10 March 2020

M&G plc full year 2019 results

M&G plc delivers a positive financial performance in a challenging market

Performance highlights

- Assets under management and administration increased to £352 billion, principally reflecting strong investment returns over the year
- Modest net client outflows in Savings and Asset Management of £1.3 billion, with net client inflows into UK Retail Savings, which includes PruFund, mostly offsetting net client outflows in Retail Asset Management
- Adjusted operating profit before tax[1] of £1,149 million in line with our expectations and IFRS profit after tax from continuing operations of £1,065 million
- Total capital generation of £1,509 million and shareholder Solvency II coverage ratio of 176%[2]
- On track to deliver annual run-rate shareholder cost savings of £145 million by 2022 through our five-year transformation programme
- Ordinary dividend of 11.92 pence per share and special demerger dividend of 3.85 pence per share

John Foley, Chief Executive, said: “We have achieved much in 2019. As well as executing a successful demerger, we have maintained a clear focus on the day-to-day management of our business as indicated by a positive set of financial results in a challenging market. Adjusted operating profit before tax of £1,149 million and total capital generation of £1,509 million for the year represent a resilient performance in line with our expectations.

“Total assets under management and administration increased to £352 billion, largely reflecting investment returns over the year. Across Savings and Asset Management, we saw modest total net client outflows of £1.3 billion. Flows into our UK Retail Savings business, including PruFund, largely offset flows out of our Retail Asset Management business. This demonstrates the value of our diversified business model and the appeal of our smoothed investment propositions.

“We have made a good start to life as an independent business and we are strongly positioned for growth. Our diversified investment capabilities, coupled with our client relationships in 28 markets, mean we are well positioned to meet the growing global demand for savings and investment solutions, supported by favourable long-term economic and social trends that offer growth opportunities for many years to come."

Global markets continue to be unnerved by a series of factors, including most recently the spread of COVID-19 and its potential economic impact. While there remains significant uncertainty, our balance sheet continues to be resilient. As at 6 March 2020, our shareholder Solvency II coverage ratio was estimated at 166%[2,3], which is firmly within our risk appetite.

Performance highlights	2019	2018
Adjusted operating profit before tax (£m)	1,149	1,621
IFRS profit after tax (£m)	1,065	811
Assets under management and administration (£bn)	352	321
Savings and Asset Management net client flows (£bn)	(1.3)	(1.7)
Total capital generation (£m)	1,509	2,369
Shareholder Solvency II coverage ratio	176%	170%

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Notes to Editors

1. The results in this preliminary announcement are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and are based on the consolidated financial statements of M&G plc.
2. All key performance measures relate to continuing operations[4].
3. Total number of M&G plc shares in issue as at 31 December 2019 was 2,599,906,866.

[1] Adjusted operating profit before tax is IFRS profit before tax excluding short-term fluctuations in investment returns, profit/(loss) on corporate transactions, restructuring and other costs, and profit/(loss) before tax from discontinued operations.

[2] The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group’s ring-fenced With-Profits Fund.

[3] After an assumed recalculation of transitional measures on technical provisions.

[4] Continuing operations excludes our Asia insurance operations and treasury services provided to Prudential plc which are presented as discontinued operations.

4. A presentation for analysts and investors will be held on 10 March 2020 at 11am (UK time) in the Auditorium at M&G plc, 10 Fenchurch Avenue, London EC3M 5AG. The presentation will be webcast live and available to replay afterwards using the following link https://www.investis-live.com/mandg-plc/5e304f4cf079ed0b0099e78e/bida

   To register attendance in person please send an email to IR@MandG.com

   The presentation will also be available to replay afterwards using the following link https://global.mandg.com/investors/results-reports-and-presentations

5. **Ordinary dividend and special demerger dividend to be paid in May 2020**

Ex-dividend date	April 16, 2020
Record date	April 17, 2020
Payment of dividend	May 29, 2020

6. **About M&G plc**

   M&G plc is a savings and investment business which was formed in 2017 through the merger of Prudential plc's UK and Europe savings and insurance operation and M&G Investments, the international asset manager. Following the completion of its demerger from Prudential plc, M&G plc shares were admitted to trading on the London Stock Exchange on 21 October 2019. As an independent company, M&G plc has a single corporate identity and continues with two customer-facing brands; Prudential for savings and insurance customers in the UK and Europe and for asset management in South Africa and M&G Investments for asset management clients globally.

7. **Additional Information**

   M&G plc, a company incorporated in the United Kingdom, is the direct parent company of The Prudential Assurance Company Limited. The Prudential Assurance Company Limited is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

8. **Forward-Looking Statements**

   This announcement may contain certain 'forward-looking statements' with respect to M&G plc and its affiliates (the "M&G Group"), its plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G plc's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements.

   By their nature, all forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may be beyond the M&G Group's control. A number of important factors could cause M&G plc's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement.

   Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union); market-related conditions and risk, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, corporate liquidity risk and the future trading value of the shares of M&G plc; investment portfolio-related risks, such as the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G plc's business and results from, in particular, mortality and morbidity trends, longevity assumptions, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions, such as transformation programmes, failing to meet their objectives; the impact of operational risks, including risk associated with third party arrangements, reliance on third party distribution channels and disruption to the availability, confidentiality or integrity of M&G plc's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which the M&G Group operates; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits.

   Any forward-looking statements contained in this document speak only as of the date on which they are made. M&G plc expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, or other applicable laws and regulations. Nothing in this announcement shall be construed as a profit forecast, or an offer to sell or the solicitation of an offer to buy any securities.

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

Chief Executive's review

Well-placed for long-term growth

A historic year

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

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

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

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

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

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

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

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

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

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

Positive financial performance in a challenging market

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

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

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

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

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

Total capital generation over the year was £1,509 million. While this benefitted from strongly positive market impacts and management actions, we remain confident of meeting our three-year target of £2.2 billion capital generation by full year 2022.

Well positioned for growth

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

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

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

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

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

Responsible stewards

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

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

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

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

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

A great place to work

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

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

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

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

Outlook

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

Global markets continue to be unnerved by a series of factors, including most recently the spread of COVID-19 and the potential economic impacts of it. There remains significant uncertainty. We are monitoring the situation and have made preparations to ensure we are able to continue to operate effectively. Further market turbulence could have an impact on our capital strength. As at 6 March 2020, our shareholder Solvency II coverage ratio was estimated at 166%[5], which remains firmly within our risk appetite.

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

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

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

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

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

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

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

[5] After an assumed recalculation of transitional measures on technical provisions.

Business and financial review

A positive set of financial results in a challenging market

A review of our business and financial performance in 2019

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

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

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

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

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

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

Overview

Adjusted operating profit before tax

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

£m	2019	2018
Asset Management fee based revenues	**1,033**	1,113
Other fee based revenues	**254**	241
Total fee based revenues	**1,287**	1,354
Annuity margin	**458**	1,129
With-profit shareholder transfer net of hedging gains/(losses)	**242**	255
Adjusted operating income	**1,987**	2,738
Asset Management operating expenses	**(652)**	(640)
Other operating expenses	**(311)**	(277)
Adjusted operating expenses	**(963)**	(917)
Other shareholder profit/(loss)	**110**	(216)
Share of profit from joint ventures and associates	**15**	16
Adjusted operating profit before tax	**1,149**	1,621
Short-term fluctuations in investment returns	**298**	(3)
Profit/(loss) on disposal of business and corporate transactions	**53**	(508)
Restructuring and other costs [(i)]	**(198)**	(109)
IFRS profit attributable to non-controlling interests	**3**	2
IFRS profit before tax attributable to equity holders from continuing operations	**1,305**	1,003
Tax charge attributable to equity holders	**(240)**	(192)
IFRS profit after tax attributable to equity holders from continuing operations	**1,065**	811

(i) Restructuring costs excluded from adjusted operating profit relate to merger and transformation costs of £62 million (2018; £102 million), and rebranding and other change in control costs allocated to the shareholder. Additional restructuring costs are included in the analysis of administrative and other expenses in Note 4

Overview (continued)

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

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

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

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

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

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

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

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

IFRS profit after tax

IFRS profit after tax attributable to equity holders from continuing operations increased to £1065 million compared to £811 million for 2018 reflecting the fall in adjusted operating profit before tax, profit from non-recurring items of £153 million compared to a loss in 2018 of £620 million and an increase in the equity holders tax charge to £240 million from £192 million in 2018.

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

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

Assets under management and administration (AUMA)

The following table shows the analysis of AUMA:

£ bn	2019	2018
Retail Savings	**63**	51
Retail Asset Management	**75**	76
Institutional Asset Management	**77**	71
Other	**1**	—
Total Savings and Asset Management	**216**	198
Heritage	**134**	124
Corporate	**2**	—
Total AUMA	**352**	321

AUMA was up 9%, mainly a function of positive market developments, with the FTSE All-Share up 14% over the year, and the inclusion of reinsurance assets from Rothesay Life plc, which were previously held for sale and excluded from AUMA. These were offset by net client outflows during the year of £8.9 billion (2018: £8.7 billion net client outflows).

Overview (continued)

Capital generation

The following table shows an analysis of total capital generation:

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

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

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

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

Capital position

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

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

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

Financing and liquidity

The following table shows key financing and liquidity information:

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

The key metric we use to manage our debt is the leverage ratio, defined as nominal value of debt as a percentage of total Group own funds. The increase in the nominal value of debt reflects the transfer of £3.2 billion of subordinated debt from Prudential plc to M&G plc in the period immediately before demerger. Our leverage ratio at 31 December 2019 was 31%.

Overview (continued)

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

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

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

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

Dividends

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

The Board has agreed to pay a one-off demerger-related Special Dividend of 385 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. This will also be paid on 29 May 2020.

Savings and Asset Management

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

Assets under management and administration and net client flows

The following tables shows an analysis of AUMA and net client flows:

£ bn	At 31 December 2018	Net client flows	Market/Other movements	At 31 December 2019
Retail Savings	**50.6**	**6.2**	**6.7**	**63.5**
Retail Asset Management	**76.4**	**(7.4)**	**5.9**	**74.9**
Institutional Asset Management	**70.5**	**(0.1)**	**6.4**	**76.8**
Other	**0.2**	**—**	**0.5**	**0.7**
Total Savings and Asset Management	**197.7**	**(1.3)**	**19.5**	**215.9**

£ bn	At 31 December 2017	Net client flows	Market/Other movements	At 31 December 2018
Retail Savings	44.0	8.2	(1.6)	50.6
Retail Asset Management	90.3	(7.5)	(6.4)	76.4
Institutional Asset Management	73.6	(2.4)	(0.7)	70.5
Other	0.2	—	—	0.2
Total Savings and Asset Management	208.1	(1.7)	(8.7)	197.7

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

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

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

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

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

Savings and Asset Management (continued)

Adjusted operating profit before tax

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

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

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

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

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

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

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

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

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

Savings and Asset Management (continued)

Capital generation

The following table shows an analysis of operating capital generation:

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

Underlying capital generation increased to £442 million (2018: £389 million). Underlying capital generated in the Asset Management business was broadly equivalent to adjusted operating profit before tax. The underlying capital generation from the with-profits in-force business of £61 million, which included a negative impact of £38 million due to the run-off of equity hedges, was offset by the capital strain from new business of £61 million. We enhanced the methodology for allocating the underlying capital generation between PruFund and traditional with-profits business to better reflect the drivers of expected return on this business. This methodology change has resulted in an increase in the underlying capital generation being recognised in Savings and Asset Management, with a corresponding reduction in Heritage underlying capital generation. The improvement in other underlying capital generation was driven by strong investment income on seed capital in the year.

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

Heritage

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

Assets under management and administration and net client flows

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

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

Adjusted operating profit before tax

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

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

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

The following table provides further analysis of the annuity margin:

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

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

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

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

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

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

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

Heritage (continued)

Capital generation

The following table shows an analysis of operating capital generation:

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

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

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

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

Supplementary information

Alternative performance measures

Overview of the Group's key performance measures

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

All information included in this section is unaudited.

The Group's KPMs are summarised below, along with which of these measures are considered APMs by the Group. All of the measures in this section are presented on a continuing operations basis.

Key performance measure	Type	Definition
Adjusted operating profit before tax	**APM, KPM**	Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS total profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax, including adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations. The adjusted operating profit methodology is described in the "Adjusted operating profit" section, along with a reconciliation of total IFRS profit before tax to adjusted operating profit before tax.
Net client flows	**KPM**	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period.
Assets under management and/or administration (AUMA)	**KPM**	Closing AUMA represents the total market value of all financial assets managed and/or administered on behalf of customers at the end of each financial period.
Shareholder Solvency II coverage ratio	**APM, KPM**	The regulatory Solvency II capital position considers the Group's overall own funds and Solvency Capital Requirements ("SCR"). The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II coverage ratio is described in the "Solvency II capital position" section.
Total capital generation	**KPM**	Surplus capital is the amount by which own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements and capital generated from discontinued operations.
Operating capital generation	**KPM**	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs.

Adjusted operating profit before tax

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure. In determining the adjusted operating profit before tax of the Group, certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements, are made to IFRS profit before tax. These include adjustments in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, and profits or losses arising on corporate transactions and profit/(loss) before tax from discontinued operations. Adjusted operating profit before tax is used by the Group for key decision-making and the internal performance management of its operating segments. The Group considers adjusted operating profit before tax to be more representative of the long-term performance of the business, as it is less affected by one-time impacts. 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 and restructuring and other costs. Costs associated with fundamental one-off Group-wide restructuring and transformation are not included in adjusted operating profit before tax.

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

i. Cash flow hedges: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers.

ii. Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position, with no direct link to IFRS profits.

Supplementary information (continued)

Adjusted operating profit before tax (continued)

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

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

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

The key adjustments made to total profit before tax to derive adjusted operating profit before tax are shown below:

- Short-term fluctuations in investment returns: the adjustment to remove short-term fluctuations in investment returns from adjusted operating profit before tax represents the:
  i. difference between the assumed long-term investment return used to determine adjusted operating profit before tax for shareholder annuity and non-linked products and the short-term, unrealised market movements on these products; and
  ii. short-term, temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer.
- Profit/loss on corporate transactions: the profit or loss arising on the purchase or sale of a subsidiary, joint venture, associate or significant line of business is excluded from adjusted operating profit.
- Restructuring and other costs: these costs primarily reflect the shareholder allocation of costs associated with the merger, transformation, rebranding and other change in control costs representing fundamental one-off Group-wide restructuring and transformation and are therefore excluded from adjusted operating profit before tax.
- Certain significant one-off items: items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Group. Such items will be considered on a case-by-case basis."
- Profit/(loss) before tax from discontinued operations: the profit and loss arising on those operations considered to be discontinued.

A reconciliation of IFRS total profit after tax to adjusted operating profit before tax is outlined in Section (iii).

(i) Adjusted operating profit before tax by segment

	For the year ended 31 December							
	Savings and Asset Management		Heritage		Corporate Centre		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Adjusted operating profit before tax by segment	£m	£m	£m	£m	£m	£m	£m	£m
Fee based revenue	**1,191**	1,258	**96**	96	**—**	—	**1,287**	1,354
Annuity margin	**—**	—	**458**	1,129	**—**	—	**458**	1,129
With-profits shareholder transfer net of hedging gains/(losses)	**55**	54	**187**	201	**—**	—	**242**	255
Total adjusted operating income	**1,246**	1,312	**741**	1,426	**—**	—	**1,987**	2,738
Adjusted operating expenses	**(817)**	(779)	**(87)**	(125)	**(59)**	(13)	**(963)**	(917)
Other shareholder gain/(loss)	**30**	(81)	**98**	(136)	**(18)**	1	**110**	(216)
Share of associates' and joint ventures' adjusted operating profit before tax[1]	**15**	16	**—**	—	**—**	—	**15**	16
Adjusted operating profit/(loss) before tax	**474**	468	**752**	1,165	**(77)**	(12)	**1,149**	1,621

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

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

Adjusted operating expenses includes shareholders' operating expenses incurred outside the annuity and with-profits portfolios. Other net shareholder expenses include non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside the annuity portfolio.

Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method.

Supplementary information (continued)

Adjusted operating profit before tax (continued)

(ii) Adjusted operating profit before tax by source

Adjusted operating profit before tax by source	For the year ended 31 December 2019 £m	2018 £m
Savings and Asset Management:		
Asset Management	**381**	473
With-profits	**55**	54
Other	**38**	(59)
Total Savings and Asset Management	**474**	468
Heritage:		
With-profits	**187**	201
Shareholder annuities	**458**	1,129
Other	**107**	(165)
Total Heritage	**752**	1,165
Corporate Centre	**(77)**	(12)
Adjusted operating profit before tax	**1,149**	1,621

Adjusted operating profit before tax arising from shareholder annuities is further analysed in the table below.

Breakdown of contribution from shareholder annuities to adjusted operating profit before tax	For the year ended 31 December 2019 £m	2018 £m
Return on excess assets and margin release	**216**	251
Asset trading and other optimisation	**110**	113
Longevity assumption changes	**126**	441
Amounts relating to the thematic review of annuity sales practices	**(24)**	166
Other (see table below for breakdown)	**30**	158
Shareholder annuities	**458**	1,129

Breakdown of other contribution from shareholder annuities to adjusted operating profit before tax	For the year ended 31 December 2019 £m	2018 £m
Mismatching profits/(losses)	**55**	(33)
Other assumption and model changes	**32**	164
Experience variances	**4**	6
Other provisions and reserves	**(61)**	21
Other contribution	**30**	158

Mismatching profits/losses relates to short-term mismatches between the value of annuity liabilities and the long-term assets backing these liabilities due to the impact of market movements.

Other assumptions and model improvements include assumption changes other than those relating to longevity, the most significant of which are changes to the short-term credit allowance, the impact of expense assumption changes, and the impact of model improvements. In 2018 this item also includes an asset yield benefit from the retention of certain property assets following the reinsurance of part of the annuity portfolio to Rothesay Life plc.

Breakdown of other Savings and Asset Management adjusted operating profit	For the year ended 31 December 2019 £m	2018 £m
International business	**42**	(31)
Investment income	**25**	(17)
Other	**(29)**	(11)
Other Savings and Asset Management	**38**	(59)

International business includes our share of profits from our asset management associate in South Africa and profits from our European savings businesses. 2018 includes a £56m one-off cost related to the development of our business in Poland in 2018.

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

Supplementary information (continued)

Adjusted operating profit before tax (continued)

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

	For the year ended 31 December	
	2019	2018
	£m	£m
Adjusted operating profit before tax	**1,149**	1,621
Short-term fluctuations in investment returns	**298**	(3)
Profit/(loss) on disposal of business and corporate transactions	**53**	(508)
Restructuring and other costs	**(198)**	(109)
IFRS profit attributable to non-controlling interests	**3**	2
IFRS profit before tax attributable to equity holders from continuing operations	**1,305**	1,003
Tax from continuing operations	**(240)**	(192)
IFRS profit after tax attributable to equity holders from continuing operations	**1,065**	811

(iv) Reconciliation of adjusted operating profit before tax by segment to adjusted operating profit before tax by source

	Savings and asset management			Heritage			Corporate Centre
For the year ended 31 December 2019	Asset Management	With-profits	Other	Annuities	With-profits	Other	Other
£m							
Asset Management fee based revenues	1,033	—	—	—	—	—	—
Other fee based revenues	—	—	158	—	—	96	—
Fee based revenues	1,033	—	158	—	—	96	—
Annuity margin	—	—	—	458	—	—	—
With-profits shareholder transfer net of hedging gains/(losses)	—	55	—	—	187	—	—
Adjusted operating income	1,033	55	158	458	187	96	—
Asset Management operating expenses	(652)	—	—	—	—	—	—
Other operating expenses	—	—	(165)	—	—	(87)	(59)
Adjusted operating expenses	(652)	—	(165)	—	—	(87)	(59)
Other shareholder profit/(loss)	—	—	30	—	—	98	(18)
Share of associates and joint ventures operating profit before tax	—	—	15	—	—	—	—
Adjusted operating profit before tax	381	55	38	458	187	107	(77)

Supplementary information (continued)

Adjusted operating profit before tax (continued)

For the year ended 31 December 2018	Savings and asset management			Heritage			Corporate Centre
£m	Asset Management	With-profits	Other	Annuities	With-profits	Other	Other
Asset Management fee based revenues	1,113	—	—	—	—	—	—
Other fee based revenues	—	—	145	—	—	96	—
Fee based revenues	1,113	—	145	—	—	96	—
Annuity margin	—	—	—	1,129	—	—	—
With-profits shareholder transfer net of hedging gains/(losses)	—	54	—	—	201	—	—
Adjusted operating income	1,113	54	145	1,129	201	96	—
Asset Management operating expenses	(640)	—	—	—	—	—	—
Other operating expenses	—	—	(139)	—	—	(125)	(13)
Adjusted operating expenses	(640)	—	(139)	—	—	(125)	(13)
Other shareholder profit/(loss)	—	—	(81)	—	—	(136)	1
Share of associates and joint ventures operating profit before tax	—	—	16	—	—	—	—
Adjusted Operating profit before tax	473	54	(59)	1,129	201	(165)	(12)

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

AUMA is a key indicator of the scale of the business and demonstrates the potential earnings from investments return and fee income. Closing AUMA is representative of the total market value of all financial assetsmanaged and/or administered on behalf of customers at the end of each financial period.

Net client flows is an indicator of the Group's growth and its ability to attract and retain customer investments to its products and funds.

(i) Detailed AUMA and net client flows

	For the year ended 31 December 2019					
	At 31 December 2018	Gross inflows	Gross outflows	Net client flows	Market/Other movements	At 31 December 2019
	£bn	£bn	£bn	£bn	£bn	£bn
Institutional Asset Management	**70.5**	**10.7**	**(10.8)**	**(0.1)**	**6.4**	**76.8**
Retail Asset Management	**76.4**	**21.2**	**(28.6)**	**(7.4)**	**5.9**	**74.9**
Retail Savings	**50.6**	**11.0**	**(4.8)**	**6.2**	**6.7**	**63.5**
of which: PruFund	**43.0**	**10.2**	**(3.8)**	**6.4**	**4.4**	**53.8**
Other	**0.2**	**—**	**—**	**—**	**0.5**	**0.7**
Total Savings and Asset Management	**197.7**	**42.9**	**(44.2)**	**(1.3)**	**19.5**	**215.9**
Shareholder annuities	**24.9**	**0.2**	**(2.3)**	**(2.1)**	**12.7**	**35.5**
Traditional with-profits	**84.6**	**0.6**	**(5.7)**	**(5.1)**	**5.3**	**84.8**
Other	**14.0**	**(0.2)**	**(0.2)**	**(0.4)**	**0.1**	**13.7**
Total Heritage	**123.5**	**0.6**	**(8.2)**	**(7.6)**	**18.1**	**134.0**
Corporate assets	**—**	**—**	**—**	**—**	**1.6**	**1.6**
Group total	**321.2**	**43.5**	**(52.4)**	**(8.9)**	**39.2**	**351.5**

Supplementary information (continued)

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

	For the year ended 31 December 2018					
	At 31 December 2017	Gross inflows	Gross outflows	Net client flows	Market/Other movements	At 31 December 2018
	£bn	£bn	£bn	£bn	£bn	£bn
Institutional Asset Management	73.6	11.2	(13.6)	(2.4)	(0.7)	70.5
Retail Asset Management	90.3	26.3	(33.8)	(7.5)	(6.4)	76.4
Retail Savings	44.0	12.3	(4.1)	8.2	(1.6)	50.6
of which: PruFund	35.9	12.0	(3.5)	8.5	(1.4)	43.0
Other	0.2	—	—	—	—	0.2
Total Savings and Asset Management	208.1	49.8	(51.5)	(1.7)	(8.7)	197.7
Shareholder annuities	39.1	(0.7)	(0.6)	(1.3)	(12.9)	24.9
Traditional with-profits	91.4	0.5	(5.8)	(5.3)	(1.5)	84.6
Other	12.1	(0.1)	(0.3)	(0.4)	2.3	14.0
Total Heritage	142.6	(0.3)	(6.7)	(7.0)	(12.1)	123.5
Corporate assets	—	—	—	—	—	—
Group total	350.7	49.5	(58.2)	(8.7)	(20.8)	321.2

(ii) AUMA by asset class

	For the year ended 31 December 2019								
	On balance sheet AUMA					**External AUMA**			**Total**
	With-profits	**Unit-linked**	**Shareholder-backed annuities and other long-term business**	**Corporate assets**	**Total on balance sheet AUMA**	**Retail**	**Institutional**	**Total external AUMA**	**Total AUMA**
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Equities	**56**	**11**	**—**	**—**	**67**	**32**	**2**	**34**	**101**
Public fixed income	**46**	**3**	**20**	**1**	**70**	**38**	**36**	**74**	**144**
of which Government	**8**	**1**	**6**	**1**	**16**	**18**	**15**	**33**	**49**
of which Corporate	**38**	**2**	**14**	**—**	**54**	**20**	**21**	**41**	**95**
Private fixed income	**5**	**—**	**3**	**—**	**8**	**1**	**19**	**20**	**28**
Real estate	**11**	**1**	**1**	**—**	**13**	**2**	**12**	**14**	**27**
Alternatives	**9**	**—**	**(1)**	**—**	**8**	**—**	**3**	**3**	**11**
Other	**16**	**1**	**14**	**1**	**32**	**2**	**5**	**7**	**39**
Other assets under administration	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**
Total	**143**	**16**	**37**	**2**	**198**	**75**	**77**	**152**	**352**

	For the year ended 31 December 2018								
	On balance sheet AUMA					External AUMA			Total
	With-profits	Unit-linked	Shareholder-backed annuities and other long-term business	Corporate assets	Total on balance sheet AUMA	Retail	Institutional	Total external AUMA	Total AUMA
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Equities	41	10	—	—	51	27	1	28	79
Public fixed income	48	7	21	—	76	44	45	89	165
of which Government	10	1	7	—	18	20	26	46	64
of which Corporate	38	6	14	—	58	24	19	43	101
Private fixed income	9	1	3	—	13	—	11	11	24
Real estate	16	—	2	—	18	2	9	11	29
Alternatives	8	—	—	—	8	—	2	2	10
Other	9	(1)	—	—	8	3	3	6	14
Other assets under administration	—	—	—	—	—	—	—	—	—
Total	131	17	26	—	174	76	71	147	321

Supplementary information (continued)

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

(iii) AUMA by geography

	For the year ended 31 December	
	2019	2018
	£bn	£bn
UK	**288**	261
Europe	**49**	49
Asia-Pacific	**8**	4
Middle East and Africa	**6**	6
Americas	**1**	1
Total AUMA	**352**	321

AUMA by geography is based on the country of the underlying client.

Solvency II capital position

Solvency II overview

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

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

Basis of preparation for comparative Solvency II information

As the Group was not a regulated insurance group prior to the demerger date, the capital position and accompanying information as at 31 December 2018 have been prepared on an illustrative basis, starting from the IFRS consolidated statement of financial position. In particular, merger accounting principles have been applied as described in Note 1.1 to the IFRS financial information. This means that Prudential Capital Holdings Limited and its subsidiaries, and 10FA India Private Limited (formerly known as Prudential Global Services Private Limited) have been presented as if the entities had been part of the Group from 1 January 2018. Prudential Vietnam Finance Company has also been included within the Solvency II results as at 31 December 2018. As the Hong Kong subsidiaries were disposed prior to the 31 December 2018, these subsidiaries are not included in the results.

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

	As at 31 December	
	2019	2018
	£bn	£bn
IFRS shareholders' equity	**5.1**	8.9
Add back unallocated surplus of the With-Profits Fund	**16.1**	13.4
Deduct goodwill and intangible assets	**(1.3)**	(1.3)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**0.3**	0.1
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.5)**	(1.7)
Fair value assets and liabilities not held at fair value under IFRS	**(0.1)**	—
Other	**0.1**	—
Solvency II excess of assets over liabilities	**18.7**	19.4
Subordinated debt capital	**3.8**	—
Ring-fenced fund restrictions	**(7.6)**	(5.5)
Solvency II eligible own funds	**14.9**	13.9

The key items in the reconciliation are explained below:

- *Unallocated surplus of the With-Profits Fund:* this amount is treated as a liability under IFRS, but considered surplus assets under Solvency II.
- *Goodwill and intangible assets:* these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.
- *Policyholder liability and reinsurance asset valuation differences:* there are significant differences in the valuation of technical provisions between IFRS and Solvency II. The most material differences relate to the exclusion of prudent margins in longevity assumptions under Solvency II, and also the use of different discount rates, both in relation to the valuation of annuity liabilities.

Supplementary information (continued)

Solvency II capital position (continued)

- *Solvency II risk margin (net of transitional measures):* the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.
- *Subordinated debt capital:* subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- *Ring-fenced fund restrictions*: any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

Composition of own funds

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

	As at 31 December	
	2019	2018
	£bn	£bn
Tier 1 (unrestricted)	**11.1**	13.9
Tier 1 (restricted)	**—**	—
Tier 2	**3.8**	—
Tier 3	**—**	—
Total own funds	**14.9**	13.9

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

Estimated and unaudited shareholder view of the Solvency II capital position

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

The estimated and unaudited shareholder Solvency II capital position for the Group as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019	2018
	£bn	£bn
Shareholder Solvency II own funds	**10.3**	9.7
Shareholder Solvency II SCR	**(5.8)**	(5.7)
Solvency II surplus	**4.5**	4.0
Shareholder Solvency II coverage ratio[1]	**176%**	170%

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

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

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

- A Solvency Capital Requirement which has been calculated using the Group's internal model. The Group received approval from the Prudential Regulation Authority prior to demerger to amend the existing internal model to apply at the level of the Group, rather than at the level of Prudential plc group.
- Transitional measures, which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The recalculated transitional measures align to the regulatory position as at 31 December 2019 and will therefore be reflected in the formal regulatory Quantitative Reporting Templates and Group SFCR.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority.
- M&G Group Limited and other undertakings carrying out financial activities consolidated under local sectoral or notional sectoral capital requirements.

Supplementary information (continued)

Solvency II capital position (continued)

Estimated and unaudited shareholder view of the Solvency II capital position (continued)

Breakdown of the shareholder Solvency II SCR by risk type

	As at 31 December
	2019
Group shareholder undiversified risk capital	**£bn**
Equity	**1.4**
Property	**0.9**
Interest rate	**0.4**
Credit	**3.8**
Currency	**0.8**
Longevity	**1.6**
Lapse	**0.2**
Operational and expense	**1.5**
Sectoral[1]	**0.5**
Total undiversified	**11.1**
Diversification, deferred tax, and other	**(5.3)**
Shareholder SCR	**5.8**

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

Sensitivity analysis of the shareholder Solvency II coverage ratio

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

	As at 31 December
	2019
Base shareholder Solvency II coverage ratio	**176%**
20% instantaneous fall in equity markets	**170%**
50 bp reduction in interest rates	**170%**
100 bp widening in credit spreads	**172%**
20% credit asset downgrade[1]	**170%**

[1]Average impact of one full letter downgrade across 20% of assets exposed to credit risk.

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

The With-Profits Fund view of the Solvency II capital position represents the standalone capital strength of the Group's ring-fenced With-Profits Fund. This view of Solvency II capital takes into account the assets, liabilities, and risk exposures within the ring-fenced With-Profits Fund, which includes the WPSF, SAIF and DCPSF.

The estimated and unaudited Solvency II capital position for the Group under the With-Profits Fund view as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019	2018
	£bn	£bn
With-Profits Fund Solvency II own funds	**12.2**	9.7
With-Profits Fund Solvency II SCR	**(4.6)**	(4.2)
With-Profits Fund Solvency II surplus	**7.6**	5.5
With-Profits Fund Solvency II coverage ratio[1]	**267%**	231%

[1] With-Profits Fund Solvency II coverage ratio has been calculated using unrounded figures.

Supplementary information (continued)

Solvency II capital position (continued)

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

The estimated and unaudited Solvency II capital position for the Group under the 'regulatory' view as at 31 December 2019 and 31 December 2018 is shown below:

	As at 31 December	
	2019	2018
	£bn	£bn
Solvency II own funds	**14.9**	13.9
Solvency II SCR	**(10.4)**	(9.9)
Solvency II surplus	**4.5**	4.0
Solvency II coverage ratio[1]	**143%**	141%

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

Capital generation (estimated and unaudited)

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

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

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

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

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

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

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.28% for the year ended 31 December 2019 and 4.25% for the year ended 31 December 2018. For annuity business, the assumed average return on assets backing capital was 2.44% for the year ended 31 December 2019 and 1.89% for the year ended 31 December 2018.

The Group's capital generation results in respect of the years ended 31 December 2019 and 31 December 2018 are shown below alongside a reconciliation of the total movement in the Group's Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in the previous section of this supplementary information.

The capital generation results and comparatives have adopted a basis of preparation consistent with the IFRS financial statements. In particular:

- The reduction in the Group's own funds and SCR arising from the disposal of the Hong Kong subsidiaries has been included within capital generated from discontinued operations for the year ended 31 December 2018. This amount includes the loss of diversification with the remaining business.
- The capital generated from the Prudential Vietnam Finance Company Limited for the year ended 31 December 2018, and the capital impact arising on disposal of this entity during 2019, have been reflected within capital generated from discontinued operations.
- Merger accounting principles have been applied as described in Note 1.1, meaning that Prudential Capital Holdings Limited ("PruCap") and its subsidiaries, and 10FA India Private Limited (formerly known as Prudential Global Services Private Limited) have been included within the Group's capital generation results from 1 January 2018. The movements in capital attributable to the discontinued corporate treasury activity of PruCap has been included within capital generated from discontinued operations.
- Total capital generation includes £923m of surplus capital generated from entering into a reinsurance arrangement with Rothesay Life plc in March 2018. This is included as a non-recurring item within ''Restructuring and other''. The impact was previously excluded from the capital generation results for the year ended 31 December 2018, as the business was classified as held for sale.

Supplementary information (continued)

Capital generation (continued)

	For the year ended 31 December							
	Savings and Asset Management		Heritage		Corporate Centre		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m	£m	£m
Underlying capital generation	**442**	389	**459**	523	**(80)**	(12)	**821**	900
Other operating capital generation	**17**	56	**517**	895	**(79)**	(9)	**455**	942
Operating capital generation	**459**	445	**976**	1,418	**(159)**	(21)	**1,276**	1,842
Market movements	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**538**	12
Restructuring and other[i]	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**(133)**	814
Tax	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**(172)**	(299)
Total capital generation	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,509**	2,369

[i]Includes capital generation of £923m during 2018 in relation to the reinsurance transaction with Rothesay Life plc.

		For the year ended 31 December					
		2019			2018		
Reconciliation of movement in Group Solvency II surplus		Own funds[i]	SCR[i]	Surplus	Own funds[1]	SCR[1]	Surplus
		£m	£m	£m	£m	£m	£m
Underlying capital generation							
Savings and Asset Management	Asset Management	**381**	**(2)**	**379**	472	(75)	397
	With-profits	**130**	**(130)**	**—**	125	(150)	(25)
	– *of which: In-force*	**96**	**(35)**	**61**	50	(23)	27
	– *of which: New business*	**34**	**(95)**	**(61)**	75	(127)	(52)
	Other	**65**	**(2)**	**63**	20	(3)	17
	Savings and Asset Management underlying capital generation	**576**	**(134)**	**442**	617	(228)	389
Heritage	With-profits	**71**	**—**	**71**	178	(26)	152
	Shareholder annuity and other	**255**	**133**	**388**	220	151	371
	Heritage underlying capital generation	**326**	**133**	**459**	398	125	523
Corporate	**Interest and head office cost[2]**	**(84)**	**4**	**(80)**	(12)	—	(12)
Underlying capital generation		**818**	**3**	**821**	1,003	(103)	900
Other operating capital generation							
	Savings and Asset Management	**1**	**16**	**17**	(66)	122	56
	Heritage	**222**	**295**	**517**	690	205	895
	Corporate Centre	**17**	**(96)**	**(79)**	(9)	—	(9)
Operating capital generation		**1,058**	**218**	**1,276**	1,618	224	1,842
	Market movements	**983**	**(445)**	**538**	(391)	403	12
	Restructuring and other[3]	**(168)**	**35**	**(133)**	(343)	1,157	814
	Tax	**(139)**	**(33)**	**(172)**	(225)	(74)	(299)
Total capital generation		**1,734**	**(225)**	**1,509**	659	1,710	2,369
Capital generation from discontinued operations		**70**	**88**	**158**	(4,882)	1,044	(3,838)
Total capital generation including discontinued operations		**1,804**	**(137)**	**1,667**	(4,223)	2,754	(1,469)
Dividends and capital movements		**(1,213)**	**2**	**(1,211)**	(664)	—	(664)
Total increase/(decrease) in Solvency II surplus		**591**	**(135)**	**456**	(4,887)	2,754	(2,133)

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

[ii]Underlying capital generated by the Corporate Centre is largely consistent with adjusted operating profit before tax with the exception of the valuation of financing costs resulting in a different impact on a Solvency II basis compared to IFRS.

[iii]Includes capital generation of £923m during 2018 in relation to the reinsurance transaction with Rothesay Life plc.

Supplementary information (continued)

Financial ratios (unaudited)

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

(i) Cost/income ratio for M&G Group Limited

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

	For the year ended 31 December	
	2019	2018
	£m	£m
Total costs[(i)]	**(652)**	(640)
Total Revenue	**1,031**	1,086
Add:		
Profit from associate	**15**	16
Performance fees and carried interest	**27**	15
Adjusted operating profit for M&G Group Limited	**421**	477
Cost/income ratio (%)	**63%**	59%

(i) Costs exclude restructuring costs of £39m (2018:£52m).

Adjusted operating profit for M&G Group Limited is split as follows:

	For the year ended 31 December	
	2019	2018
	£m	£m
Asset Management	**380**	473
Other	**41**	4
Adjusted operating profit for M&G Group Limited	**421**	477

(ii) Average fee margin

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

	For the year ended 31 December					
	2019			2018		
	Average AUMA[1]	**Revenue**	**Revenue margin**	Average AUMA[1]	Revenue	Revenue margin
	bn	**£m**	**bps**	bn	£m	bps
Retail Asset Management	**102**	**584**	**57**	116	695	60
Institutional Asset Management	**165**	**429**	**26**	162	404	25
Total Savings and Asset Management	**267**	**1,013**	**38**	278	1,099	40

(i) Average AUMA represents the average total market value of all financial assets managed and administered on behalf of customers during the financial period. Average AUMA is calculated using a 13-point average of monthly closing AUMA for full-year periods and seven-point average of monthly closing AUMA for half-year periods.

Consolidated income statement

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 £m	2018 £m
Gross premiums earned		**11,074**	13,061
Outward reinsurance premiums (i)		**115**	(13,137)
Earned premiums, net of reinsurance		**11,189**	(76)
Investment return		**19,619**	(3,675)
Fee income		**1,286**	1,363
Other income		**35**	240
Total revenue, net of reinsurance from continuing operations		**32,129**	(2,148)
Benefits and claims		**(24,375)**	(7,322)
Outward reinsurers' share of benefit and claims		**431**	12,230
Movement in unallocated surplus of the With-Profits Fund		**(2,549)**	162
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**(26,493)**	5,070
Administrative and other expenses	4	**(2,876)**	(2,664)
Movements in third party interest in consolidated funds		**(1,005)**	291
Finance costs	4	**(28)**	(4)
Total charges, net of reinsurance from continuing operations		**(30,402)**	2,693
Share of profit from joint ventures and associates		**18**	52
Profit before tax from continuing operations (ii)		**1,745**	597
Tax (charge)/credit attributable to policyholders' returns	5	**(440)**	406
Profit before tax attributable to equity holders from continuing operations		**1,305**	1,003
Total tax (charge)/credit	5	**(680)**	214
Less tax charge/(credit) attributable to policyholders' returns		**440**	(406)
Tax charge attributable to equity holders	5	**(240)**	(192)
Profit after tax attributable to equity holders from continuing operations		**1,065**	811
Profit/(loss) after tax for the year attributable to equity holders from discontinued operations		**58**	(776)
Profit for the year		**1,123**	35
Attributable to equity holders of M&G plc			
From continuing operations		**1,062**	809
From discontinued operations		**58**	(776)
Attributable to non-controlling interests			
From continuing operations		**3**	2
Profit for the year		**1,123**	35
Earnings per share from continuing operations			
Basic (pence per share)	6	**40.9**	31.1
Diluted (pence per share)	6	**40.8**	31.1
Earnings per share			
Basic (pence per share)	6	**43.1**	1.2
Diluted (pence per share)	6	**43.0**	1.2

(i) Outward reinsurance premiums for the year ended 31 December 2018 include reinsurance of £12,149m of the shareholder-backed annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefit and claims for the same year. See Note 2.21 for further details.

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

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	For the year ended 31 December	
	2019	2018
	£m	£m
Profit for the year	**1,123**	35
Less: profit/(loss) from discontinued operations	**58**	(776)
Profit from continuing operations	**1,065**	811
Items that may be reclassified subsequently to profit or loss:		
Exchange movements arising on foreign operations	**(7)**	62
Exchange movements transferred to consolidated income statement	**—**	(58)
	(7)	4
Items that will not be reclassified to profit or loss:		
(Loss)/gain on remeasurement of defined benefit pension asset	**(206)**	114
Transfer in of net defined benefit pension asset	**15**	—
Tax on remeasurement of defined benefit pension asset	**31**	(19)
	(160)	95
Add/(deduct) amount transferred to unallocated surplus of the With-Profits Fund, net of related tax	**155**	(38)
Other comprehensive (expenses)/income on items that will not be reclassified to profit or loss	**(5)**	57
Other comprehensive (expense)/income for the year, net of related tax from continuing operations	**(12)**	61
Total comprehensive income for the year from continuing operations	**1,053**	872
Profit/(loss) from discontinued operations	**58**	(776)
Total comprehensive income/(loss) from discontinued operations	**58**	(776)
Total comprehensive income for the year	**1,111**	96
Attributable to equity holders of M&G plc		
From continuing operations	**1,050**	870
From discontinued operations	**58**	(776)
Attributable to non-controlling interests		
From continuing operations	**3**	2
Total comprehensive income for the year	**1,111**	96

Consolidated statement of financial position

As at 31 December 2019

	Note	As at 31 December 2019 £m	As at 31 December 2018 £m	At 1 January 2018 £m
Assets				
Goodwill and intangible assets		**1,439**	1,446	1,321
Deferred acquisition costs		**104**	105	258
Investment in joint ventures and associates accounted for using the equity method		**524**	709	519
Property, plant and equipment		**1,505**	1,267	490
Investment property		**19,136**	18,003	16,607
Defined benefit pension asset	8	**77**	162	165
Deferred tax assets	5	**78**	24	29
Reinsurance assets		**11,958**	2,812	2,690
Loans		**5,954**	5,909	6,801
Derivative assets		**3,962**	2,624	3,098
Equity securities and pooled investment funds		**72,388**	60,812	78,800
Deposits		**14,221**	12,020	10,254
Debt securities		**85,434**	87,840	117,066
Current tax assets		**375**	242	241
Accrued investment income and other debtors		**2,923**	4,394	4,707
Assets held for sale	2	**119**	10,821	240
Cash and cash equivalents		**6,046**	6,563	7,351
Total assets		**226,243**	215,753	250,637
Equity				
Share capital	9	**130**	130	130
Share premium reserve	9	**370**	370	21,370
Shares held by employee benefit trust		**(26)**	—	—
Treasury shares		**(1)**	—	—
Retained earnings		**16,342**	20,157	9,193
Other reserves		**(11,690)**	(11,728)	(21,182)
Equity attributable to equity holders of M&G plc		**5,125**	8,929	9,511
Non-controlling interests		**6**	5	3
Total equity		**5,131**	8,934	9,514
Liabilities				
Insurance contract liabilities		**78,480**	69,298	115,383
Investment contract liabilities with discretionary participation features		**78,048**	67,038	62,651
Investment contract liabilities without discretionary participation features		**15,651**	15,560	17,373
Unallocated surplus of the With-Profits Fund		**16,072**	13,433	16,935
Third party interest in consolidated funds		**11,643**	9,383	8,112
Subordinated liabilities and other borrowings	11	**7,499**	4,085	4,152
Defined benefit pension liability	8	**28**	173	179
Deferred tax liabilities	5	**1,065**	962	1,580
Current tax liabilities		**298**	255	314
Derivative liabilities		**2,204**	3,187	2,712
Lease liabilities		**360**	316	39
Other financial liabilities		**3,517**	2,592	3,255
Provisions		**326**	512	576
Accruals, deferred income and other liabilities		**5,921**	9,298	7,706
Liabilities held for sale	2	**—**	10,727	156
Total liabilities		**221,112**	206,819	241,123
Total equity and liabilities		**226,243**	215,753	250,637

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2018		130	21,370	—	—	9,193	(21,182)	9,511	3	9,514
Profit for the year from continuing operations		—	—	—	—	809	—	809	2	811
Loss for the year from discontinued operations		—	—	—	—	(776)	—	(776)	—	(776)
Other comprehensive income for the year from continuing operations		—	—	—	—	57	4	61	—	61
Total comprehensive income for the year		—	—	—	—	90	4	94	2	96
Transactions with equity holders		—	—	—	—	(746)	—	(746)	—	(746)
Capital reduction	9	—	(21,000)	—	—	21,000	—	—	—	—
Transfer from/to retained earnings on disposal of subsidiaries		—	—	—	—	(9,450)	9,450	—	—	—
Other movements		—	—	—	—	70	—	70	—	70
Net (decrease)/increase in equity		—	(21,000)	—	—	10,964	9,454	(582)	2	(580)
At 31 December 2018		130	370	—	—	20,157	(11,728)	8,929	5	8,934
At 1 January 2019		**130**	**370**	**—**	**—**	**20,157**	**(11,728)**	**8,929**	**5**	**8,934**
Profit for the year from continuing operations		**—**	**—**	**—**	**—**	**1,062**	**—**	**1,062**	**3**	**1,065**
Profit for the year from discontinued operations		**—**	**—**	**—**	**—**	**58**	**—**	**58**	**—**	**58**
Other comprehensive income for the year from continuing operations		**—**	**—**	**—**	**—**	**(5)**	**(7)**	**(12)**	**—**	**(12)**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**1,115**	**(7)**	**1,108**	**3**	**1,111**
Dividends paid to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Transactions with equity holders		**—**	**—**	**—**	**—**	**(4,935)**	**—**	**(4,935)**	**—**	**(4,935)**
Transfer to retained earnings for vested employee share-based payments		**—**	**—**	**2**	**—**	**(2)**	**—**	**—**	**—**	**—**
Movements in respect of share-based payments		**—**	**—**	**—**	**—**	**—**	**40**	**40**	**—**	**40**
Shares acquired by employee trusts		**—**	**—**	**(28)**	**—**	**—**	**—**	**(28)**	**—**	**(28)**
Treasury shares held by subsidiary companies		**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**	**—**	**(1)**
Tax effect of items recognised directly in equity		**—**	**—**	**—**	**—**	**99**	**5**	**104**	**—**	**104**
Other movements		**—**	**—**	**—**	**—**	**(92)**	**—**	**(92)**	**—**	**(92)**
Net (decrease)/increase in equity		**—**	**—**	**(26)**	**(1)**	**(3,815)**	**38**	**(3,804)**	**1**	**(3,803)**
At 31 December 2019		**130**	**370**	**(26)**	**(1)**	**16,342**	**(11,690)**	**5,125**	**6**	**5,131**

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	For the year ended 31 December	
		2019	2018
		£m	£m
Cash flows from operating activities:			
Profit before tax from continuing operations		**1,745**	597
Profit / (loss) before tax from discontinued operations		**88**	(695)
Non-cash movements in operating assets and liabilities included in profit before tax:			
Investments		**(14,918)**	9,885
Other non-investment and non-cash assets		**(8,613)**	(1,506)
Policyholder liabilities (including unallocated surplus)		**23,037**	(12,501)
Other liabilities (including operational borrowings)		**(866)**	5,633
Interest income, interest expense and dividend income		**(4,798)**	(5,206)
Other non-cash items		**417**	500
Operating cash items:			
Interest receipts and payments		**2,595**	3,250
Dividend receipts		**2,107**	1,922
Tax paid [(i)]		**(613)**	(473)
Net cash flows from operating activities[(ii)]		**181**	1,406
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(393)**	(241)
Proceeds from disposal of property, plant and equipment		**8**	4
Acquisition of subsidiaries		**(95)**	(173)
Cash inflow/(outflow) from disposal of subsidiaries [(iii)]		**98**	(850)
Net cash flows from investing activities		**(382)**	(1,260)
Cash flows from financing activities:			
Loan to equity holders		—	(216)
Interest paid		**(22)**	(4)
Substitution of subordinated liabilities		**3,219**	—
Redemption of subordinated liabilities		**—**	(100)
Capital contribution		**—**	88
Dividends paid	7	**(3,516)**	(746)
Net cash flows from financing activities		**(319)**	(978)
Net (decrease)/increase in cash and cash equivalents		**(520)**	(832)
Cash and cash equivalents at 1 January [(iv)]		**6,570**	7,355
Effect of exchange rate changes on cash and cash equivalents		**(4)**	47
Cash and cash equivalents at 31 December [(iv)]		**6,046**	6,570

(i) Tax paid for the year ended 31 December 2019 includes £228m (31 December 2018: £134m) paid on profits taxable at policyholder rather than shareholder rates.

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

(iii) Cash inflow/(outflow) from disposal of subsidiaries reflects the net cash flow from the disposal of Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited in 2018 and Prudential Vietnam Finance Company Limited in 2019.

(iv) Cash and cash equivalents as at 31 December 2018 include £7m (1 January 2018: £4m) of cash and cash equivalents in respect of operations held for sale.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The results in this preliminary announcement have been taken from the M&G plc Group's 2019 Annual report and accounts which will be available on the Company's website on 15 April 2020. The consolidated financial statements are the first set of consolidated financial statements of M&G plc Group ("the Group").

In preparing these consolidated financial statements, the Group has adopted IFRS 1: First-time Adoption of International Financial Reporting Standards ("IFRS 1") and applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards (''IFRS'') issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (''EU''), with interpretations issued by the IFRS Interpretations Committee (IFRICs), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost basis except for investment property measured at fair value, certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit and loss ("FVTPL") and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligations. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

The basis of preparation and significant accounting policies applicable to the consolidated financial statements can be found in the basis of preparation and significant accounting policies section of the 2019 Annual report and accounts.

The preliminary announcement for the year ended 31 December 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory results under IFRS for full year 2019 and 2018 have been audited by KPMG LLP (''KPMG''). KPMG have reported on the 2019 consolidated financial statements. and their audit report is unqualified and does not contain a statement under section 498 (2) or (3) of the Companies Act 2006. As the 2019 Annual report and accounts are the first set of consolidated financial statements of the Group, no filings have been delivered to the Registrar.

On 2 July 2018, Voyager Dallas Holding Company Limited, as the Company was known at the time, was incorporated and domiciled in the UK as a subsidiary of Prudential plc. The Company was set up to act as holding company for the UK and Europe savings and investments business of Prudential plc. On 3 July 2018, the Company changed its name to M&G Prudential Limited. On 23 November 2018 the Company issued share capital as consideration to Prudential plc for the acquisition of The Prudential Assurance Company Limited (''PAC''), M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited. On 24 July 2019, the Company was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Company changed its name to M&G plc. On 20 September 2019, the Company acquired Prudential Capital Holdings Company Limited, and its subsidiaries, Prudential Capital plc ("PruCap") and Prudential Capital (Singapore) Pte. Limited, from Prudential plc. On 21 October 2019, the Company demerged from Prudential plc and listed on the London Stock Exchange.

All acquisition of entities under common control prior to demerger from Prudential plc have been accounted for under merger accounting principles. Under merger accounting, the results and statement of financial position for entities acquired prior to demerger are presented as if the entities had always been combined.

Unless otherwise noted, the consolidated financial statements are presented in million pounds Sterling (£m), the Group's functional and presentation currency.

Effect of adoption of IFRS 1

IFRS 1 requires a first time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period, which is 31 December 2019 for the Group. IFRS 1 also provides a first-time adopter certain optional exemptions and requires certain mandatory exceptions from full retrospective application. Most of these exemptions must be applied as at the date of transition, which is 1 January 2018 for the Group. As these are the first set of consolidated financial statements prepared by the Group, and the Group is not transitioning from another accounting framework, most of these exceptions and exemptions have limited applicability.

The application of the mandatory exceptions did not impact amounts reported in the consolidated financial statements on the date of transition.

The Group has elected to apply the following optional exemptions in preparing its opening statement of financial position:

- The exemption which permits the cumulative translation differences arising up till the date of transition in relation to foreign operations to be adjusted to zero. The effect of this exemption resulted in the retained earnings at the date of transition increasing by £58m
- The optional exemptions available to first-time adopters in relation to the application of IFRS 16: Leases. The nature and impact of taking up these exemptions is stated in Note 1.2.1
- Aside from the above, the Group did not apply any other optional exemptions available under IFRS 1.

Adjusted operating profit before tax

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

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

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

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

1. Cash flow hedges: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers
2. Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position, with no direct link to IFRS profits.

1 Basis of preparation and significant accounting policies (continued)

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

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

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

1.2 New accounting pronouncements

1.2.1 New accounting pronouncements adopted by the Group

IFRS 16: Leases

Date of initial application

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

As required by IFRS 1, the Group has adopted IFRS 16 from 1 January 2018, which is the beginning of the earliest period presented in these consolidated financial statements.

Effect of adopting IFRS 16

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

As permitted by IFRS 1, on adoption of IFRS 16, lease liabilities were measured at the present value of remaining lease payments, discounted at the Group's incremental borrowing rate at the date of transition. Right of use ("ROU") assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease immediately before the date of transition, as per IFRS 1 for all leases.

The Group has used the following additional practical expedients as permitted by IFRS 1 on adoption of IFRS 16:

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Excluded initial direct costs from measurement of ROU assets on initial application
- Used hindsight when determining the lease term if the contract had an option to break the lease.

When measuring the lease liabilities, the Group discounted lease payments using the incremental borrowing rate as at 1 January 2018 which ranged between 0.99% and 3.57%.

The adoption of IFRS 16 resulted in a lease liability of £39m and a corresponding right of use asset of £39m being recognised in the statement of financial position.

1.2.2 Other interpretations and amendments

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

1.2.3 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group, including those which have not yet been endorsed 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 consolidated financial statements are discussed.

IFRS 9: Financial Instruments (endorsed by the EU)

In July 2014, the IASB published IFRS 9: Financial Instruments ("IFRS 9") which is mandatorily effective for annual periods beginning on or after 1 January 2018, except as described below, with early application permitted.

IFRS 9 replaces the existing standard, IAS 39: Financial Instruments-Recognition and Measurement. The standard provides new principles for determining classification and measurement of financial instruments, introduces a new forward-looking impairment model based on expected losses (replacing the existing incurred loss model) and provides new guidance on application of hedge accounting.

In September 2016, the IASB published amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17: Insurance Contracts. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. In April 2019, the IASB proposed that the effective date of IFRS 17 should be delayed by one year from periods beginning on or after 1 January 2021 to on or after 1 January 2022. The IASB also proposed in this meeting that IFRS 9 could be delayed for insurers by an additional year to keep the effective dates of IFRS 9 and IFRS 17 aligned. An exposure draft containing the proposal was issued in June 2019 and the IASB plan to publish any resulting amendments to IFRS 17 in mid-2020.

As the Group met the required eligibility criteria for temporary exemption, the adoption of IFRS 9 has been deferred to coincide with the adoption of IFRS 17.

1 Basis of preparation and significant accounting policies (continued)

1.2 New accounting pronouncements (continued)

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17. The adoption of IFRS 9 may result in the reclassification of certain of the Group's financial assets, resulting in a change in measurement basis from amortised cost to fair value. Furthermore, a revised impairment approach based on expected credit losses will need to be developed for financial assets that will continue to be carried at amortised cost. The Group is currently assessing the scope of assets to which these requirements will apply.

The Group does not currently apply hedge accounting.

Presented below are disclosures required by the amendments to IFRS 4 for entities deferring the adoption of IFRS 9. These are provided to enable users to compare results with those entities that have adopted IFRS 9. As required by the amendment, the table shows the fair value of the Group's directly held financial assets at 31 December 2019, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") as defined by IFRS 9.

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the Group's statement of financial position	**Fair value as at 31 December 2019**	**Movement in fair value during the year**	**Fair value as at 31 December 2019**	**Movement in fair value during the year**
	£m	£m	£m	£m
Loans	2,658	18	3,389	131
Derivative assets - net of derivative liabilities	—	—	1,758	1,402
Equity securities and portfolio holdings in unit trusts	—	—	72,388	8,826
Deposits	14,221	—	—	—
Debt securities	—	—	85,434	4,240
Accrued investment income and other debtors	2,923	—	—	—
Cash and cash equivalents	6,046	—	—	—
Total financial assets, net of derivative liabilities	**25,848**	**18**	**162,969**	**14,599**

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 2021, however, the IASB have issued an exposure draft in June 2019 that proposes to delay the effective date to 1 January 2022. Early application is permitted provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

The Group continues to monitor the developments and 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.

2 Group structure and products

2.1 Transactions relating to demerger from Prudential plc

In preparation for the demerger of the Company, a number of restructuring transactions were undertaken with other companies within the Prudential plc group. These have each been considered in further detail below and together formed part of a co-ordinated plan to sell certain parts of these lines of business prior to the demerger.

2.1.1 Disposal of Hong Kong subsidiaries

On 28 February 2018, the Board of The Prudential Assurance Company Limited ("PAC") approved a plan to sell its subsidiaries, Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited, to Prudential Corporation Asia Limited, an entity which is not within the Group and completed on 19 December 2018. Accordingly, at this date the Group concluded that with a committed plan to sell, approved by the Board of PAC, the associated assets and liabilities should be classified as held for sale. The loss on disposal was calculated as follows:

19 December 2018	£m
Total assets of operations disposed of	(43,244)
Total liabilities of operations disposed of	42,227
Net assets of operations disposed of	(1,017)
Cash consideration received	33
Release of foreign currency translation reserve	58
Loss on disposal	(926)

On the date of disposal £9,450m was transferred from merger reserve to retained earnings in respect of the disposal, representing the difference between the aggregate capital reserves and the value of the Hong Kong subsidiaries on the date of acquisition.

2.1.2 Disposal of Prudential Vietnam Finance Company Limited

During 2017 Prudential Holborn Life Limited, a subsidiary of PAC, approved a plan to sell Prudential Vietnam Finance Company Limited. On 23 January 2018 an agreement was reached to sell the Company to Shinhan Card Co. Ltd, which, following regulatory approval, was completed on 14 June 2019 for £119m. It was therefore treated as held for sale as at 31 December 2018. The resultant gain on disposal was calculated as follows:

14 June 2019	£m
Total assets of operations disposed of	**(225)**
Total liabilities of operations disposed of	**165**
Net assets of operations disposed of	**(60)**
Cash consideration received	**119**
Transaction costs	**(4)**
Gain on disposal	**55**

2.1.3 Acquisition of Prudential Capital Holdings Company Limited

On 20 September 2019, Prudential plc sold its investment in Prudential Capital Holdings Company Limited to the Company. As detailed in the basis of preparation in Note 1, merger accounting principles were applied to this acquisition such that the results and assets and liabilities of this entity were combined within the Group from its initial formation on 1 January 2018. The operations of Prudential Capital Holdings Limited prior to 20 September 2019 included the provision of certain treasury services to Prudential plc and its subsidiaries which do not relate to the ongoing operations of the Group.

2.1.4 Acquisition of 10FA India Private Limited (formerly known as Prudential Global Services Private Limited)

On 16 September 2019, the Group acquired Prudential Global Services Private Limited ("PGS") from Prudential Corporate Holdings Limited for a cash consideration of £19m, being the net asset value of PGS, which was considered to be equal to the fair asset value of PGS. The name of the company was subsequently changed to 10FA India Private Limited on 22 October 2019.

As detailed in the basis of preparation in Note 1, merger accounting principles were applied to this acquisition such that the results and assets and liabilities of this entity were combined within the Group from its initial formation on 1 January 2018.

2.2 Corporate transactions

2.2.1 Proposed sale of annuity portfolio to Rothesay Life plc

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

On 17 May 2019, the independent expert who was appointed to report to the High Court concluded that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. PAC and Rothesay Life plc were granted leave to appeal the judgment. A notice of appeal was lodged at the Court of Appeal on 27 September 2019, but the case is not expected to be heard before mid 2020 at the earliest. The High Court's judgment has no direct impact on the reinsurance with Rothesay Life plc. As the associated assets and liabilities no longer meet the criteria to be classified as held for sale, they have been included within the relevant line item in the consolidated statement of financial position as at 31 December 2019. The reclassification did not have any impact on profit or loss.

2 Group structure and products (continued)

2.2 Corporate transactions (continued)

2.2.2 Assets and liabilities held for sale

The assets and liabilities classified as held for sale on the consolidated statement of financial position as at 31 December 2018 in respect of the reinsured annuity business and Prudential Vietnam Finance Company Limited are as follows:

	For the year ended 31 December
	2018
	£m
Assets:	
Reinsurance asset	10,502
Other assets (including cash and cash equivalents) [(i)]	282
Assets held for sale [(ii)]	10,784
Liabilities:	
Insurance contract liabilities	10,502
Other liabilities [(i)]	225
Liabilities held for sale	10,727

(i) Other assets include £216m and other liabilities include £158m as at 31 December 2018 in respect of Prudential Vietnam Finance Company Limited which was sold on 14 June 2019.

(ii) Assets held for sale on the consolidated statement of financial position as at 31 December 2019 also includes £88m (2018: £nil) of seed capital classified as held for sale as it is expected to be divested within 12 months. Also included within assets held for sale is £17m of investment property classified as held for sale (2018: £10m) and £14m (2018: £27m) in relation to the Group's consolidated infrastructure capital private equity vehicles.

2.3 Insurance and investment products

2.3 Insurance and investment contracts written by the Group's insurance entities

A description of the main contract types written by the Group's insurance entities is provided below.

The Group's with-profits contracts are written in the With-Profits Fund in which policyholders share in the profit of the fund. There are three with-profits sub-funds: the With-Profits Sub-Fund ("WPSF"), the Defined Charge Participating Sub-Fund ("DCPSF"), and the Scottish Amicable Insurance Fund ("SAIF").

Shareholder-backed business represents all insurance and investment contracts in the Group other than contracts written in the With-Profits Fund. The profit on these contracts accrues directly to the Group's shareholders.

2.3.1 With-profits contracts

With-profits contracts provide returns to policyholders through bonuses that are smoothed to reduce the impact of volatility of the investment performance of the assets in the fund.

2.3.1.1 Conventional and accumulating with-profits contracts written in WPSF and DCPSF

Conventional and accumulating with-profits policyholders receive their share of profit by way of regular and final bonuses.

Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholder transfers.

In normal investment conditions, the Group expects changes in regular bonus rates to be gradual over time. However, the Group retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

A final bonus which is normally declared annually, may be added when a claim is paid. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares of representative sample policies and are subject to smoothing.

Regular bonuses are typically declared once a year, and once credited are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration.

Contracts are predominantly written in the WPSF, where the shareholders are entitled to an amount up to one-ninth of the bonus declared, which is payable as a cash transfer from the With-Profits Fund.

For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders' profit arises as the difference between charges and expenses.

2.3.1.2 With-profits contracts with a PruFund investment option ("PruFund contracts")

These are a range of with-profits contracts offering policyholders a choice of investment profiles ("PruFund funds"). Unlike the with-profits contracts described above, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate ("EGR"). The EGR is adjusted for significant market movements.

The EGR may be applied for each of the different PruFund funds within the range, varying depending on the individual asset mix of that fund. The applicable EGR, net of the relevant charges, is applied to calculate the 'smoothed unit value' of policyholder funds. The EGRs are reviewed and updated quarterly, with the smoothed unit value calculated daily. In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term.

2 Group structure and products (continued)

2.3 Insurance and investment products (continued)

Policyholders are protected from some of the volatility of direct investments by using an established smoothing process. Prescribed adjustments are made to the smoothed unit value if it moves outside a specified range relative to the value of the underlying assets.

PruFund contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one-ninth of the difference between the smoothed unit value on withdrawal and the initial investment. The DCPSF also contains PruFund contracts, and for these contracts the shareholders receive profits or losses arising from the difference between the charges and expenses on this business.

2.3.1.3 SAIF with-profits contracts

SAIF is a ring-fenced with-profits sub-fund. No new business is written in SAIF, although regular premiums and top-ups are still being collected on in-force policies. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund. The process of determining policyholder bonuses of SAIF with-profits policies is similar to that for the with-profits policies of the WPSF. In addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.

The Group's main exposure to guaranteed annuity options arises through contracts in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 13 .

2.3.2 Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investments or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 4.

Charges are deducted from the unit-linked funds for investment and administration services, and for certain contracts, insurance coverage. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product.

2.3.3 Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium. There are various types of annuity contracts written across the Group: level, fixed increase, inflation-linked (referred to as 'non-profit annuities') and with-profits annuities. Some non-profit annuities have been written in the With-Profits Fund, and profits relating to this business accrue to the With-Profits Fund.

- Level annuities: provide a regular (for example, monthly) fixed annuity payment over the policyholder's life.
- Fixed increase annuities: provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.
- Inflation-linked annuities: provide for a regular annuity payment to which an additional amount is added periodically based on the increase in an inflation index.
- With-profits annuities: are written in the With-Profits Fund. These combine the income features of annuity contracts with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the With-Profits Fund.

3 Segmental analysis

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

3.1 Operating segments

The Group's operating segments are:

Savings and Asset Management

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

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

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

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

Heritage

The Group's Heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new customers but may accept further contributions from existing policyholders[6]. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

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

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

The Heritage business includes the closed Scottish Amicable Insurance Fund ("SAIF") with-profits sub-fund. This fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund although they are entitled to asset management fees on it. It also includes the Defined Charge Participating sub-fund ("DCPSF"), which consists of two types of business: (i) the Defined Charge Participating business, primarily business reinsured from Prudential International Assurance plc; and (ii) the with-profits annuities transferred from Equitable Life Assurance Society on 31 December 2007.

Corporate Centre

Corporate Centre includes central corporate costs incurred by the M&G Group functions and debt costs.

3.2 Adjusted operating profit before tax methodology

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

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

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

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

1. Cash flow hedges: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers.
2. Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position, with no direct link to IFRS profits.

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[6] The Group accepts new members to existing Corporate Pensions schemes and writes a small number of new annuity policies with customers who have a pension issued by PAC.

3 Segmental analysis (continued)

3.2 Adjusted operating profit before tax methodology (continued)

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

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

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

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

Short-term fluctuations in investment returns

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

(i) Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer.

(ii) Total fair value movements on surplus assets backing the shareholder annuity capital, and the difference between the assumed long-term credit experience used to determine adjusted operating profit before tax for the Group's shareholder annuity products and the actual credit experience over the year, specifically:

- The impact of credit risk provisioning for actual upgrades and downgrades during the year. This is calculated by reference to current interest rates.
- Credit experience variance relative to assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring.

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

- The net impact of movements in the value of policyholder liabilities and fair value of the assets backing these liabilities, excluding the items included in short-term fluctuations above. The fair value movements of the assets backing the liabilities are closely correlated with the related change in liabilities.
- The unwind of the credit risk premium, which is the opening value of the assets multiplied by the credit risk premium assumption, with an adjustment for claims paid over the year. The credit risk premium assumption is the difference between total default allowance and a best estimate default allowance (both of which allow for the combination of defaults and downgrades).
- Actual income received in the year, such as coupon payments, redemption payments and rental income, on surplus assets backing the shareholder annuity capital, less an allowance for expenses.
- The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing.
- Changes to credit risk provisioning not included in the short-term fluctuations above.

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

The adjusting items of £53m for the year ended 31 December 2019 and (£508)m for the year ended 31 December 2018 resulted from the reinsurance of £12bn of annuities to Rothesay Life in anticipation of sale, which is considered to be non-recurring in nature and is therefore excluded from IFRS adjusted operating profit before tax.

The (loss)/gain on disposal of Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company is not included in the reconciliation of adjusted operating profit to IFRS profit from continuing operations as they are presented in profit from discontinued operations in the consolidated income statement.

Restructuring costs

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

3 Segmental analysis (continued)

3.3 Analysis of Group adjusted operating profit before tax by segment from continuing operations

	For the year ended 31 December 2019			
	Savings and Asset Management	Heritage	Corporate Centre	Total continuing operations
	£m	£m	£m	£m
Fee based revenues [(i)]	1,191	96	—	1,287
Annuity margin	—	458	—	458
With-profits shareholder transfer net of hedging gains/(losses) [(ii)]	55	187	—	242
Adjusted operating income	1,246	741	—	1,987
Adjusted operating expenses	(817)	(87)	(59)	(963)
Other shareholder profit/(loss)	30	98	(18)	110
Share of profit from joint ventures and associates	15	—	—	15
Adjusted operating profit/(loss) before tax	474	752	(77)	1,149
Short-term fluctuations in investment returns	(59)	357	—	298
Profit on disposal of businesses and corporate transactions	—	53	—	53
Restructuring and other costs [(iii)]	(52)	(98)	(48)	(198)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders from continuing operations	363	1,064	(125)	1,302
IFRS profit attributable to non-controlling interests	3	—	—	3
Profit/(loss) before tax attributable to equity holders from continuing operations	366	1,064	(125)	1,305

(i) Fee based revenues includes internal revenue, of this amount £110m relates to revenues that Savings and Asset Management has earned from Heritage segment, and other presentational differences which are excluded in the consolidated income statement.

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

(iii) Restructuring costs excluded from adjusted operating profit relate to merger and transformation costs of £62 million (2018: £102 million) and rebranding and other change in control costs allocated to the shareholder. Additional restructuring costs are included in the analysis of administrative and other expenses in Note 4

3 Segmental analysis (continued)

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

	For the year ended 31 December 2018			
	Savings and Asset Management	Heritage	Corporate Centre	Total continuing operations
	£m	£m	£m	£m
Fee based revenues [(i)]	1,258	96	—	1,354
Annuity margin	—	1,129	—	1,129
With-profits shareholder transfer net of hedging gains/(losses) [(ii)]	54	201	—	255
Adjusted operating income	1,312	1,426	—	2,738
Adjusted operating expenses	(779)	(125)	(13)	(917)
Other shareholder profit/(loss)	(81)	(136)	1	(216)
Share of profit from joint ventures and associates	16	—	—	16
Adjusted operating profit/(loss) before tax	468	1,165	(12)	1,621
Short-term fluctuations in investment returns	41	(44)	—	(3)
Loss on disposal of businesses and corporate transactions	—	(508)	—	(508)
Restructuring costs [(iii)]	(62)	(47)	—	(109)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders from continuing operations	447	566	(12)	1,001
IFRS profit attributable to non-controlling interests	2	—	—	2
Profit/(loss) before tax attributable to equity holders from continuing operations	449	566	(12)	1,003

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

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

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other net shareholder expenses includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio.

Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method[7].

[7] Excludes operating profit from joint ventures in the With-Profits Fund.

4 Administrative and other expenses

	For the year ended 31 December	
	2019	2018
	£m	£m
Staff and employment costs	**586**	713
Acquisition costs incurred:		
Insurance contracts	**168**	166
Investment contracts	**20**	27
Amortisation of deferred acquisition costs:		
Insurance contracts	**7**	5
Investment contracts	**10**	10
Depreciation	**97**	89
Amortisation of intangible assets	**11**	13
Impairment of goodwill and intangible assets	**23**	27
Impairment of tangible assets	**—**	30
Restructuring costs	**201**	256
Expenses under arrangements with reinsurers	**112**	4
Interest expense	**154**	97
Commission expense	**263**	321
Investment management fees	**221**	205
Property-related costs	**152**	148
Other expenses	**851**	553
Total administrative and other expenses from continuing operations	**2,876**	2,664

In addition to the interest expense shown above, the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2019 was £28m (2018: £4m). This was shown as finance costs in the consolidated income statement. Total finance costs incurred for the year ended 31 December 2019 were £182m (2018: £101m).

5 Tax

5.1 Tax charged/(credited) to the consolidated income statement from continuing operations

	For the year ended 31 December	
	2019	2018
	£m	£m
The total tax charge/(credit) comprises:		
Current tax		
Current year	**689**	392
Adjustments in respect of prior years	**(171)**	30
Total current tax	**518**	422
Deferred tax:		
Origination and reversal of temporary differences in the year	**165**	(630)
Adjustments in respect of prior years	**(3)**	(6)
Total deferred tax	**162**	(636)
Total tax charge/(credit)	**680**	(214)

The tax charge above, comprising current and deferred tax, can be analysed as follows:

	For the year ended 31 December	
	2019	2018
	£m	£m
UK tax	**600**	(319)
Overseas tax	**80**	105
Total tax charge/(credit)	**680**	(214)

5 Tax (continued)

5.1 Tax charged/(credited) to the consolidated income statement from continuing operations (continued)

5.1.1 Allocation of profit/(loss) before tax and tax charge between equity holders and policyholders

The profit before tax from continuing operations reflected in the consolidated income statement for the year ended 31 December 2019 of £1,745m (2018: £597m) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of the With-Profits Fund.

This is the formal measure of profit before tax under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, this measure of profit before all taxes is not representative of pre-tax profits attributable to equity holders.

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

	For the year ended 31 December					
	2019			2018		
	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total
	£m	£m	£m	£m	£m	£m
Profit before tax from continuing operations	**1,305**	**440**	**1,745**	1,003	(406)	597
Tax (charge)/credit from continuing operations	**(240)**	**(440)**	**(680)**	(192)	406	214
Profit for the year from continuing operations	**1,065**	**—**	**1,065**	811	—	811

5.1.2 Tax reconciliation

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total
	£m	£m	£m	£m	£m	£m
Profit before tax from continuing operations	**1,305**	**440**	**1,745**	1,003	(406)	597
Tax charge/(credit) based on the standard UK corporation tax rate of 19% (2018: 19%)	**248**	**84**	**332**	191	(77)	114
Impact of profits/(losses) earned in jurisdictions with different statutory rates to the UK	**1**	**—**	**1**	2	—	2
(Weighted average rate for equity holders is 19.1% (2018: 19.2%)						
Recurring items						
Different basis of taxation- policyholders	**—**	**507**	**507**	—	(364)	(364)
Deductions not allowable for tax purposes	**14**	**—**	**14**	11	—	11
Effects of results of joint ventures and associates[i]	**(3)**	**—**	**(3)**	(3)	—	(3)
Other	**3**	**—**	**3**	2	—	2
Non-recurring items						
Adjustments in relation to prior periods	**(23)**	**(151)**	**(174)**	(11)	35	24
Tax charge/(credit) from continuing operations	**240**	**440**	**680**	192	(406)	(214)

[i] Profit before tax includes the Group's share of profits after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item.

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise. The key applicable tax rate for 2019 is the UK Corporation tax rate of 19% as the majority of the Group's profits are earned and taxed in the UK.

The calculation of the tax charge includes a degree of estimation and judgement. Due to the complex nature of the Group's business, the tax affairs remain open and subject to challenge by the tax authorities for a number of years. The adjustment in respect of prior periods primarily results from changes in assumptions made in the current period in relation to amounts included in earlier period tax submissions.

5.1.3 Factors that may impact the future tax rate

The majority of the Group's profits are generated in the UK. Taking into account recurring tax adjusting items, the underlying effective tax rate for equity holders portion of profits is expected to be marginally higher than the statutory rate in the UK. Legislation has been enacted in the UK to reduce the corporation tax rate to 17% from 1 April 2020.

5.1.4 Use of accounting estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. The two principal areas of judgement that could impact the reported tax position are the recognition and measurement of deferred tax assets and the level of provisioning for uncertain tax positions.

The recognition of a deferred tax asset relies on an assessment of the probability of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

5 Tax (continued)

5.1 Tax charged/(credited) to the consolidated income statement from continuing operations (continued)

The provisions for uncertain tax positions cover a wide range of issues, only a fraction are expected to be subject to challenge by a tax authority at any point in time. The Group engages constructively and transparently with tax authorities with a view to early resolution of uncertain tax matters. Estimated positions are based on the probability of potential challenge within certain jurisdictions and the possible outcome based on relevant facts and circumstances. The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

The Group does not consider there to be a significant risk of a material adjustment in the next financial year to the deferred and current tax balances from either recognition and measurement of deferred tax assets or the level of provisioning for uncertain tax positions.

5.2 Deferred tax

Deferred tax assets and liabilities

Under IAS 12, deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period. Deferred tax assets are recognised to the extent that they are regarded as recoverable on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted or tax losses utilised. Deferred tax assets and liabilities are only offset when there is both a legal right to set off and an intention to settle on a net basis

Deferred tax in the statement of financial position

The table below shows movements on deferred tax assets and liabilities during the year. The amounts are different from those disclosed on the balance sheet as the below amounts are presented before offsetting asset and liability balances where there is a legal right to set off and an intention to settle on a net basis.

The deferred tax balances arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
UK	**76**	22	**(824)**	(715)
Overseas	**2**	2	**(241)**	(247)
As at 31 December	**78**	24	**(1,065)**	(962)

Unrecognised deferred tax

Tax losses and temporary differences

At the end of the reporting period, the Group's continuing operations have unused tax losses of £542m (2018: £nil) for which no deferred tax asset is being recognised. The Group's unused tax losses wholly relate to capital losses in the UK. These losses originally arose in different companies in the Prudential plc group. Some arose and were transferred to the Group during 2019. Others arose in a previous period but the Group did not have the economic benefits arising from the utilisation of the losses. Following the demerger from Prudential plc, any future economic benefit which arises from the future use of these losses will accrue to the Group. No deferred tax asset is recognised on the £542m of capital losses as it is considered not probable that future taxable UK capital gains will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely.

Group investments in subsidiaries, branches and investments

Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation by virtue of parent company exemptions on dividends from subsidiaries and on capital gains on disposal. Consequently, the Group does not consider there to be any significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

6 Earnings per share

Basic earnings per share for the year ended 31 December 2019 was 43.1p (2018: 1.2p) and diluted earnings per share was 43.0p (2018: 1.2p). Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares. Diluted EPS is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue.

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

	For the year ended 31 December					
	2019			2018		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	£m	**£m**	**£m**	£m	£m	£m
Profit/(loss) attributable to equity holders of the Company	**1,062**	**58**	**1,120**	809	(776)	33

6 Earnings per share (continued)

	For the year ended 31 December	
	2019	2018
	Millions	Millions
Weighted average number of ordinary shares outstanding	**2,597**	2,600
Dilutive effect of share options and awards	**4**	—
Weighted average number of diluted ordinary shares outstanding	**2,601**	2,600

	For the year ended 31 December					
	2019			2018		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	Pence per share	**Pence per share**	**Pence per share**	Pence per share	Pence per share	Pence per share
Basic earnings per share	**40.9**	**2.2**	**43.1**	31.1	(29.9)	1.2
Diluted earnings per share	**40.8**	**2.2**	**43.0**	31.1	(29.9)	1.2

7 Dividends

7.1 Transaction with equity holders

The following table represents dividends paid to Prudential plc prior to demerger on 18 October 2019:

	For the year ended 31 December	
	2019	2018
	£m	£m
Dividends - cash	**3,516**	746
Dividends - in specie	**849**	—
Total dividends paid to Prudential plc	**4,365**	746

In 2018, PAC and M&G Group Limited paid dividends of £513m and £196m respectively to Prudential plc, the parent Company prior to incorporation and transfer of ownership to M&G plc. Additionally PruCap paid a dividend of £37m to Prudential plc in 2018.

Dividends paid to Prudential plc by M&G plc post incorporation on 2 July 2018 up to the date of demerger were £1,392m, of which, £849m were non-cash in specie dividends and £543m in cash. A final dividend was paid to Prudential plc prior to demerger on 18 October 2019 of £2,968m.

PruCap was transferred on 20 September 2019, and prior to this paid a £5m dividend to Prudential plc.

7.2 Dividend in respect of 2019

An ordinary dividend of £310m (11.92 pence per share) and a special dividend of £100m (3.85 pence per share) will be paid on 29 May 2020, at which point these will be recognised in the financial statements.

8 Defined benefit pension schemes

8 Background and summary economic and IAS 19 financial positions

The Group operates three defined benefit pension schemes, which historically have been funded by the Group and Prudential plc. The largest defined benefit scheme as at 31 December 2019 is the Prudential Staff Pension Scheme ("PSPS"), which accounts for 82% (2018: 82%) of the present value of the defined benefit pension obligation.

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

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

Until 30 June 2019, the PSPS net economic pension surplus was attributed 30% to Prudential plc (external to the Group) and 70% to the With-Profits Fund (part of the Group). On 30 June 2019, in preparation for the demerger, the 30% attributable to Prudential plc was formally reallocated to the Group's shareholders. The consolidated statement of financial position as at 31 December 2018 included only the element of the PSPS scheme related to the With-Profits Fund. On 30 June 2019 the full value of the scheme surplus allowable under IFRIC 14 was attributed to the Group and is therefore reflected on the consolidated statement of financial position as at 31 December 2019. This resulted in an incremental pension surplus of £15m recognised on the consolidated statement of financial position of the Group, with the corresponding gain recognised in the consolidated statement of comprehensive income.

8 Defined benefit pension schemes (continued)

8 Background and summary economic and IAS 19 financial positions (continued)

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

	As at 31 December 2019			
	PSPS [ii]	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	7,447	867	663	8,977
Present value of defined benefit obligation	(6,520)	(895)	(489)	(7,904)
Effect of restriction on surplus	(887)	—	—	(887)
Net economic pension surplus/(deficit) [i]	40	(28)	174	186
Eliminate group issued insurance policies	—	—	(137)	(137)
Net total pension surplus/(deficit)	40	(28)	37	49

	As at 31 December 2019			
	PSPS [ii]	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Attributable to:				
Shareholder-backed business	12	(17)	37	32
With-Profits Fund	28	(11)	—	17
Net total pension surplus/(deficit)	40	(28)	37	49

	As at 31 December 2018			
	PSPS [ii]	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 pension surplus/(deficit) [i]	231	(79)	131	283
Eliminate group issued insurance policies	—	—	(225)	(225)
Net total pension surplus/(deficit)	231	(79)	(94)	58
Less: amount attributable to external party	(69)	—	—	(69)
Net pension surplus/(deficit) attributable to the Group	162	(79)	(94)	(11)

	As at 31 December 2018			
	PSPS [ii]	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Attributable to:				
Shareholder-backed business	—	(47)	(94)	(141)
With-Profits Fund	162	(32)	—	130
Net total pension surplus/(deficit)	162	(79)	(94)	(11)

8 Defined benefit pension schemes (continued)

8 Background and summary economic and IAS 19 financial positions (continued)

	As at 1 January 2018			
	PSPS (ii)	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 pension surplus / (deficit) (i)	236	(137)	109	208
Inter-company insurance policies	—	—	(151)	(151)
Net total pension surplus / (deficit)	236	(137)	(42)	57
Less: amount attributable to external party	(71)	—	—	(71)
Net pension surplus / (deficit) attributable to the Group	165	(137)	(42)	(14)

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

(ii) As at 31 December 2019 the surplus of PSPS has been allocated 70% to the With-Profits Fund and 30% to the Group's shareholders. Until 30 June 2019, the portion attributable to the Group's shareholders was attributable to Prudential plc. Hence, the related amounts have been shown as attributable to an external party. No deficit funding is required for PSPS.

	As at 1 January 2018			
	PSPS (ii)	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Adjusted pension surplus / (deficit) attributable to the Group:				
Shareholder-backed business	—	(82)	(42)	(124)
With-profits fund	165	(55)	—	110
	165	(137)	(42)	(14)

9 Issued share capital and share premium

M&G plc was incorporated on 2 July 2018. For the purposes of these consolidated financial statements share capital and share premium have been presented as if the parent company existed at 1 January 2018.

9.1 Issued share capital

	For the year ended 31 December			
	2019		2018	
Issued shares fully paid	**Number of ordinary shares**	**Share capital**	Number of ordinary shares	Share capital
		£m		£m
At 1 January	**2,597,930,000**	**130**	2,597,930,000	130
Bonus issue	**1,976,866**	**—**	—	—
At 31 December	**2,599,906,866**	**130**	2,597,930,000	130

Amounts recorded in share capital represent the nominal value of shares issued with any difference between proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued being credited to the share premium account. On 18 October in preparation of demerger 1,976,866 bonus shares were issued at par value of 5 pence per share by utilising the share premium reserve.

9.2 Share premium

	For the year ended 31 December	
	2019	2018
	£m	£m
At 1 January	**370**	21,370
Capital reduction	**—**	(21,000)
At 31 December	**370**	370

On 3 December 2018, the Company performed a capital reduction which reduced the share premium account by £21,000m.

10 Policyholder liabilities and unallocated surplus

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

Note 2.3 describes the different types of insurance and investment contracts across the business. A description relating to the determination of the policyholder liabilities and the key assumptions for each component of business is set out below:

10.1.1 With-profits business

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

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

(i) A with-profits benefits reserve (“WPBR”)

(ii) Future policy-related liabilities (“FPRL”)

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

The FPRL is comprised of other components of the liability including a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using stochastic modelling techniques. The FPRL also include other liabilities such as tax on shareholder transfers and enhancements to policy benefits arising from the distribution of surplus from non-profit business written within the With-Profits Fund.

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

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

On 25 October 2019, a reinsurance arrangement with Prudential Hong Kong Limited, a subsidiary of Prudential plc, which covered £1,078m of the non-profit annuity business contained within the With-Profits Fund, was terminated as part of demerger activities. At 31 December 2019, there are no significant external reinsurance arrangements in place in respect of the With-Profits Fund’s liabilities.

Unallocated surplus

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

Determination of bonuses

Determining discretionary bonuses for traditional types of with-profits business requires the PAC Board to apply significant judgement, including in particular the following:

- Determining what constitutes fair treatment of customers.
- Determining the process for the smoothing of investment returns.
- Determining at what level to set bonuses to ensure that they are competitive.

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. The Group determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business.

The Group’s approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent with the Principles and Practices of Financial Management ("PPFM") that explains how the With-Profits Fund is managed. In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A Chief Actuary who provides the PAC Board with all actuarial advice.
- A With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed.
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting interests and rights have been addressed.

10 Policyholder liabilities and unallocated surplus (continued)

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

In determining bonus rates for the with-profits policies, smoothing is applied to the allocation of the overall earnings of the With-Profits Fund, of which the investment return is a significant element. The degree of smoothing is illustrated numerically in the following table, which allows comparison of the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution with the more volatile movement in investment return and other items of income and expenditure of the With-Profits Fund.

	For the year ended 31 December	
	2019	2018
	£m	£m
Net income of the fund:		
Investment return	**13,910**	(2,359)
Claims incurred	**(9,106)**	(8,776)
Movement in policyholder liabilities	**(11,535)**	(554)
Add back policyholder bonus for the year (as shown below)	**2,375**	2,345
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**(18,266)**	(6,985)
Earned premiums, net of reinsurance	**11,755**	12,505
Other income	**35**	36
Acquisition costs and other expenditure	**(1,837)**	(1,064)
Share of profits from investment joint ventures	**3**	36
Tax charge	**(413)**	273
Net income of the fund before movement in unallocated surplus of the With-Profits Fund	**5,187**	2,442
Movement in unallocated surplus of the With-Profits Fund	**(2,549)**	162
Surplus for distribution for the year	**2,638**	2,604
Surplus for distribution for the year allocated as follows:		
90% policyholders' bonus (as shown above)	**2,375**	2,345
10% shareholders' transfers	**263**	259
Surplus for distribution for the year	**2,638**	2,604

10.1.2 Unit-linked business

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

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

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

10.1.3 Annuities and other long-term business

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

As described in Note 2, on 14 March 2018 part of the annuity liability was reinsured externally to Rothesay Life plc. In addition, some of the longevity risk in respect of the remaining annuity business is reinsured externally. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

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

Mortality

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

10 Policyholder liabilities and unallocated surplus (continued)

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

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2019. New mortality projection models are released annually by the Continuous Mortality Investigation ("CMI"). The CMI tables used are adjusted as appropriate each year to reflect anticipated mortality improvements, including an appropriate margin for prudence. The mortality improvement assumptions used are summarised in the table below:

Period ended	Model version	Long-term improvement rate[1]	Smoothing parameter (S_k)[2]
31 December 2019	CMI 2017	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.75
31 December 2018	CMI 2016	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.5

[1] As at 31 December 2019 and 31 December 2018, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence.

[2] The smoothing parameter controls the amount of smoothing by calendar year when determining the level of initial mortality improvements.

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. Equities are valued using the greater of the dividend yield and the average of the dividend yield and the earnings yield.

An adjustment is made to the yield on non-risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities.

Expenses

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

11 Subordinated liabilities and other borrowings

	As at 31 December		As at 1 January
	2019	2018	2018
	£m	£m	£m
Subordinated liabilities	**3,767**	—	—
Operational borrowings	**130**	136	423
Borrowings attributable to the With-Profits Fund	**3,602**	3,949	3,729
Total subordinated liabilities and other borrowings	**7,499**	4,085	4,152

11.1 Subordinated liabilities

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

	As at 31 December 2019	
	Principal amount	**Carrying value**
		£m
5.625% Sterling fixed rate due 20 October 2051	**£750m**	**862**
6.25% Sterling fixed rate due 20 October 2068	**£500m**	**608**
6.50% US Dollar fixed rate due 20 October 2048	**$500m**	**448**
6.34% Sterling fixed rate due 19 December 2063	**£700m**	**856**
5.56% Sterling fixed rate due 20 July 2055	**£600m**	**684**
3.875% Sterling fixed rate due 20 July 2049	**£300m**	**309**
Total subordinated liabilities		**3,767**

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

11 Subordinated liabilities and other borrowings (continued)

11.1 Subordinated liabilities (continued)

A description of the key features of each of the Group's subordinated notes as at31 December 2019 is as follows:

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

[1] The subordinated notes were issued by Prudential plc rather than by the Company.

As at 31 December 2019, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £41m is expected to be settled within 12 months.

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

	2019 £m
At 1 January	—
Fair value on initial recognition	3,789
Amortisation	(9)
Foreign exchange movements	(13)
At 31 December	**3,767**

The subordinated liabilities were recognised at fair value on initial recognition, however the cash received in respect of these liabilities from Prudential plc was £3,219m. The difference was treated as distribution in kind in accordance with the requirements of section 845 of the Companies Act 2006.

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

12 Fair value methodology

12.1 Determination of fair value hierarchy

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

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities

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

Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (ie. as prices) or indirectly (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.

Level 3 - Significant inputs for the asset or liability are not based on observable market data (unobservable inputs)

Level 3 principally includes investments in private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

12 Fair value methodology (continued)

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

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

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits:				
Investment property	—	—	17,039	17,039
Loans	—	—	1,602	1,602
Derivative assets	67	3,225	—	3,292
Equity securities and pooled investment funds	48,532	2,219	7,154	57,905
Debt securities	21,913	28,430	5,008	55,351
Total with-profits	70,512	33,874	30,803	135,189
Unit-linked:				
Investment property	—	—	453	453
Derivative assets	3	3	—	6
Equity securities and pooled investment funds	12,968	352	987	14,307
Debt securities	2,382	5,908	—	8,290
Total unit-linked	15,353	6,263	1,440	23,056
Annuity and other long-term business:				
Investment property	—	—	1,644	1,644
Loans	—	—	1,737	1,737
Derivative assets	—	603	—	603
Equity securities and pooled investment funds	27	—	2	29
Debt securities	4,361	9,810	6,207	20,378
Total annuity and other long-term business	4,388	10,413	9,590	24,391
Other:				
Derivative assets	—	61	—	61
Equity securities and pooled investment funds	129	—	18	147
Debt securities	880	535	—	1,415
Total other	1,009	596	18	1,623
Group:				
Investment property	—	—	19,136	19,136
Loans	—	—	3,339	3,339
Derivative assets	70	3,892	—	3,962
Equity securities and pooled investment funds	61,656	2,571	8,161	72,388
Debt securities	29,536	44,683	11,215	85,434
Total assets at fair value	91,262	51,146	41,851	184,259

12 Fair value methodology (continued)

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

	As at 31 December 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	15,725	15,725
Loans	—	—	1,702	1,702
Derivative assets	57	1,900	—	1,957
Equity securities and pooled investment funds	40,690	898	6,251	47,839
Debt securities	7,666	40,245	5,888	53,799
Total with-profits	48,413	43,043	29,566	121,022
Unit-linked:				
Investment property	—	—	618	618
Loans	—	—	—	—
Derivative assets	1	—	—	1
Equity securities and pooled investment funds	11,670	318	691	12,679
Debt securities	1,196	9,316	—	10,512
Total unit-linked	12,867	9,634	1,309	23,810
Annuity and other long-term business:				
Investment property	—	—	1,660	1,660
Loans	—	—	1,579	1,579
Derivative assets	—	555	—	555
Equity securities and pooled investment funds	61	—	2	63
Debt securities	917	14,424	6,304	21,645
Total annuity and other long-term business	978	14,979	9,545	25,502
Other:				
Derivative assets	—	111	—	111
Equity securities and pooled investment funds	223	—	8	231
Debt securities	—	1,884	—	1,884
Total other	223	1,995	8	2,226
Group:				
Investment property	—	—	18,003	18,003
Loans	—	—	3,281	3,281
Derivative assets	58	2,566	—	2,624
Equity securities and pooled investment funds	52,644	1,216	6,952	60,812
Debt securities	9,779	65,869	12,192	87,840
Total assets at fair value	62,481	69,651	40,428	172,560

12 Fair value methodology (continued)

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

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

	As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Investment contract liabilities without discretionary participation features	**—**	**15,651**	**—**	**15,651**
Third-party interest in consolidated funds	**6,897**	**3,611**	**1,135**	**11,643**
Borrowings and subordinated liabilities	**—**	**—**	**1,422**	**1,422**
Derivative liabilities	**32**	**2,172**	**—**	**2,204**
Accruals, deferred income and other liabilities	**—**	**—**	**390**	**390**
Total liabilities at fair value	**6,929**	**21,434**	**2,947**	**31,310**

	As at 31 December 2018			
	Level 1	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	5,696	2,659	1,028	9,383
Borrowings and subordinated liabilities	—	—	1,606	1,606
Derivative liabilities	65	3,122	—	3,187
Accruals, deferred income and other liabilities	—	—	355	355
Total liabilities at fair value	5,761	21,341	2,989	30,091

13 Contingencies and related obligations

13.1 Litigation and regulatory matters

In addition to the regulatory provisions held in relation to annuity past sales practices and the litigation in respect of portfolio dividend tax, 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.

13.2 Guarantees

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

M&G plc has acted as a guarantor for the 10 Fenchurch Avenue lease between Saxon Land B.V. and M&G Prudential Services Limited.

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

13.3 Support for the With-Profits Fund by shareholders

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

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

13.3.1 Pension mis-selling review

The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged, to ensure they have the opportunity to take part in the review. Currently a provision amounting to £420m as at 31 December 2019 (2018: £777m) is being held in relation to this within insurance contract liabilities.

The key assumptions underlying the provisions are:

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

13 Contingencies and related obligations (continued)

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

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

Assumption	Change in assumption	As at 31 December 2019 £m	2018 £m
Average cost of redressal	increase/decrease by 10%	**+/- 20**	+/- 53
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 30**	+/- 12

Costs arising from this review are met by the excess assets of the with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. An assurance was given that these deductions from excess assets would not impact PAC's bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, the assurance provides that support would be made available to the sub-fund from PAC's shareholder resources for as long as the situation continued, so as to ensure that PAC's policyholders were not disadvantaged. PAC's comfort in its ability to make such support available was supported by related intra-group arrangements between Prudential plc and PAC, which formalised the circumstances in which capital support would be made available to PAC by Prudential plc. These intra-group arrangements terminated on 21 October 2019, following the demerger of M&G plc from Prudential plc, at which time intra-group arrangements formalising the circumstances in which M&G plc would make capital support available to PAC became effective.

13.3.2 SAIF

Policies within this sub-fund contain guaranteed benefits to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the WPSF would be liable to cover the deficiency in the first instance. In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £385m is held within the sub-fund as at 31 December 2019 (2018: £361m).

14 Post balance sheet events

On 26 February 2020, the With-Profits Fund declared a distribution of £2bn for the policyholders comprising of the annual with-profits bonus declaration, and an extra distribution to eligible policyholders.