linked liabilities and those of the consolidated unit trusts and similar funds, as the holders of these contracts bear the credit risk arising from these assets. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

(B) Loans, receivables and reinsurance assets

Of the total loans and receivables held, £26m at 30 June 2019 (31 December 2018: £13m; 31 December 2017: £8m; 31 December 2016: £7m) were past their due date but were not impaired. Of the total past due but not impaired, all were less than one year past their due date. The Group expects full recovery of these loans and receivables.

The amount of loans that were impaired is not significant to the Group.

As at 30 June 2019, 80% of £2,172m (31 December 2018: 79% of £1,997m; 31 December 2017: 81% of £2,140m; 31 December 2016: 80% of £2,129m) mortgage loans held by the annuity and other long-term business related to lifetime (equity release) mortgage business, which had an average loan to property value of 34% (31 December 2018: 33%; 31 December 2017: 31%; 31 December 2016: 30%).

The Group is also exposed to counterparty default on its reinsurance assets. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimise its exposure from reinsurers insolvencies. The split of the reinsurance asset by credit rating is shown below. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

	As at 30 June		As at 31 December	
	2019	2018	2017	2016
	£m	£m	£m	£m
AA	308	596	1,070	1,074
A	(10)	11	214	40
A-	—	—	—	170
BBB	1,047	1,086	2	3
Unrated	1,345	1,119	1,235	1,302
Total	**2,690**	**2,812**	**2,521**	**2,589**

The reinsurance asset within the BBB rating category primarily consists of annuity business reinsured to Rothesay Life. The reinsurance assets within the 'unrated' category relates almost entirely to a quota-share reinsurance arrangement between PAC and Prudential Hong Kong

Limited a subsidiary of Prudential plc which is an Excluded Subsidiary of the Group as detailed in Note 1.2(B) in respect of annuity business contained within the WPSF.

(C) Derecognition, collateral and offsetting

(i) Securities lending and reverse repurchase agreements

The Group has entered into securities lending and repurchase agreements whereby blocks of securities are transferred to third parties, primarily major brokerage firms in exchange for collateral. Typically, the value of collateral assets pledged to the Group in these transactions is in excess of the value of securities transferred, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The securities lent are not removed from the Group's combined statement of financial position and are presented within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit. Collateral pledged by the Group under securities lending arrangements, aside from cash, is not derecognised from the statement of financial position as the risks and rewards are still retained by the Group. Cash collateral pledged is derecognised as it is pledged under right to use by the counterparty.

At 30 June 2019, the Group had £7,003m (31 December 2018: £8,245m; 31 December 2017: £8,182m; 31 December 2016: £8,113m) of lent securities and assets subject to repurchase agreements, all of which related to the WPSF. The cash and securities collateral held under such agreements was £6,394m (31 December 2018: £7,457m; 31 December 2017: £7,347m; 31 December 2016: £7,157m). Collateral pledged by the company was £1,045m (31 December 2018: £1,205m; 31 December 2017: £1,332m; 31 December 2016: £1,510m). At 30 June 2019, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £12,933m (31 December 2018: £8,934m; 31 December 2017: £8,817m; 31 December 2016: £8,481m).

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

(ii) Collateral and pledges under derivative transactions

At 30 June 2019, the Group had pledged £1,304m (at 31 December 2018: £991m; at 31 December 2017: £449m; at 31 December 2016: £690m) for liabilities and held collateral of £1,724m (at 31 December 2018: £1,376m; at 31 December 2017: £1,960m; at 31 December 2016: £1,870m) in respect of over-the-counter derivative transactions.

(iii) Other collateral

At 30 June 2019 the Group had pledged collateral of £490m (at 31 December 2018: £396m; at 31 December 2017: £367m; 31 December 2016: £429m) in respect of other transactions. This primarily arises from deferred purchase consideration on the lifetime (equity release) mortgages.

(iv) Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the combined statement of financial position.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

As at 30 June 2019		Related amounts not offset in the combined statement of financial position			
	Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
	£m	£m	£m	£m	£m
Financial assets:					
Derivative assets	2,807	(1,106)	(1,654)	(26)	21
Reverse repurchase agreements	15,196	—	—	(12,600)	2,596
Total financial assets	**18,003**	**(1,106)**	**(1,654)**	**(12,626)**	**2,617**
Financial liabilities:					
Derivative liabilities	2,270	(1,106)	(650)	(491)	23
Securities lending and repurchase agreements	1,054	—	—	(1,054)	—
Total financial liabilities	**3,324**	**(1,106)**	**(650)**	**(1,545)**	**23**

As at 31 December 2018		Related amounts not offset in the combined statement of financial position			
	Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
	£m	£m	£m	£m	£m
Financial assets:					
Derivative assets	2,465	(1,019)	(1,346)	—	100
Reverse repurchase agreements	11,149	—	—	(9,458)	1,691
Total financial assets	**13,614**	**(1,019)**	**(1,346)**	**(9,458)**	**1,791**
Financial liabilities:					
Derivative liabilities	1,938	(1,019)	(677)	(198)	44
Securities lending and repurchase agreements	1,224	—	—	(1,205)	19
Total financial liabilities	**3,162**	**(1,019)**	**(677)**	**(1,403)**	**63**

As at 31 December 2017		Related amounts not offset in the combined statement of financial position			
	Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
	£m	£m	£m	£m	£m
Financial assets:					
Derivative assets	2,884	(836)	(1,899)	(30)	119
Reverse repurchase agreements	9,433	—	—	(8,913)	520
Total financial assets	**12,317**	**(836)**	**(1,899)**	**(8,943)**	**639**
Financial liabilities:					
Derivative liabilities	1,207	(836)	(330)	(19)	22
Securities lending and repurchase agreements	1,358	—	—	(1,332)	26
Total financial liabilities	**2,565**	**(836)**	**(330)**	**(1,351)**	**48**

As at 31 December 2016		Related amounts not offset in the combined statement of financial position			
	Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
	£m	£m	£m	£m	£m
Financial assets:					
Derivative assets	2,865	(863)	(1,776)	(64)	162
Reverse repurchase agreements	8,380	—	—	(8,295)	85
Total financial assets	**11,245**	**(863)**	**(1,776)**	**(8,359)**	**247**
Financial liabilities:					
Derivative liabilities	1,494	(863)	(454)	(143)	34
Securities lending and repurchase agreements	1,496	—	—	(1,496)	—
Total financial liabilities	**2,990**	**(863)**	**(454)**	**(1,639)**	**34**

In the tables above, the amounts of assets or liabilities included in the statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral held or pledged. The actual amount of collateral may be greater than amounts presented in the tables.

Reverse repurchase agreements shown in the tables above are included within deposits on the combined statement of financial position.

28.4 Demographic and expense risk

The Group is exposed to significant levels of demographic risk. This arises mainly from the annuity business in the form of longevity risk, which is the risk that the Group's (current and deferred) annuity customers live longer than expected in the Group's current pricing and reserving assumptions, and as a result future reserving and capital assumptions are changed. If mortality improvement rates significantly exceed the improvement assumed, the Group's results could be adversely affected. Further to this, any major medical breakthrough (for example in the treatment of cancer or other life-threatening diseases) that would require the Group to strengthen its longevity assumptions would have an impact on the Group's results.

Longevity risk has been predominantly managed through:

- annual reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus best estimate assumptions;
- longevity research;
- longevity risk transfer transactions are assessed against principles and guidance provided in a reinsurance appraisal framework; and
- monthly monitoring of longevity exposure.

Other demographic risks such as persistency risk and non-annuitant mortality risk, and also expense risk are subject to regular reviews, with frequency and intensity proportionate to the materiality of the risk.

Further details of the sensitivity of profit and shareholders' equity to insurance risk are described below by the components of business.

(A) With-profits business

Mortality and other insurance risk are relatively minor factors in the determination of the policyholder bonus rates. Adverse persistency experience can affect the level of profitability from with-profits, but in any given year the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

(B) Unit-linked business

By virtue of the design features of most of the contracts which provide low levels of mortality cover, profit is relatively insensitive to changes in mortality experience. Persistency experience variances can affect the level of profit in the year. The shareholder is also exposed to variances in expenses relative to the charges levied on these products.

(C) Annuity and other long-term business

Profits from shareholder-backed annuity business are most sensitive to the following insurance risks:

- the extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities;
- the variance between actual and expected mortality experience and its impact on current mortality assumptions; and
- changes in maintenance expense levels.

A decrease in assumed mortality rates of 1% would decrease pre-tax profit for the six months ended 30 June 2019 by approximately £41m (for the year ended 31 December 2018: £37m; 31 December 2017, £66m; 31 December 2016: £67m).

A decrease in shareholder-backed annuity renewal expenses (excluding asset management expenses) of 5% would increase pre-tax profit by £22m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £21m; 31 December 2017: £40m; 31 December 2016: £41m).

The effect on profit would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. See Note 21.1.3 for further details on mortality assumptions.

The insurance risk on the other long-term business is not significant in the context of the Group's overall liabilities.

28.5 Treasury liquidity risk

Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and planned dividends) as they fall due.

Liquidity management in the Group seeks to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities. Liquidity risk is carefully managed in particular in relation to: bank balances, cashflow forecasting, appropriate fund management (to ensure that assets are not unduly concentrated in less liquid investments) and detailed cash-flow matching for the annuity business. Specific arrangements are also in place to manage liquidity in the unit-linked funds, particularly property funds where the underlying assets are relatively illiquid.

Most of the Group's assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contain discretionary surrender values or surrender charges, reduces the liquidity risk.

(A) Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

As at 30 June 2019	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	9,040	9,040	—	—	—	—	—	—	9,040
Borrowings and subordinated liabilities	3,712	786	1,525	264	210	167	2,106	—	5,058
Other financial liabilities	2,723	2,723	—	—	—	—	—	—	2,723
Accruals, deferred income and other liabilities	7,140	6,163	248	69	95	110	265	190	7,140
Total	**22,615**	**18,712**	**1,773**	**333**	**305**	**277**	**2,371**	**190**	**23,961**

As at 31 December 2018	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	9,383	9,383	—	—	—	—	—	—	9,383
Borrowings and subordinated liabilities	4,055	648	1,342	721	275	142	2,088	—	5,216
Other financial liabilities	2,592	2,592	—	—	—	—	—	—	2,592
Accruals, deferred income and other liabilities	6,262	5,312	177	63	90	109	320	191	6,262
Total	**22,292**	**17,935**	**1,519**	**784**	**365**	**251**	**2,408**	**191**	**23,453**

As at 31 December 2017	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	5,638	5,638	—	—	—	—	—	—	5,638
Borrowings and subordinated liabilities	3,877	926	1,154	141	142	136	2,171	100	4,770
Other financial liabilities	3,255	3,255	—	—	—	—	—	—	3,255
Accruals, deferred income and other liabilities	4,872	3,943	194	58	85	106	300	186	4,872
Total	**17,642**	**13,762**	**1,348**	**199**	**227**	**242**	**2,471**	**286**	**18,535**

As at 31 December 2016	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	6,034	6,034	—	—	—	—	—	—	6,034
Borrowings and subordinated liabilities	1,507	511	876	33	21	10	61	144	1,656
Other financial liabilities	3,269	3,269	—	—	—	—	—	—	3,269
Accruals, deferred income and other liabilities	4,571	3,839	168	55	80	103	322	4	4,571
Total	**15,381**	**13,653**	**1,044**	**88**	**101**	**113**	**383**	**148**	**15,530**

(B) Maturity analysis of investment contracts on an undiscounted cash flow basis

The table below shows the maturity profile for investment contracts on undiscounted cash flow projections of expected benefit payments.

	Total carrying value	1 year or less	1- 5 years	5- 10 years	10- 15 years	15- 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 30 June 2019	83,255	8,093	32,342	29,861	20,662	12,496	15,718	11,326	130,498
As at 31 December 2018	82,598	7,851	29,669	28,705	20,116	12,365	15,704	11,224	125,634
As at 31 December 2017	79,409	7,559	27,143	26,567	19,086	12,429	14,322	12,188	119,294
As at 31 December 2016	68,661	5,937	22,594	22,882	15,245	9,876	9,164	11,411	97,109

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean surrenders are unlikely to be exercised in practice.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets. As a result an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

(C) Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with a maturity profile of the net derivative position:

	Carrying value of net derivatives			Maturity profile of net derivative position				
	Derivative assets	Derivative liabilities	Net derivative position	1 year or less	1-3 years	3-5 years	After 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
As at 30 June 2019 . .	2,883	(2,677)	206	553	(345)	—	(2)	206
As at 31 December 2018	2,513	(2,208)	305	467	(162)	—	—	305
As at 31 December 2017	2,954	(1,661)	1,293	1,583	(290)	—	—	1,293
As at 31 December 2016	2,927	(1,861)	1,066	1,303	(197)	—	(40)	1,066

The majority of derivative assets and liabilities have been included at fair value within the one year or less column, representing the basis on which they are managed (i.e. to manage principally asset or liability value exposures). The Group has no cash flow hedges and in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments.

28.6 Derivatives and hedging

The Group uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In doing so, the Group obtains cost effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency, credit and other business risks. The Group has opted not to apply hedge accounting to derivatives.

The Group uses various interest rate derivative instruments such as interest rate swaps and swaptions to reduce exposure to interest rate volatility.

The Group also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than Pounds Sterling.

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association, Inc.) master agreements and CSA (Credit Support Annex) agreements. The Group has collateral agreements between the individual group entities and relevant counterparties in place under each of these market master agreements. The Group also has the ability to enter into cleared derivative positions under EMIR (European Market Infrastructure Regulation).

There are hedging arrangements in place for the with-profits liabilities. In addition to some product/purpose specific arrangements, the main objective of the hedging arrangements is to broadly match a subset of the market consistent liabilities and hence protect the capital position of the with-profits business against adverse market movements. A benchmark of a theoretical replicating portfolio (comprising of equity put options and interest rate exposures) representing the liabilities has been determined, based on characteristics of the with-profits liability. The actual and required hedging positions are monitored at least monthly and rebalanced if required.

(A) Hedges in respect of shareholder transfers arising from the with-profits business

The shareholder's exposure to market risk from with-profits business arises from the declaration of policyholder bonuses which depend on investment return of the funds. These shareholder transfers, while smoothed, are particularly exposed to equity risk.

The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The effect for the six months ended 30 June 2019 was an unrealised loss of £181m (for the year ended 31 December 2018: gain of £201m; 31 December 2017: loss of £113m; 31 December 2016: gain of £202m) and a realised loss of £nil (31 December 2018: loss of £48m; 31 December 2017: loss of £97m; 31 December 2016: loss of £75m).

During 2018, PAC entered into a risk management arrangement of the shareholder transfers expected to emerge from the WPSF, specifically with regard to new business invested in PruFund in 2018. This arrangement is designed to protect the shareholder against extremely weak market returns. The transaction resulted in a £19m loss for the six months ended 30 June 2019 (for the year ended 31 December 2018: £nil). The arrangement was extended in June 2019 to protect business written over the first half of 2019, and had no impact on profit in the six months ended 30 June 2019.

29. Contingencies and related obligations

29.1 Litigation and regulatory matters

In addition to the matters set out in Note 24 in relation to the FCA review of past annuity sales, 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.

29.2 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.

The Group has 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.

29.3 Support for with-profits fund by shareholder

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 with-profits funds:

- 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 the time) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customer 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. 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, such 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 has historically been supported by related intra-group arrangements between Prudential plc and PAC, which formalised the circumstances in which capital support would be made available to PAC by Prudential plc. These arrangements between Prudential plc and PAC will terminate at Admission, at which time arrangements formalising the circumstances in which the Company will make capital support available to PAC, and the circumstances in which PruCap will guarantee and provide collateral with respect to a part of the Company's commitment, will become effective.

- SAIF: Policies within this sub-fund contain guaranteed benefits to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the WPSF would be liable to cover any such deficiency in the first instance. In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £372m is held within the sub-fund as at 30 June 2019 (31 December 2018: £361m; 31 December 2017: £503m; 31 December 2016: £571m).
- Guaranteed annuities: A provision for guaranteed annuity products of £49m is held as at 30 June 2019 (31 December 2018: £49m; 31 December 2017: £53m; 31 December 2016: £62m) in the with-profits sub-fund.

30. Commitments

Operating leases and capital commitments

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Until 1 January 2018, payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease as required by IAS 17, 'Leases'.

On the adoption of IFRS 16, 'Leases' from 1 January 2018, the Group has recognised a lease liability in respect of these leases representing the obligation to make future lease payments.

The table below presents a maturity analysis of lease payments showing the undiscounted lease payments to be received on an annual basis on these leases.

	As at 30 June		As at 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:					
Less than 1 year	9	21	16	19	20
1 - 5 years	109	115	105	33	36
Over 5 years	314	327	325	8	11
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings (i)	—	—	—	2	1
Minimum lease rental payments included in combined income statement (i)	—	—	—	22	23

(i) Disclosure no longer required on transition to IFRS16

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment property as at 30 June 2019 were £628m (31 December 2018: £615m; 31 December 2017: £176m; 31 December 2016: £458m).

As at 30 June 2019, the Group had unfunded commitments of £4,234m (31 December 2018: £4,610m; 31 December 2017: £3,776m; 31 December 2016: £2,985m) to private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

31. Related party transactions

The Group and its related parties comprise members of the Prudential plc Group as well as the Group's joint ventures and associates, Prudential plc's joint ventures and associates and any entity controlled by those parties.

31.1 Transactions and balances with related parties

(A) Transactions with Prudential plc group

The following transactions were carried out with related parties who are members of the Prudential plc group.

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Revenue	8	3	7	20	16
Expenses	57	49	127	130	111

	As at 30 June		As at 31 December	
	2019	2018	2017	2016
	£m	£m	£m	£m
Amounts due from related parties	35	968	743	801
Amounts due to related parties	1,361	1,579	1,594	1,686

Details of related party capital support arrangements are included in Note 29.

(B) Transactions with the Group's joint ventures and associates

The Group received dividends of £156m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £9m; 31 December 2017: £36m; 31 December 2016: £45m) and made additional capital injections of £1m in the six months ended 30 June 2019 (for the year ended 31 December 2018: £181m; 31 December 2017: £3m; 31 December 2016: £3m) from/to joint ventures or associates accounted for using the equity method.

In addition, the Group had balances due from joint ventures or associates accounted for using the equity method of £132m as at 30 June 2019 (31 December 2018: £163m; 31 December 2017: £104m; 31 December 2016: £185m) and balances due to joint ventures or associates accounted for using the equity method of £29m as at 30 June 2019 (31 December 2018: £29m; 31 December 2017: £28m; 31 December 2016: £28m).

Furthermore, in the normal course of business a number of investments into/divestments from investment vehicles managed by the Group were made. This includes investment vehicles which are classified as investments in associates and joint ventures measured at FVTPL. The Group entities paid amounts for the issue of shares or units and received amounts for the cancellation of shares or units. These transactions are not considered to be material to the Group.

31.2 Compensation of key management personnel

Key management personnel includes directors of the Company for all periods included in this HFI representing their compensation based on their role prior to the establishment of the Company. For the period from 1 January 2019 to 30 June 2019, those members of the Executive Committee, which was formed in 2019, who are deemed to have power to influence the direction, planning and control the activities of the Group are also considered to be key management personnel.

Key management personnel of the Company may from time to time purchase insurance, asset management or annuity products marketed by the Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In all periods presented, other transactions with key management personnel are not deemed to be significant either by virtue of their size or in the context of the key management personnel's respective financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

The summary of compensation of key management personnel is as follows:

	For the six months ended 30 June		For the year ended		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Salaries and short-term benefits	2.3	1.0	5.1	4.5	2.3
Post-employment benefits	0.3	0.2	0.4	0.3	0.2
Share-based payments	—	—	1.5	2.4	1.8
Total	**2.6**	**1.2**	**7.0**	**7.2**	**4.2**

32. Capital management

32.1 Capital regulations of entities within the Group

During the Track Record Period the regulated entities within the Group have been subject to local capital regulations. Capital is actively managed to ensure that local regulatory requirements are met. The main regulated entities and the regulatory framework to which they must adhere are listed below:

Entity	Main activity	Regulatory Framework
The Prudential Assurance Company Limited	Insurance	Solvency II
Prudential International Assurance plc	Insurance	Solvency II
Prudential Pensions Limited	Insurance	Solvency II
M&G Group Limited	Investment management	BIPRU (i)

(i) Prudential Sourcebook for Banks, Building Societies and Investment Firms

Following the Demerger, the Group will be regulated under Solvency II and will manage group Solvency II own funds as its measure of capital. While M&G Group Limited is subject to separate local regulatory requirements, this will be consolidated within the Group's Solvency II results on a sectoral basis.

32.2 Insurance undertakings

The insurance undertakings within the Group are subject to Solvency II capital requirements on an individual basis. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the PRA in the UK. 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 assets less liabilities and certain other restrictions. The SCR is calculated using the Group's internal capital model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

The main regulated insurance entity within the Group is PAC, which includes the insurance subsidiaries Prudential International Assurance plc and Prudential Pensions Limited within its solo capital calculation. All regulated insurance entities within the Group have met their respective capital requirements during the Track Record Period.

32.3 Asset management undertakings' regulatory capital requirements

M&G Group Limited is the Group's main asset management subsidiary. M&G Group Limited and its regulated subsidiaries are subject to minimum capital requirements set by the FCA. Regulatory capital is defined as the total of share capital and retained earnings less regulatory deductions. The minimum level of regulatory capital required (Pillar 1) is the higher of a fixed overhead requirement and the sum of the credit risk and market risk capital requirements.

In addition, M&G Group Limited is required to maintain a minimum level of Pillar 2 capital, which is set in relation to the firm's actual risk profile and its own determination of whether capital is required to cover these risks. This is achieved through the Internal Capital Adequacy Assessment Process ("**ICAAP**") undertaken by M&G Group Limited and the Supervisory Review and Evaluation Process performed by the FCA.

M&G Group Limited and its subsidiaries have met their respective capital requirements over the historical period.

32.4 Illustrative Group capital position

(A) Regulatory capital position

The regulatory capital position of the Group will take into account both shareholder and with-profits funds. This view of capital recognises the ring-fenced nature of the with-profits funds and on consolidation, surplus in those funds can only be recognised to the level of associated solvency capital requirement with any excess surplus being eliminated as a ring-fenced fund restriction. As such the combined solvency coverage ratio is highly resilient to movements in the with-profits own funds.

The following illustrative regulatory capital position for the Group has been prepared as at 30 June 2019. The illustrative position reflects the perimeter of the Group as set out in Note 1.2.2. The results include transitional measures which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date, which at 30 June 2019 differed from the approved regulatory position for PAC.

The Group has requested approval from the PRA to amend the existing Prudential Group internal model to apply at the level of the Group, rather than the existing Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from this point. The results set out below should not be interpreted as representing the Pillar I output from an approved Solvency II internal model for the Group and are subject to change.

	As at 30 June 2019	
	£m	
Assets	205,855	Audited (i)
Technical Provisions	172,203	
Best Estimate Liabilities	170,492	Audited
Risk Margin	4,730	Unaudited
Transitional Measures	(3,019)	Unaudited
Other liabilities	13,079	Audited
Excess of assets over liabilities	**20,573**	
Subordinated debt	—	Audited
Ring-fenced fund restriction	6,640	Unaudited
Group illustrative own funds	**13,933**	**Unaudited**
Group illustrative SCR	10,074	Unaudited
Group illustrative surplus	**3,859**	**Unaudited**
Regulatory coverage ratio	138%	Unaudited

(i) Solvency II assets include balances in respect of M&G Group Limited, Prudential Lifetime Mortgages Limited and other entities which are valued on a sectoral basis in accordance with the Solvency II rules. These balances are unaudited.

(B) Estimated and unaudited shareholder capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered a more accurate reflection of the capital strength of the Group. The shareholder view includes future with-profits shareholder transfers, but excludes the shareholders' share of the ring-fenced with-profits estate. The estimated and unaudited illustrative shareholder Solvency II capital position for the Group as at 30 June 2019 and 31 December 2018 is shown below, prepared on a basis consistent with the regulatory capital position in Note 32.4(A).

	As at 30 June 2019	As at 31 December 2018
	£bn	£bn
Own Funds	9.5	9.6
SCR	5.6	5.6
Surplus	3.9	4.0
Coverage ratio	169%	172%

32.5 Meeting of capital management objectives

The Group manages its capital on a Solvency II basis to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stress market conditions and thus make the Solvency II balance sheet under the regulatory view resilient to stresses that affect the Group's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the regulator. The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this influences the approach to asset/liability management.

In addition, projections are performed over three year time horizons to understand how the own funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the own funds position.

As well as holding sufficient capital to meet regulatory requirements, the Group also closely manages the cash it holds so that it can:

- maintain flexibility, fund new opportunities and absorb shock events;
- meet liabilities to policyholders and other obligations;
- fund dividends; and
- cover central costs and debt payments.

33. Post balance sheet events

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

On 16 August 2019, the High Court declined to sanction the Scheme, despite the independent expert, who was appointed to report to the High Court, concluding that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. PAC and Rothesay Life have been granted leave to appeal the judgement. The High Court's judgement has no direct impact on the reinsurance with Rothesay Life and there is no significant impact on the carrying value of the associated assets and liabilities which were classified as held for sale at 30 June 2019 and 31 December 2018.

34. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of the Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent.) along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 30 June 2019 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS statements. The Group's consolidation policy is described in Note 1.5.

34.1 Direct subsidiary undertakings of the parent company, M&G plc (shares held directly or via nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Prudential (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Prudential Assurance Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

34.2 Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc, or its nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
ANRP II (AIV VI FC), L.P.	LPI	43%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
BWAT Retail Nominee (1) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Calvin F1 GP Limited (in liquidation)	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Calvin F2 GP Limited (in liquidation)	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Canada Property (Trustee) No 1 Limited	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Canada Property Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cardinal Distribution Park Management Limited	OS	66%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford (Nominee A) Limited	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford (Nominee B) Limited	OS	100%	13 Castle Street, St Helier, JE4 5UT , Jersey
Carraway Guildford General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Investments Unit Trust	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford Limited Partnership	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Centaurus Retail LLP	LPI	50%	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	LPI	48%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	LPI	76%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	LPI	46%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	37%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	LPI	38%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
CJPT Real Estate Inc.	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
CJPT Real Estate No 1 Trust	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No 2 Trust	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway JV Limited	OS	50%	40 Broadway, London, SW1H 0BT, UK
Cribbs Causeway Merchants Association Ltd ("CCMA Ltd")	LBG	20%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP LLP	LPI	65%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Eastspring Investments – Asian Local Bond Fund	OS	99%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Smaller Companies Fund	OS	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Total Return Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Developed and Emerging Asia Equity Fund	OS	98%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Customized Equity Fund	OS	99%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Dynamic Fund	OS	91%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Japan Equity Fund	U	87%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	OS	35%	26, Boulevard Royal, L-2449, Luxembourg

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments SICAV-FIS Africa Equity Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Equity Income Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Edger Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Edinburgh Park (Management) Limited	LBG	100%	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, UK
Embankment GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Falan GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	LPI	50%	1209 Orange Street, Wilmington, DE 19801, USA
Folios III Designated Activity Company	OS	60%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	OS	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird Limited Partnership	LPI	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	OS	50%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Genny GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Genny GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
GGE GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Green GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Greenpark (Reading) General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Greenpark (Reading) Nominee No. 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GreenPark (Reading) Nominee No. 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
GS R100 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Holborn Bars Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (AIRI) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Belmond) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Bio) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Churchill) GP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (Churchill) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (GC) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (IT PPP) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Leo) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Sense) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) SLP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital CI II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital F1 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital GP 2 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP II Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield DF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP EF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder LP	LPI	76%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I GP 2 Limited	OS	100%	Unit 2 Spinnaker Court 1c Becketts Place, Hampton Wick, Kingston Upon Thames, Surrey, KT1 4EQ, UK
Infracapital Greenfield Partners I GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I LP	LPI	27%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I SLP LP	LPI	36%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners II LP	LPI	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners II Subholdings GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners III GP SARL	OS	100%	6, rue Eugène Ruppert, L-245, Luxembourg

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital Partners III Subholdings (Euro) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	LPI	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital RF GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Sisu GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP EF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II LP	LPI	40%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Innisfree M&G PPP LLP	LPI	35%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Innisfree M&G PPP LP	LPI	62%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Invesco Managed Growth Fund (UK)	U	20%	Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK
LF Prudential European QIS Fund	OS	92%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Japanese QIS Fund	OS	98%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential North American QIS Fund	OS	96%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Pacific Markets Trust Fund	OS	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
LF Prudential UK Growth QIS Fund	OS	97%	65 Gresham Street, London, EC2V 7NQ, UK 65 Gresham Street, London, EC2V 7NQ, UK 65 Gresham Street, London, EC2V 7NQ, UK
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	OS	100%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
London Stone Investments F3 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
London Stone Investments F3 II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 SP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G (Guernsey) Limited	OS	100%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
M&G (Lux) Investment Funds 1 – M&G (Lux) European Strategic Value Fund	OS	71%	49 Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Alternatives Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Asia Property Fund	OS	57%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Corporate Bond Fund	OS	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	25%	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Dividend Fund	OS	58%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Episode Macro Fund	OS	21%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European Credit Investment Fund	OS	42%	80, route d'Esch, L-1470, Luxembourg
M&G European High Yield Credit Investment Fund	OS	80%	80, route d'Esch, L-1470, Luxembourg
M&G European Loan Fund Ltd	OS	23%	Block D, Iveagh Court, Harcourt Road, Dublin, 2 Ireland
M&G European Property Fund SICAV-FIS	OS	44%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G European Select Fund	OS	41%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Founders 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G General Partner Inc.	OS	100%	Walker House, 87 Mary Street, Grand Cayman, KY1 9002, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	OS	51%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G IMPPP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments S.A.	OS	100%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G International Investments Switzerland AG	OS	100%	Talstrasse 66, 8001 Zurich, Switzerland

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Investment Funds (10) – M&G Absolute Return Bond Fund	OS	51%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) – M&G Positive Impact Fund	OS	42%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) – M&G Episode Allocation Fund	OS	22%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) – M&G Global Convertibles Fund	OS	66%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investments (Americas) Inc.	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
M&G Investments (Australia) Pty Ltd	OS	100%	Level 16, Grosvenor Place, 225 George Street, Sydney, NSW 2000, Australia
M&G Investments (Hong Kong) Limited	OS	100%	6th Floor, Alexander House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	OS	100%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Investments Japan Co., LTD.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G FA Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Luxembourg S.A.	OS	100%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Management Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Pan European Select Smaller Companies Fund	U	25%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI Carry Partnership 2016 LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Platform Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Prudential Insurance Company Limited	OS	100%	PO Box 34, St Martin's House, St Peter Port, GY1 4AU
M&G Prudential Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RE Espana, 2016, S.L.	OS	100%	Calle Fortuny, 6 - 4 A, 28010, Madrid, Spain
M&G RE UKEV (GP1) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1-A LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Asia PTE. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Debt Finance VI Designated Activity Company	OS	46%	4th Floor, 76 Lower Baggot Street, Dublin 2, D02 Ek81, Ireland
M&G Real Estate Funds Management SARL	OS	100%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Real Estate Japan Co., Ltd.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	OS	67%	Jongno 1-ga, Kyobo Building, Seoul, Korea
M&G Real Estate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate UK Enhanced Value LP	LPI	50%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RED Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, GY1 1WG, Guernsey
M&G RED II SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III GP Limited	OS	100%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, GY1 1WG, Guernsey
M&G RED III SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RPF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RPF Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Securities Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SIF Management Company (Ireland) Limited	OS	100%	78, Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
M&G Specialty Finance Fund (GP) Sárl	OS	100%	51, Avenue J.F. Kennedy, L-1855 Luxembourg
M&G Specialty Finance Fund Carry Interest Partnership (GP) Sárl	OS	100%	51, Avenue J.F. Kennedy, L-1855 Luxembourg
M&G UK Companies Financing Fund II LP	LPI	48%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Fund	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Residential Property Fund	LPI	58%	34-38, avenue de la Liberté, L-1931, Luxembourg
M&G UKCF II GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) General Partner LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Manchester JV Limited	OS	50%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
MCF S.r.l.	LPI	45%	Via Romagnosi 18/a, 00196 Roma, Italy
Minster Court Estate Management Limited	OS	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	OS	99%	300 E Lombard Street, Baltimore, MD 21202, USA
Oaktree Business Park Limited	OS	14%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Old Kingsway LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Ltd	OS	58%	Barrat House Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGDS (UK One) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGF Management Company (Ireland) Limited	OS	50%	5 George's Dock, Dublin 1, D01 X8N7, Ireland

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM America Private Equity Fund III LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	LPI	40%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	LPI	46%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM Capital (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPM Funds – PPM Core Plus Fixed Income Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM Credit Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM Floating Rate Income Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM High Yield Core Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM Small Cap Value Fund	OS	97%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds – PPM Strategic Income Fund	OS	88%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Managers GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Ventures (Asia) Limited (In liquidation)	OS	100%	Gloucester Tower, 15 Queens Road, Central, Hong Kong
PPMC First Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Property Partners (Two Rivers) Limited	OS	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Prudential / M&G UKCF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential/M&G UK Companies Financing Fund LP	LPI	34%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Credit Opportunities GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Credit Opportunities SCSp	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Distribution Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dynamic 0-30 Portfolio	OS	23%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 10-40 Portfolio	OS	28%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 20-55 Portfolio	OS	35%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 40-80 Portfolio	OS	34%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 60-100 Portfolio	OS	30%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 0-30 Portfolio	OS	53%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 20-55 Portfolio	OS	34%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Planning Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential GP Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Prudential Group Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Holborn Life Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential International Assurance plc	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential Investment (Luxembourg) 2 S.a.r.l.	OS	100%	34-38, Avenue de la Liberté, L-1930, Luxembourg
Prudential Lifetime Mortgages Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Lifetime Mortgages Limited	PS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Loan Investments 1 S.A.R.L	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Loan Investments GP S.A.R.L	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Loan Investments SCSp	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Polska sp. z.o.o	OS	100%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers (South Africa) (Pty) Limited	A Class OS	75%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Properties Trusty Pty Limited	OS	100%	Darling Park Tower 2, 201 Sussex Street, Sydney, NSW, 1171, Australia
Prudential Property Investment Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investments Limited	PS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Protect Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Retirement Income Limited (in liquidation)	OS	100%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Retirement Income Limited (in liquidation)	PS	100%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Trustee Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Services Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Venture Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Rift GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rift GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
ScotAm Pension Trustees Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Finance Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Holdings Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Life Assurance Society	No share capital	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Pensions Investments Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Sealand (No 1) Limited	OS	100%	Lime Grove House, Green Street, St Helier, JE1 2ST
Sealand (No 2) Limited	OS	100%	Lime Grove House, Green Street, St Helier, JE1 2ST
Sectordate Ltd	OS	33%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 2) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Selly Oak Shopping Park Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2005 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2006 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	1209 Orange Street, Wilmington, DE 19801, USA
St Edward Homes Limited	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edwards Strand Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
Stableview Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Staple Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Car Auction Unit Trust	OS	50%	Dorey Court, Admiral Park, St. Peter Port, GY1 2HT, Guernsey
The First British Fixed Trust Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Greenpark (Reading) Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Heights Management Company Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The St Edward Homes Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
The Strand Property Unit Trust	LPI	50%	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	OS	50%	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Three Snowhill Birmingham S.a.r.l.	OS	100%	5, rue Guilllaume Kroll, L-1882, Luxembourg
Two Rivers LP	LPI	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham S.a.r.l.	OS	100%	5, rue Guilllaume Kroll, L-1882, Luxembourg
Wessex Gate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wynnefield Private Equity Partners II, L.P.	LPI	99%	1209 Orange Street, Wilmington, DE 19801, USA