12 August 2020

M&G plc half year 2020 results

M&G plc delivers a resilient performance in a challenging market

Highlights

- Adjusted operating profit of £309 million and IFRS profit after tax of £826 million
- Shareholder Solvency II coverage ratio of 164%, comfortably above risk appetite
- Assets under management and administration (AUMA) reduced to £339 billion, reflecting negative market movements in March
- £2.8 billion of net inflows into Institutional Asset Management and £0.8 billion of net inflows into Retail Savings, partially offsetting £7.7 billion of outflow from Retail Asset Management
- Completion of the acquisition of Ascentric scheduled for 1 September following FCA approval of change in control
- Interim dividend of £155 million equal to 6.00p per share, in line with our policy of paying one-third of the previous year's final dividend

John Foley, Chief Executive of M&G plc, commented: "This has been a resilient performance in extremely difficult times, with the value of our diversified business mix coming through strongly.

"Earnings from our Heritage Business have remained steady, our balance sheet is robust and credit quality remains high. Over 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 15% are BBB.

"Despite the disruption caused by the pandemic, net new money has flowed into our Institutional Asset Management business, while our UK retail savings franchise, anchored on our unique PruFund offering, has remained in positive net inflow.

"Outflows in Retail Asset Management declined in the second quarter, as performance rallied. Work is underway here to further improve returns and customer value, while the acquisition of Ascentric will, once completed, bolster our position in the UK market and take us into high-value wealth management.

"Obviously, this is not the backdrop we would have wished as a newly independent company, but I have been hugely impressed by how my colleagues have responded to the challenge of continuing to serve our customers and clients during the pandemic.

"Given our continued financial strength and resilient performance in the first half of 2020, we are declaring an interim dividend of 6.00 pence per share, in line with our dividend policy."

	For the six months ended 30 June		For the year ended 31 December
Performance highlights	**2020**	2019	2019
Adjusted operating profit before tax (£m)	**309**	714	1,149
IFRS profit after tax (£m)	**826**	795	1,065
Savings and Asset Management net client flows (£bn)	**(4.1)**	(1.4)	(1.3)
Total capital generation (£m)	**(202)**	930	1,509
Assets under management and administration (£bn)	**339**	341	352
Shareholder Solvency II coverage ratio[i]	**164%**	n/a	176%

[i]30 June 2019 comparatives have not been included within this interim financial report.

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Notes to editors

1. The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34'), as endorsed by the European Union ('EU'), and the Disclosure and Transparency Rules of the Financial Conduct Authority based on the consolidated financial statements of M&G plc.
2. All key performance measures relate to continuing operations.
3. The shareholder view of the Solvency II coverage ratio as at 30 June 2020 assumes transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.
4. Total number of M&G plc shares in issue as at 30 June 2020 was 2,599,906,866.
5. A Q&A webcast will be hosted by John Foley (CEO) and Clare Bousfield (CFO) on Wednesday 12 August at 10:30 BST. The session can be viewed at https://www.investis-live.com/mandg-plc/5f08cbe58ade18100081bd9c/obdf.

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

6. **Ordinary dividend to be paid in September 2020**

Ex-dividend date	August 20, 2020
Record date	August 21, 2020
Payment of dividend	September 30, 2020

7. **About M&G plc**

M&G plc is an international savings and investments business, managing money for both individual savers and institutional investors in 28 markets. As at 30 June 2020, we had £339 billion of assets under management and administration, around 5 million retail customers and more than 800 institutional clients.

With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our savings and insurance customers under the Prudential brand in the UK and Europe and for asset management in South Africa, and under the M&G Investments brand for asset management clients globally.

8. **Additional information**

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

9. **Forward-looking statements**

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

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

Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union and the impact of the Covid-19 pandemic); 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

M&G plc is a resilient business and our performance during the first half of 2020 has demonstrated our financial strength. I am proud of how our colleagues have risen to the challenge of continuing to serve, from their homes, the millions of customers we have around the world, as well as continuing to focus on delivering our strategy.

Good progress on our growth strategy

We have continued to make good progress on positioning our Savings and Asset Management business for sustainable growth.

In the UK, the acquisition of Ascentric is scheduled to complete on 1 September 2020 since we have received FCA approval for change in control. The acquisition of Ascentric will broaden our coverage of the IFA market and accelerate our move into high value wealth management. Ascentric will bring to M&G plc an IFA digital wrap and wealth management platform, £15.5 billion of assets under administration, and relationships with 1,500 advisers representing 90,000 individual customers.

In Europe, we signed memoranda of understanding for the distribution of products similar to PruFund with two banking groups in different countries. As we have said previously, we expect the first inflows from these arrangements by the turn of the year, Covid-19 restrictions allowing.

In Asia, we repatriated £6 billion of assets under management from Eastspring Investments, the Asian asset management arm of Prudential plc. While this results in no change to AUMA at M&G plc level, this will have a positive impact on revenues.

In the US, we established an investment hub in Chicago, which we expect to be operational during the third quarter of this year.

Strong half for Institutional Asset Management

Net inflows into our Institutional Asset Management business were £2.8 billion, as our highly-regarded investment teams won a series of new mandates in public fixed income and private assets from clients eager to seize opportunities created by the market disruption.

Steady net inflows over the past five years have driven AUMA in our Institutional Asset Management business to £81 billion, making this our largest investment management franchise for external clients.

Net client flows remained positive in our Retail Savings business, in contrast to this the Retail Asset Management business experienced net client outflows resulting from weaker investor sentiment.

Sharpening the focus on investment performance

Performance of our Institutional Asset Management business remains strong, with 84% of strategies meeting or outperforming their benchmark over the past five years.

The £136 billion With-Profits Fund also continues to deliver steady returns for customers in our Heritage business and savers who invest in our PruFund offering. Its smoothing strategy successfully cushioned savers from the worst of the market falls in March.

At the beginning of July, the first annual Value Assessment for our M&G Investments branded UK mutual funds was published, showing that 94% of these funds delivered overall value for customers. Although our funds scored highly on most value criteria, the investment performance of many of the funds was more disappointing.

While our SICAV range of funds was not in the scope of Value Assessment, 43% of SICAV funds delivered first or second quartile returns for the three years to 30 June 2020.

Work continues on a series of initiatives in Retail Asset Management to enhance value for customers, through improving investment performance, reviewing our charges, and better product innovation.

Driving down costs

We remain on target to achieve annual run-rate shareholder cost savings of £145 million by the end of 2022 through our five year investment in digital transformation which will improve customer experience, strengthen the control environment and improve the efficiency and structure of our cost base, to create a platform for scalable growth.

Given the uncertainty caused by the pandemic, we deferred our target to reduce total staff costs by 10% in 2020 through a voluntary redundancy programme to reassure our colleagues. At the same time, we initiated a programme to capture permanently the cost savings and environmental benefits achieved during the lockdown.

With movement of our colleagues restricted in most of our chosen markets, we have by necessity accelerated the adoption of digital practices. By the end of March, all but a handful of our 6,000 colleagues were serving customers and clients from the safety of their own homes.

When we do return to our offices, our expectation is that the vast majority of our colleagues will work no more than two or three days per week from one of our sites. As ever, our priority will be the well-being and safety of our colleagues.

Our clients and customers have also embraced digital ways of working. Attendance at our virtual conferences and seminars has been strong, with many clients saying they prefer this type of engagement.

Confident about the outlook

I expect further volatility in markets while the Covid-19 virus remains a threat. It is too early to say we are through the worst, despite the rally in the second quarter. Against this backdrop, we remain committed to our dividend policy of stable or increasing pay-outs. We will continue to monitor developments carefully and we do not expect to increase the dividend while the threat of Covid-19 remains.

Despite the difficult market conditions, I remain optimistic about the outlook for M&G plc. In the short term, as a leading savings and investment business, we are well-placed to be the partner of choice for households looking for better returns on the large cash savings they have accumulated during the pandemic.

Longer term, we will continue to position the business for sustainable growth, building on our first-half actions to revitalise our UK retail franchise, deepen our presence in Europe, and expand our international and institutional businesses.

These actions, coupled with our proactive management of the balance sheet, give us the confidence to remain committed to our three-year total capital generation target of £2.2 billion assuming we experience more normal market conditions over the remaining period.

Chief Financial Officer's review

I am pleased to present our results for the first half of 2020 which show a resilient financial performance amidst the global economic impact of the Covid-19 pandemic. The robustness of our financial position has been demonstrated with our shareholder Solvency II coverage ratio[1] of 164% at 30 June 2020 which, although slightly below the level at the time of the Demerger, reflects the impact of adverse market movements after the dividend payment to shareholders.

Taking into consideration the one-off benefits earned last half year, our adjusted operating profit before tax of £309 million (30 June 2019: £714 million) demonstrates the ability of the underlying business to deliver stable returns. Adjusted operating profit before tax for the first half of 2020 has been impacted by the decline in financial markets and by the known costs arising from the Demerger, including the interest on subordinated debt and head office expenses. The first half of 2019 benefitted from updating the longevity assumptions from CMI 16 to CMI 17 and changes to the staff pension scheme. Despite the profound impact on global financial markets arising from the Covid-19 pandemic, being an asset owner and asset manager provides diversification of earnings enabling us to continue to produce good returns even in extremely tough market conditions.

Total AUMA declined 4% over the six months 30 June 2020 to £339 billion (31 December 2019: £352 billion), driven by market falls and net client outflows. Our Institutional Asset Management business and our Retail Savings business both delivered net client inflows. However, market volatility and global uncertainty have led to net client outflows in our Retail Asset Management business.

The strength and resilience of the Group’s balance sheet was demonstrated during the period, with the stable and recurring nature of the Group’s underlying capital generation, and a series of management actions, mostly offsetting adverse market movements of £614 million, resulting in total capital generation of £(202) million. The impact of adverse market movements is net of a significant benefit from equity hedges which mitigate the Group's risk exposure to shareholder transfers from the With-Profits Fund.

Liquidity at the parent company has remained at comfortable levels and it has not been adversely impacted by the crisis, with cash and liquid assets remaining stable at £1.2 billion.

We paid dividends of £410 million on 29 May 2020, comprising an ordinary dividend of 11.92 pence per share and a special demerger dividend of 3.85 pence per share. We will be paying an interim ordinary dividend of £155 million equal to 6.00 pence per share, in line with our policy of paying one-third of the previous year final dividend, on 30 September 2020.

In the M&G plc 2019 Annual Report and Accounts we announced our intention to conduct an audit tender process in 2020 led by the Group Audit Committee. Following the IASB’s confirmation that IFRS 17 would not be effective until accounting reporting periods beginning on or after 1 January 2023, we have decided that the new Independent Auditor should be appointed for the audit of our 2022 Annual Report and Accounts. This will allow them to review the prior year comparative data in advance of the first effective reporting period under IFRS 17. The audit tender process commenced in July 2020 and is expected to conclude with a decision on the appointment of a new Independent Auditor, by the M&G plc Board, at the end of October 2020.

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:

	For the six months ended 30 June		For the year ended 31 December
£m	**2020**	2019	2019
Asset Management fee based revenues	**469**	514	1,033
Other fee based revenues	**111**	123	254
Total fee based revenue	**580**	637	1,287
Annuity margin	**139**	311	458
With-profit shareholder transfer net of hedging	**134**	126	242
Adjusted operating income	**853**	1,074	1,987
Asset Management operating expenses	**(306)**	(298)	(652)
Other operating expenses	**(181)**	(126)	(311)
Adjusted operating expenses	**(487)**	(424)	(963)
Other shareholder (loss)/profit	**(62)**	56	110
Share of profit from joint ventures and associates	**5**	8	15
Adjusted operating profit before tax	**309**	714	1,149
Short-term fluctuations in investment returns	**746**	364	298
Profit on disposal of business and corporate transactions	**—**	—	53
Restructuring and other costs [i]	**(22)**	(82)	(198)
IFRS profit attributable to non-controlling interests	**2**	2	3
IFRS profit before tax attributable to equity holders from continuing operations	**1,035**	998	1,305
Tax charge attributable to equity holders	**(209)**	(203)	(240)
IFRS profit after tax attributable to equity holders from continuing operations	**826**	795	1,065

[i] Restructuring costs excluded from adjusted operating profit relate to merger and transformation costs of £19 million for the six months to 30 June 2020 (30 June 2019 : £32 million, year ended 31 December 2019 : £62m), 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 5.

[1] The shareholder view of the Solvency II position assumes transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date

Overview (continued)

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

£m	For the six months ended 30 June 2020	2019	For the year ended 31 December 2019
Asset management	**163**	216	381
With-Profits	**24**	29	55
Other	**(25)**	17	38
Savings and Asset management	**162**	262	474
With-Profits	**110**	97	187
Annuities	**139**	311	458
Other	**49**	68	107
Heritage	**298**	476	752
Corporate Centre	**(151)**	(24)	(77)
Adjusted operating profit before tax	**309**	714	1,149

Adjusted operating profit before tax fell to £309 million in the six months to 30 June 2020 (30 June 2019: £714 million). Fee based revenue is lower due to net client outflows and pressure on retail margins in Retail Asset Management. Additionally the first half of 2020 has been impacted by the full cost of the listed infrastructure arising from the demerger in the Corporate Centre, with £79 million of finance costs in relation to the subordinated debt and £48 million of head office costs. The impact on markets in the first half of 2020 as a result of the Covid-19 pandemic has resulted in a £30 million foreign exchange loss in respect of the US dollar subordinated debt. Half year 2019 benefitted, in particular, from two one off items, firstly from updating longevity assumptions from CMI 16 to CMI 17 of £127 million and secondly from making changes to the staff pension schemes of £64 million. Excluding the additional Corporate Centre costs, one-off items in half year 2019 and market volatility as a result of Covid-19 our adjusted operating profit has remained largely stable.

IFRS profit after tax

IFRS profit after tax attributable to equity holders from continuing operations increased to £826 million compared to £795 million for the six months to 30 June 2019 reflecting the fall in adjusted operating profit before tax being offset by a £382 million increase in short-term fluctuations in investment returns, a £60 million reduction in restructuring costs and a £6 million increase in the equity holders tax charge. Short term fluctuations primarily comprise gains on equity hedges of £308 million, a benefit of £134 million from interest rate swaps purchased to protect the Solvency II capital position and £334 million increase from fair value movements on surplus annuity assets. These gains have been partially offset by the strengthening of the credit risk allowance for shareholder-backed annuities by £117 million, in anticipation of short-term deterioration in the number of company default and downgrades due to the current market conditions arising from the Covid-19 pandemic.

Equity holders' effective tax rate for the six months to 30 June 2020 was 20.2% compared to 20.3% for the six months to 30 June 2019. Excluding non-recurring items, the equity holders' effective tax rate was 18.2% (30 June 2019: 19.4%). This was marginally lower than the UK statutory rate of 19 % (2019: 19%), primarily due to the beneficial impact of non-taxable dividend income together with relatively low levels of non-deductible expenses for the six months to 30 June 2020. 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.

Capital generation

The following table shows an analysis of total capital generation:

£m	For the six months ended 30 June 2020	2019	For the year ended 31 December 2019
Savings and Asset Management underlying capital generation	**186**	243	414
Heritage underlying capital generation	**209**	222	459
Corporate Centre underlying capital generation	**(132)**	(23)	(91)
Underlying capital generation	**263**	442	782
Other operating capital generation	**276**	322	494
Operating capital generation	**539**	764	1,276
Market movements	**(614)**	361	538
Restructuring and other	**(20)**	(67)	(133)
Tax	**(107)**	(128)	(172)
Total capital generation	**(202)**	930	1,509

Overview (continued)

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.

Underlying capital generation of £263 million (2019: £442 million) was lower as a result of the known costs arising from the Demerger, including the interest on subordinated debt and head office expenses, the reduction in adjusted operating profit from the Asset Management business, and a lower expected return assumed for the annuity business. There was a significant contribution of £276 million from other operating capital generation (2019: £322 million), primarily due to a series of management actions taken to strengthen the solvency position in response to recent market events, which increased surplus by £235 million, resulting in operating capital generation of £539 million (2019: £764 million).

Total capital generation was £(202) million for the six months ended 30 June 2020 (30 June 2019: £930 million), with operating capital generation more than offset by a £614 million reduction in surplus from negative market variances (30 June 2019: £361 million positive) and other non-operating items.

Capital position

The Group's solvency position remains resilient and, although slightly below the target level set out at the time of the Demerger, comfortably above our risk appetite. Group Solvency II surplus decreased to £3.9 billion as at 30 June 2020 (31 December 2019: £4.5 billion), equivalent to a shareholder Solvency II coverage ratio of 164% (31 December 2019: 176%), reflecting the total capital generation of £(202) million and £410 million of dividends paid to shareholders.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 241%. Whilst this is lower than 267% reported at 31 December 2019, it reflects the distribution of £1 billion of excess surplus in the fund to our with-profits policyholders announced in February 2020.

The regulatory Solvency II coverage ratio of the Group as at 30 June 2020 was 136% (31 December 2019: 143%). This view of solvency combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund.

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

Financing and liquidity

The following table shows key financing and liquidity information:

£m	For the six months ended 30 June **2020**	For the year ended 31 December 2019
Parent company cash and liquid assets	**1,203**	1,274
Nominal value of debt	**3,255**	3,227
Leverage ratio[2]	**33%**	31%

The key metric we use to manage our debt is the leverage ratio, defined as nominal value of debt as a percentage of the Group's shareholder Solvency II own funds. Our leverage ratio of 33% (31 December 2019: 31%) is slightly below the level at the point of Demerger (34%).

[2] Calculated as £3,255m nominal value of debt divided by £9.9 billion Group shareholder Solvency II own funds for the six months ended 30 June 2020 (£3,227 million nominal value of debt divided by £10.3 billion Group shareholder Solvency II own funds for the year ended 31 December).

Overview (continued)

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

£m	For the six months ended 30 June 2020	For the year ended 31 December 2019
Opening cash and liquid assets at 1 January	**1,274**	18
Cash remittances from subsidiaries	**472**	477
Special dividends from subsidiaries	**—**	1,177
Substitution of subordinated liabilities	**—**	3,241
Corporate costs	**(23)**	(37)
Interest paid on core structural borrowings	**(95)**	(22)
Cash dividends paid to equity holders	**(410)**	(543)
Final dividend paid to equity holders prior to demerger	**—**	(2,968)
Acquisition of subsidiaries	**—**	(86)
Acquisition of shares	**(23)**	—
Other shareholder income	**8**	17
Closing cash and liquid assets at end of period[i]	**1,203**	1,274

[i]Closing cash and liquid assets at 30 June 2020 included a £1,125 million (31 December 2019; £1,200 million) inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function.

Movements in cash and liquid assets held by the parent company for the first six months of 2020 represent the remittances and payments that will arise in the normal course of business, compared to the year ended 31 December 2019 which includes significant cash flows related to the Demerger. Total cash and liquid assets have remained stable at £1.2 billion with cash remittances of £472 million from our subsidiaries being offset by £95 million interest payments in respect of the subordinated debt and cash dividend payment to equity holders.

Savings and Asset Management

Savings and Asset Management financial performance has proved resilient during the first half of 2020, despite being impacted by the economic volatility surrounding the Covid-19 pandemic. In this environment due to weaker investor sentiment retail customers and clients accessed their savings and investments. By contrast, Institutional Asset Management had a strong performance with net client inflows demonstrating the appeal of the proposition.

Assets under management and administration and net client flows

	Net client flows			AUMA	
£bn	for the six months to 30 June 2020	for the six months to 30 June 2019	for the six months to 31 December 2019	As at 30 June 2020	As at 31 December 2019
Retail Savings	**0.8**	3.2	3.0	**61.8**	63.5
of which: PruFund	**0.6**	3.5	2.9	**52.3**	53.8
Retail Asset Management	**(7.7)**	(3.8)	(3.6)	**64.2**	74.9
Institutional Asset Management	**2.8**	(0.8)	0.7	**81.2**	76.8
Other	**—**	—	—	**0.8**	0.7
Total Savings and Asset Management	**(4.1)**	(1.4)	0.1	**208.0**	215.9

Net client inflows of £0.8 billion experienced by Retail Savings were lower than the first half of 2019 since during the lockdown there was increased demand from customers to access their savings combined with the restrictions on advisors ability to conduct business. Net client flows were also impacted by the continued contraction in defined benefit pension transfers. PruFund AUMA has fallen 3% since 31 December 2019 as a result of negative investment returns.

Retail Asset Management AUMA decreased 14% to £64.2 billion over the six months to 30 June 2020, with the volatile economic environment leading to both negative market movements and an increase in net client outflows to £7.7 billion (30 June 2019: £3.8 billion). Net client outflows of £5.6 billion for the first quarter of 2020 have slowed to £2.1 billion in the second quarter as the easing of lockdowns has contributed to investor confidence. We continue to work on a number of initiatives across Retail Asset Management to improve investment performance and to develop new products and solutions in order to diversify and increase client flows. The Asia Pacific equities team has won several new mandates in the period with the most significant being the £6 billion mandate to manage Asian and Japanese equities for the WIth-Profits Fund, with a further £3 billion expected by the end of the year.

Institutional Asset Management AUMA increased 6% to £81.2 billion in the six months to 30 June 2020, driven by strong net client inflows of £2.8 billion predominantly within our public debt and Infracapital investment propositions. We continued to build investment capabilities in high value added areas of the market and build bespoke investment solutions for our clients.

An important component of our investment capability is our expertise in private assets, which ranges from real estate and private debt to infrastructure, and represents a resilient, high-margin source of revenues. Our private assets under management increased 8.6% to £65.5 billion of AUMA as at 30 June 2020 (31 December 2019: £60.3 billion).

Adjusted operating profit before tax

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

	For the six months ended 30 June		For the year ended 31 December
£m	2020	2019	2019
Asset Management fee based revenues	**469**	514	1,033
Other fee based revenues	**72**	76	158
Total fee based revenues	**541**	590	1,191
With-profits shareholder transfer net of hedging	**24**	29	55
Adjusted operating income	**565**	619	1,246
Asset Management operating expenses	**(306)**	(298)	(652)
Other operating expenses	**(76)**	(80)	(165)
Adjusted operating expenses	**(382)**	(378)	(817)
Other shareholder (loss)/profit	**(26)**	13	30
Share of profit from joint ventures and associates	**5**	8	15
Adjusted operating profit before tax	**162**	262	474

Savings and Asset Management (continued)

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

£m	For the six months ended 30 June 2020	2019	For the year ended 31 December 2019
Asset Management	**163**	216	381
With-Profits	**24**	29	55
Other	**(25)**	17	38
Adjusted operating profit before tax	**162**	262	474

Adjusted operating profit before tax from our Asset Management activities decreased to £163 million in the six months to 30 June 2020 (30 June 2019: £216 million) driven by a 9% reduction in revenue earned to £469 million (30 June 2019: £514 million). The reduction in average AUMA in Retail Asset Management, combined with the downward pressure on retail margins, resulted in lower revenue of £230 million in the six months to 30 June 2020 (30 June 2019: £299 million). However, revenue earned by Institutional Asset Management increased to £239 million (30 June 2019: £215 million) due to higher average AUMA and improved revenue margins. Asset Management adjusted operating expenses, excluding the £35 million one-off benefit resulting from changes to the Group's defined benefit pension schemes in 2019, reduced by £27 million in the six months to 30 June 2020 driven by lower facilities costs and lower accruals for long term incentive plans resulting from lower revenue. This reflects the new disciplined approach to remuneration.

The Asset Management average fee margin of 36 basis points (bps) was 3 bps lower at 30 June 2020 compared 39 bps at 30 June 2019 reflecting the continued industry wide pressure on fees in Retail Asset Management because of the popularity of passives and changes in the distribution landscape. Average revenue margins in the Institutional Asset Management business were 2 bps higher at 28 bps at 30 June 2020 compared to 26 bps at 30 June 2019, 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 cost/income ratio for Asset Management business was 66% (30 June 2019: 58%), with the increase largely driven by the non-recurrence of the £35 million past service credit following changes to the M&G defined benefit pension scheme in 2019. If the benefit from the changes in the pensions scheme during 2019 are excluded from operating expenses the cost/income ratio has remained broadly comparable over the last 18 months.

The with-profits shareholder transfer, driven by Pru Fund, decreased to £28 million (30 June 2019: £36 million) as a result of a downward unit price adjustment following the fall in financial markets. In addition there were fair value losses of £4 million (30 June 2019: £8 million loss) on the derivative instruments used to mitigate the equity risk to shareholders.

Other shareholder loss in the six months to 30 June 2020 is driven by items impacted by the Covid-19 pandemic, including a loss on seed capital investments.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the six months ended 30 June 2020	2019	For the year ended 31 December 2019
Asset Management underlying capital generation	**155**	216	379
With-profits underlying capital generation	**18**	4	—
of which: in-force	**39**	37	61
of which: new business	**(21)**	(33)	(61)
Other underlying	**13**	23	35
Underlying capital generation	**186**	243	414
Other operating capital generation	**18**	(71)	45
Operating capital generation	**204**	172	459

Underlying capital generation in the six months to 30 June 2020 fell to £186 million (30 June 2019: £243 million) driven by the reduction in adjusted operating profit from the Asset Management business. The underlying capital generated from with-profits in-force business, which comprises the expected growth in the value of shareholder transfers under real world assumptions and the release of the Solvency Capital Requirement (SCR), net of hedge impacts, is comparable to prior year levels at £39 million (30 June 2019: £37 million). New business strain fell by £12 million to £21 million for the first half of 2020 reflecting lower Pru Fund client inflows.

The improvement in other operating capital generation to £18 million in the six months to 30 June 2020 (30 June 2019: £(71) million) was primarily due to the first half of 2019 including adverse impacts from management actions and other modelling updates.

Heritage

Heritage, which includes products closed to new business, has delivered a stable financial performance over the first half of 2020 after taking into consideration the one-off benefits incurred during 2019.

AUMA in the Heritage business fell slightly to £129.4 billion at 30 June 2020 (2019: £134.0 billion), driven by negative market movements in the period whilst net client outflows of £3.3 billion were in line with expectations (2019 full year: £7.6 billion net outflow).

Adjusted operating profit before tax

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

	For the six months ended 30 June		For the year ended 31 December
£m	2020	2019	2019
Fee based revenues	**39**	47	96
Annuity margin	**139**	311	458
With-profits shareholder transfer net of hedging	**110**	97	187
Adjusted operating income	**288**	455	741
Adjusted operating expenses	**(30)**	(25)	(87)
Other shareholder profit	**40**	46	98
Adjusted operating profit before tax	**298**	476	752

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

	For the six months ended 30 June		For the year ended 31 December
£m	2020	2019	2019
With-profits	**110**	97	187
Shareholder annuities	**139**	311	458
Other	**49**	68	107
Adjusted operating profit before tax	**298**	476	752

The shareholder transfer for traditional with-profit business increased to £128 million (30 June 2019: £124 million) driven by positive investment returns over 2019, offset by fair value losses on the derivative instruments used to mitigate the equity risk to shareholders of £18 million (30 June 2019: £27 million loss).

Adjusted operating expenses increased by £5m in the six months to 30 June 2020, representing a like for like reduction compared to the first half of 2019 after removing the £29m one off benefits in 2019 resulting from pensions scheme changes. Other shareholder profit primarily relates to insurance reserve releases of £25 million (30 June 2019: £23 million), as we complete the review of a number of legacy remediation programmes.

The following table provides further analysis of the annuity margin:

	For the six months ended 30 June		For the year ended 31 December
£m	2020	2019	2019
Return on excess assets and margin release	**94**	118	216
Asset trading and portfolio management actions	**40**	63	110
Longevity assumption changes	**23**	127	126
Other	**(18)**	3	6
Annuity margin	**139**	311	458

We updated longevity assumptions in the first half of 2019 from CMI 16 to CMI 17 which resulted in a benefit of £127 million. In the first half of 2020, there is a smaller benefit from longevity assumption changes that represents changes to the proportion of the annuitant population assumed to be married.

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 20% to £94 million (30 June 2019: £118 million). The decrease was mainly due to lower excess assets of the annuity portfolio following the payment of dividends to the parent company and decreasing bond yields during the period.

In the six months to 30 June 2020 we earned £40 million from asset trading and portfolio management actions (30 June 2019: £63 million), which is lower than the first half 2019 due to the impact of a property sale in 2020 on the valuation of the annuity liabilities.

Credit quality of fixed income assets in the annuity portfolio is strong. Over 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 15% are BBB. In addition 79% of the shareholder annuity portfolio is held in debt securities either categorised as Risk Free or Secured (including cash).

We experienced limited downgrades to 30 June 2020 with only 4% of bonds in the shareholder annuity portfolio subject to a downgrade which changed the letter rating.

Heritage (continued)

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the six months ended 30 June 2020	For the six months ended 30 June 2019	For the year ended 31 December 2019
With-profits underlying capital generation	**40**	18	71
Shareholder annuity and other underlying capital generation	**169**	204	388
Underlying capital generation	**209**	222	459
Model improvements	**(18)**	102	142
Assumption changes	**46**	146	207
Management actions	**220**	92	167
Other incl experience variances	**14**	92	1
Other operating capital generation	**262**	432	517
Operating capital generation	**471**	654	976

Traditional with-profits business generated underlying capital of £40 million over the six months to 30 June 2020 (30 June 2019: £18 million), driven by the expected growth under real world return assumptions, which was greater in 2020 due to higher opening asset shares than 2019.

There continued to be significant capital generated by the shareholder annuity and other business, with underlying capital generation of £169 million (30 June 2019: £204 million). Underlying capital generation of annuities consists of the expected returns on assets backing the capital requirements, and the release of credit reserves and SCR. The decrease in annuities underlying capital generation was primarily due to a reduced level of return on annuity assets.

Other operating capital generation was lower at £262 million (30 June 2019: £432 million), as the large benefits in 2019 due to longevity assumption changes and modelling improvements were not repeated to the same level. The result for the six months to 30 June 2020 includes a £18 million reduction in surplus due to modelling improvements, and a £46 million positive impact primarily from the longevity assumption changes described in the adjusted operating profit section.

There was, however, significant benefit from a series of management actions taken to strengthen the solvency position in the first half of 2020, which increased surplus by £220 million. This included a contribution of £141 million from asset trading and more efficient matching of annuity assets to the liabilities, as well as a £50 million release of SCR to reflect the reduced risk of legacy remediation programmes now coming to completion.

The positive impact of £14 million arising from other items and experience variances contains a £81 million reduction in surplus due to strengthening capital requirements following credit downgrade experience, although this has been offset by the release of other provisions and reserves.

Risk management statement

The Covid-19 pandemic crisis represents a global threat, both human and economic, and its impacts permeate throughout our entire risk spectrum. Notwithstanding, the principal risks we are currently facing and to which we will continue to be exposed to remain broadly unchanged from those detailed in the 2019 Annual Report and Accounts, namely: business environment, environmental and market forces; investment performance and risk; financial risks (market, credit, corporate liquidity and longevity); operational risks (including resilience, third party suppliers and technology); change; people; regulatory compliance; and reputational. The Covid-19 pandemic has, however, re-focused current risk management priorities around operational, people, financial and investment performance risks in particular.

The Covid-19 pandemic and the ensuing government guidelines caused widespread operational and technological changes in how our business services, and those of our third party suppliers, are provided and supported. Specific incident management procedures were activated, supported by leaders from across the Group and Covid-19 controls reporting to Executive and Board Committees.

A rapid scaling up in remote working capacity and capability has placed significantly greater reliance on virtual environments and introduced changes in working practices. This has heightened risk in the following key areas: IT connectivity; data security and privacy; cyber crime; fraud; processing failure due to changes to controls; and staff morale and well-being. Further, whilst remote working has presented challenges, there are significant complexities surrounding a return to offices with health and safety and legal considerations key. These, and other risks, are being monitored and managed through our bespoke incident management procedures. We have put the safety and wellbeing of our customers and staff at the forefront of our response to the Covid-19 pandemic, and will continue to do so.

In light of the significant change in the external environment we have reviewed and, where appropriate, re-prioritised our change activity. We remain committed to our extensive change programme which underpins our strategy for growth, improved customer experiences and outcomes, strengthened resilience, and our published cost reduction targets. Our exposure to change risk will therefore remain material through 2020 and beyond. Strong governance is in place for the programme, supported by deep-dive assessments of initiatives, and escalation and reporting of risks to management and the Board.

Profitability and solvency are sensitive to market fluctuations and the crisis has caused significant market volatility. Where appropriate, we match assets and liabilities and we use derivatives for risk reduction, for example, to hedge equities, interest rates and currency risks. This approach has gone some way to mitigate the impact of market fluctuations, but market related uncertainty is likely to remain elevated for some time and will be closely monitored and managed.

Through our With-Profits Fund in particular, we are invested in some illiquid asset classes, notably investment properties. Covid-19 has led to uncertainty in the valuation of investment properties and external valuers have included material uncertainty clauses in their valuation reports. Although some sectors have been improving (for example, industrial), valuation uncertainty is likely to persist in other property sectors, such as retail, and we are exposed to this continuing uncertainty, which we are monitoring.

There is also a heightened risk of a material and persistent deterioration in credit conditions as a result of the market effects of the Covid-19 pandemic. Through our annuity portfolios in particular, we are exposed to excess downgrades and defaults, and to credit spread widening. However, trading over the last decade has led to a significant increase in the proportion of secured assets and an improved credit quality with over 98% of the debt securities held by the shareholder annuity portfolio are investment grade. Further, the portfolio has limited exposure to those sectors, such as travel and leisure and oil and gas, that are likely to be most affected by current events. Regular asset-by-asset analysis of default and downgrade exposures, and scenario analysis, support the pro-active management of credit risk.

Our annuity portfolios are also exposed to longevity risk; unexpected changes in the life expectancy of our customers could have a material adverse impact on both profitability and solvency. An increase in mortality rates may be expected to some extent over the short term due to the Covid-19 pandemic, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, the longer term implications for mortality rates amongst the annuitant population are unknown at this stage, increasing uncertainty in relation to our assumptions.

Delivering strong investment performance for our customers is a key priority. The impact of the Covid-19 pandemic may continue to cause sharp movements in market values, interest rates, dividend levels, rental income and defaults, all of which could adversely impact investment performance and fund flows. Net fund flows have stabilised somewhat after an initial deterioration in the earlier stages of the pandemic, but whilst market volatility persists and customer confidence remains low, there is a risk of further deterioration.

Overall, the business environment is set to remain extremely challenging with the International Monetary Fund forecasting that this year the global economy will experience its steepest downturn since the Great Depression of the 1930s. Economic factors impact on levels of investable wealth in our core markets and our ability to generate an appropriate return for our customers. Whilst governments around the world are now trying to ease their lockdowns and restart their economies, the scale and depth of the fallout from the pandemic and the speed and nature of the recovery are unknown. For the UK, the risk of a hard Brexit at the end of the current transition period exacerbates the business environment uncertainty. We will continue to respond to the impacts of the Covid-19 pandemic as they unfold, and are modelling a range of Covid-19 outcomes to support our business planning and decision-making.

Statement of Directors' responsibilities

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

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- the Interim financial Report includes a fair review of the information required by:
  a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules , being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the Group's Consolidated financial statements for the year ended 31 December 2019 that could do so.

By order of the Board

John Foley
Chief Executive
11 August 2020

Clare Bousfield
Chief Financial Officer
11 August 2020

M&G plc Board of Directors

Chairman
Mike Evans

Executive Directors
John Foley

Clare Bousfield

Non-Executive Directors
Clive Adamson

Robin Lawther

Clare Thompson

Massimo Tosato

Independent review report to M&G plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

As disclosed in note 1.1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Stuart Crisp

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

E14 5GL

11 August 2020

Condensed consolidated income statement

For the six months ended 30 June 2020

	Note	For the six months ended 30 June 2020 £m	For the six months ended 30 June 2019 £m	For the year ended 31 December 2019 £m
Gross premiums earned		**3,459**	5,907	11,074
Outward reinsurance premiums		**(440)**	(487)	115
Earned premiums, net of reinsurance from continuing operations		**3,019**	5,420	11,189
Investment return		**(2,116)**	13,386	19,619
Fee income	4	**540**	621	1,286
Other income		**31**	24	35
Total revenue, net of reinsurance from continuing operations		**1,474**	19,451	32,129
Benefits and claims	11	**(1,373)**	(14,824)	(24,375)
Outward reinsurers' share of benefit and claims	11	**790**	407	431
Movement in unallocated surplus of the With-Profits Fund	11	**1,200**	(2,047)	(2,549)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance from continuing operations		**617**	(16,464)	(26,493)
Administrative and other expenses	5	**(1,209)**	(1,164)	(2,876)
Movements in third party interest in consolidated funds		**(103)**	(428)	(1,005)
Finance costs	5	**(79)**	—	(28)
Total charges, net of reinsurance from continuing operations		**(774)**	(18,056)	(30,402)
Share of (loss)/profit from joint ventures and associates		**(35)**	33	18
Profit before tax from continuing operations[i]		**665**	1,428	1,745
Tax credit/(charge) attributable to policyholders' returns	6	**370**	(430)	(440)
Profit before tax attributable to equity holders from continuing operations		**1,035**	998	1,305
Total tax credit/(charge)	6	**161**	(633)	(680)
Less tax (credit)/charge attributable to policyholders' returns		**(370)**	430	440
Tax charge attributable to equity holders	6	**(209)**	(203)	(240)
Profit after tax attributable to equity holders from continuing operations		**826**	795	1,065
Profit after tax for the year attributable to equity holders from discontinued operations		**—**	59	58
Profit for the period		**826**	854	1,123
Attributable to equity holders of M&G plc:				
From continuing operations		**824**	793	1,062
From discontinued operations		**—**	59	58
Attributable to non-controlling interests:				
From continuing operations		**2**	2	3
Profit for the period		**826**	854	1,123
Earnings per share from continuing operations:				
Basic (pence per share)	7	**31.8**	30.5	40.9
Diluted (pence per share)	7	**31.8**	30.5	40.8
Earnings per share:				
Basic (pence per share)	7	**31.8**	32.8	43.1
Diluted (pence per share)	7	**31.8**	32.8	43.0

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

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2020

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Profit for the period	**826**	854	1,123
Less: profit from discontinued operations	**—**	59	58
Profit from continuing operations	**826**	795	1,065
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	**5**	1	(7)
	5	1	(7)
Items that will not be reclassified to profit or loss:			
Loss on remeasurement of defined benefit pension asset	**(41)**	(192)	(206)
Transfer in of net defined benefit pension asset	**—**	15	15
Tax on remeasurement of defined benefit pension asset	**9**	30	31
	(32)	(147)	(160)
Add amount transferred to unallocated surplus of the With-Profits Fund, net of related tax	**9**	149	155
Other comprehensive income on items that will not be reclassified to profit or loss	**(23)**	2	(5)
Other comprehensive income for the period, net of related tax from continuing operations	**(18)**	3	(12)
Total comprehensive income for the period from continuing operations	**808**	798	1,053
Profit from discontinued operations	—	59	58
Total comprehensive income from discontinued operations	**—**	59	58
Total comprehensive income for the period	**808**	857	1,111
Attributable to equity holders of M&G plc:			
From continuing operations	**806**	796	1,050
From discontinued operations	**—**	59	58
Attributable to non-controlling interests:			
From continuing operations	**2**	2	3
Total comprehensive income for the period	**808**	857	1,111

Condensed consolidated statement of financial position

As at 30 June 2020

	Note	As at 30 June 2020 £m	As at 31 December 2019 £m
Assets			
Goodwill and intangible assets		**1,445**	1,439
Deferred acquisition costs		**104**	104
Investment in joint ventures and associates accounted for using the equity method		**480**	524
Property, plant and equipment		**1,702**	1,505
Investment property		**19,192**	19,136
Defined benefit pension asset	9	**41**	77
Deferred tax assets	6	**95**	78
Reinsurance assets	11	**11,927**	11,958
Loans		**5,777**	5,954
Derivative assets		**5,666**	3,962
Equity securities and pooled investment funds		**65,184**	72,388
Deposits		**21,791**	14,221
Debt securities		**79,392**	85,434
Current tax assets	6	**423**	375
Accrued investment income and other debtors		**3,370**	2,923
Assets held for sale(i)		**249**	119
Cash and cash equivalents		**5,750**	6,046
Total assets		**222,588**	226,243
Equity			
Share capital	10	**130**	130
Share premium reserve		**370**	370
Shares held by employee benefit trust		**(37)**	(26)
Treasury shares		**(1)**	(1)
Retained earnings		**16,744**	16,342
Other reserves		**(11,677)**	(11,690)
Equity attributable to equity holders of M&G plc		**5,529**	5,125
Non-controlling interests		**7**	6
Total equity		**5,536**	5,131
Liabilities			
Insurance contract liabilities	11	**77,071**	78,480
Investment contract liabilities with discretionary participation features	11	**74,942**	78,048
Investment contract liabilities without discretionary participation features	11	**14,074**	15,651
Unallocated surplus of the With-Profits Fund	11	**14,934**	16,072
Third party interest in consolidated funds		**11,264**	11,643
Subordinated liabilities and other borrowings	12	**7,938**	7,499
Defined benefit pension liability	9	**76**	28
Deferred tax liabilities	6	**621**	1,065
Current tax liabilities	6	**189**	298
Derivative liabilities		**4,685**	2,204
Lease liabilities		**361**	360
Other financial liabilities		**3,284**	3,517
Provisions		**256**	326
Accruals, deferred income and other liabilities		**7,357**	5,921
Liabilities held for sale		**—**	—
Total liabilities		**217,052**	221,112
Total equity and liabilities		**222,588**	226,243

(i) Assets held for sale on the condensed consolidated statement of financial position as at 30 June 2020 includes £65m (31 December 2019 : £88m) of seed capital classified as held for sale as it is expected to be divested within 12 months, £175m of investment property classified as held for sale (31 December 2019: £17m) and £9m (31 December 2019: £14m) in relation to the Group's consolidated infrastructure capital private equity vehicles.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2020

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

	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 2019	130	370	—	—	20,157	(11,728)	8,929	5	8,934
Profit for the period from continuing operations	—	—	—	—	793	—	793	2	795
Profit for the period from discontinued operations	—	—	—	—	59	—	59	—	59
Other comprehensive income for the period from continuing operations	—	—	—	—	2	1	3	—	3
Total comprehensive income for the period	—	—	—	—	854	1	855	2	857
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—
Transactions with equity holders	—	—	—	—	(1,113)	—	(1,113)	—	(1,113)
Movements in respect of share-based payments	—	—	—	—	—	8	8	—	8
Other movements	—	—	—	—	2	—	2	—	2
Net (decrease)/increase in equity	—	—	—	—	(257)	9	(248)	2	(246)
At 30 June 2019	130	370	—	—	19,900	(11,719)	8,681	7	8,688

Condensed consolidated statement of changes in equity (continued)

	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 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[i]	—	—	—	—	(4,935)	—	(4,935)	—	(4,935)
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

[i] In addition to amounts noted in Note 8 there was a distribution in kind of £570m, which represents the difference between fair value of the subordinated notes at initial recognition and the actual cash transferred by Prudential plc in respect of the notes on substitution of the debt.

Condensed consolidated statement of cash flows

For the six months ended 30 June 2020

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Cash flows from operating activities:			
Profit before tax from continuing operations	**665**	1,428	1,745
Profit before tax from discontinued operations	**—**	88	88
Non-cash movements in operating assets and liabilities included in profit before tax:			
Investments	**6,932**	(11,421)	(14,918)
Other non-investment and non-cash assets	**(540)**	690	(8,613)
Policyholder liabilities (including unallocated surplus)	**(7,347)**	9,885	23,037
Other liabilities (including operational borrowings)	**1,126**	(732)	(866)
Interest income, interest expense and dividend income	**(2,316)**	(2,744)	(4,798)
Other non-cash items	**63**	2	417
Operating cash items:			
Interest receipts and payments	**1,253**	1,338	2,595
Dividend receipts	**1,140**	1,269	2,107
Tax paid[(i)]	**(509)**	(261)	(613)
Net cash flows from operating activities[(ii)]	**467**	(458)	181
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(220)**	(171)	(393)
Proceeds from disposal of property, plant and equipment	**2**	3	8
Acquisition of subsidiaries	**(26)**	(1)	(95)
Cash inflow from disposal of subsidiaries[(iii)]	**—**	98	98
Net cash flows from investing activities	**(244)**	(71)	(382)
Cash flows from financing activities:			
Interest paid	**(95)**	—	(22)
Substitution of subordinated liabilities	**—**	—	3,219
Shares purchased by EBT	**(23)**	—	—
Dividends paid	**(410)**	(361)	(3,516)
Net cash flows from financing activities	**(528)**	(361)	(319)
Net decrease in cash and cash equivalents	**(305)**	(890)	(520)
Cash and cash equivalents at 1 January	**6,046**	6,570	6,570
Effect of exchange rate changes on cash and cash equivalents	**9**	(3)	(4)
Cash and cash equivalents at end of period	**5,750**	5,677	6,046

(i) Tax paid for the six months ended 30 June 2020 includes £244m (30 June 2019: £25m, 31 December 2019: £228m) paid on profits taxable at policyholder rather than shareholder rates.

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

(iii) Cash inflow from disposal of subsidiaries reflects the net cash flow from the disposal of Prudential Vietnam Finance Company Limited in 2019.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The condensed consolidated interim financial statements (‘the interim financial statements’) for the half year ended 30 June 2020 comprise the interim financial statements of M&G plc (‘the Company’) and its subsidiaries (together referred to as ‘the Group’). The interim financial statements are unaudited but have been reviewed by the auditors, KPMG LLP.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34'), as endorsed by the European Union ('EU'), and the Disclosure and Transparency Rules of the Financial Conduct Authority. The accounting policies applied in the interim financial statements are consistent with those set out in the 2019 consolidated financial statements, except for the new standards, interpretations and amendments that became effective in the current period, as stated below.

The interim financial statements do not include all the information and disclosures required in the Group’s 2019 consolidated financial statements. Therefore, these interim financial statements should be read in conjunction with the Group’s 2019 annual report and accounts that were prepared in accordance with IFRS, as endorsed by the EU, and those parts of the Companies Act 2006 applicable to entities reporting under IFRS.

The interim financial statements are stated in million pounds Sterling, the Group’s presentation currency.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2020:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

None of the above interpretations and amendments to standards are considered to have a material effect on these interim financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group’s 2019 annual report and accounts for the year ended 31 December 2019 were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Going concern

The Directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the interim financial statements. For this reason, they continue to adopt the going concern basis in preparing the interim financial statements.

To satisfy themselves of the appropriateness of the use of the going concern assumptions in relation to these interim financial statements, specifically in the light of the current Covid-19 pandemic and the resulting economic uncertainty, the Directors have assessed the future prospects of the Group by considering the business plan, which covers the Group's key metric as detailed in the business and financial review, updated for the expected impact of the Covid-19 pandemic, various market scenarios as well as changes in the Group's principal risks, as set out in the risk management statement. In addition, the Directors have also considered the results of downside and reverse stress testing scenarios to assess the potential implications of Covid-19 on the Group’s liquidity, solvency and profitability to conclude that the use of the going concern assessment is still appropriate.

Presentation of risk and capital management disclosures

We have provided additional disclosures relating to the nature and extent of certain financial risks and capital management in the Supplementary Information section of this report. We believe these disclosures will assist the users of the interim financial statements to better understand the implications of Covid-19 on our business.

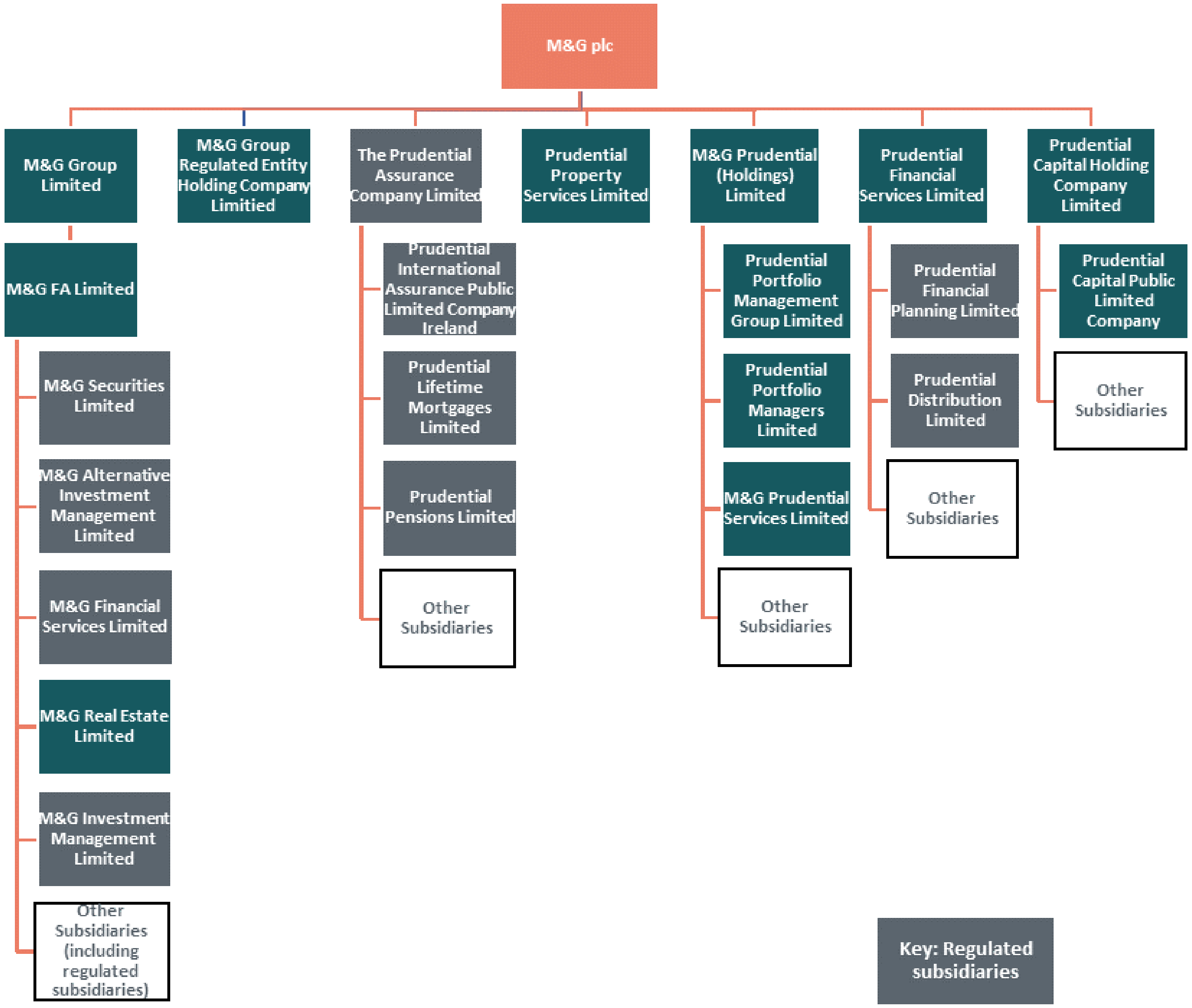
Goodwill

Goodwill is required to be tested for impairment at least annually in accordance with IAS 36, however given the unprecedented uncertainty created by Covid-19 management have considered it an impairment indicator. Therefore goodwill has been reviewed for impairment at 30 June 2020 and management concluded no impairment is required.

2 Group structure and products

2.1 Group composition

The following diagram is an extract of the Group structure at 30 June 2020 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.



2 Group structure and products (continued)

2.2 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 in 2019. For details of these transactions please refer to the 31 December 2019 Annual Report and Accounts.

2.3 Corporate transactions

2.3.1 Proposed sale of annuity portfolio to Rothesay Life plc

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

On 17 May 2019, the independent expert who was appointed to report to the High Court concluded that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC’s policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. PAC and Rothesay Life plc were granted leave to appeal the judgment. A notice of appeal was lodged at the Court of Appeal on 27 September 2019. The High Court’s judgment has no direct impact on the reinsurance with Rothesay Life plc.

The appeal hearing will take place at the Court of Appeal in late October 2020. If the appeal is successful, the case will be remitted back to the High Court to consider the sanction. The sanction hearing is likely to take place in 2021.

2.3.2 Ascentric acquisition

On 27 May 2020 the Group announced that they had entered into an agreement with Royal London to acquire its digital wrap and wealth management platform for UK independent financial advisers, Ascentric.

The acquisition of Ascentric is scheduled to complete on 1 September 2020 following approval from the FCA for change in control.

2.4 Insurance and investment products

A full description of the main contract types written by the Group's insurance entities can be found in the 31 December 2019 Annual Report and Accounts.

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. 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.

3 Segmental analysis (continued)

3.1 Operating segments (continued)

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.

The Groups other reportable segment is:

Corporate Centre

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

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

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

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, including both cash flow and capital hedges.

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

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

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

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

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

3 Segmental analysis (continued)

3.2 Adjusted operating profit before tax methodology (continued)

Profit on disposal of businesses and corporate transactions

The adjusting item of £53m for the year ended 31 December 2019 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.

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.

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

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

[i]Fee based revenues includes internal revenue, of this amount £46m (30 June 2019: £42m, 31 December 2019: £110m) relates to revenues that Savings and Asset Management has earned from Heritage segment, and other presentational differences which are excluded in the condensed 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 adjusted operating profit.

[iii]Restructuring costs excluded from adjusted operating profit relate to merger and transformation costs of £19m (30 June 2019: £32m, 31 December 2019: £62m) 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 5.

	For the six months ended 30 June 2019			
	Savings and Asset Management £m	Heritage £m	Corporate Centre £m	Total continuing operations £m
Fee based revenues[i]	590	47	—	637
Annuity margin	—	311	—	311
With-profits shareholder transfer net of hedging[ii]	29	97	—	126
Adjusted operating income	619	455	—	1,074
Adjusted operating expenses	(378)	(25)	(21)	(424)
Other shareholder profit/(loss)	13	46	(3)	56
Share of profit from joint ventures and associates	8	—	—	8
Adjusted operating profit/(loss) before tax	262	476	(24)	714
Short-term fluctuations in investment returns	(49)	413	—	364
Restructuring and other costs[iii]	(26)	(54)	(2)	(82)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders from continuing operations	187	835	(26)	996
IFRS profit attributable to non-controlling interests	2	—	—	2
Profit/(loss) before tax attributable to equity holders from continuing operations	189	835	(26)	998

3 Segmental analysis (continued)

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

	For the year ended 31 December 2019			
	Savings and Asset Management £m	Heritage £m	Corporate Centre £m	Total continuing operations £m
Fee based revenues(i)	1,191	96	—	1,287
Annuity margin	—	458	—	458
With-profits shareholder transfer net of hedging(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

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.

4 Fee income

The following table disaggregates management fee revenue by segment:

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Savings & Asset Management:			
Management fees	**501**	585	1,198
Rebates	**(17)**	(25)	(45)
Total management fees, less rebates	**484**	560	1,153
Performance fees	**4**	5	18
Investment contracts without discretionary participation features	**16**	17	30
Other fees and commissions	**28**	29	60
Total Savings & Asset Management fee income	**532**	611	1,261
Heritage:			
Investment contracts without discretionary participation features	**8**	10	25
Total Heritage fee income	**8**	10	25
Total fee income from continuing operations	**540**	621	1,286

5 Administrative and other expenses

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Staff and employment costs(i)	**358**	221	586
Acquisition costs incurred:			
Insurance contracts	**67**	81	168
Investment contracts	**13**	11	20
Amortisation of deferred acquisition costs:			
Insurance contracts	**3**	4	7
Investment contracts	**2**	2	10
Impairment of deferred acquisition costs	**3**	—	—
Depreciation of tangible assets	**52**	47	97
Amortisation of intangible assets	**8**	6	11
Impairment of goodwill and intangible assets	**5**	29	23
Impairment of tangible assets	**5**	—	—
Restructuring costs	**65**	97	201
Expenses under arrangements with reinsurers	**—**	—	112
Interest expense	**93**	92	154
Commission expense	**117**	133	263
Investment management fees	**119**	71	221
Property-related costs	**98**	73	152
Other expenses	**201**	297	851
Total administrative and other expenses from continuing operations	**1,209**	1,164	2,876

(i) Benefit of £117m resulting from changes to the Group's defined benefit pension schemes was included for the six months ended 30 June 2019 and year ended 31 December 2019.

In addition to the interest expense shown above, the interest expense incurred in respect of subordinated liabilities for the six months ended 30 June 2020 was £79m (30 June 2019 £nil, year ended 31 December 2019: £28m). This is shown as finance costs in the condensed consolidated income statement. Total finance costs incurred for the six months ended 30 June 2020 were £172m (30 June 2019: £92m, year ended 31 December 2019: £182m).

6 Tax

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

6.1.1 Income statement tax (credit)/charge

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Total current tax	**300**	457	518
Total deferred tax	**(461)**	176	162
Total tax (credit)/charge	**(161)**	633	680

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

Profit before tax from continuing operations reflected in the consolidated income statement for the six months ended 30 June 2020 of £1,035m (30 June 2019: £998m) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and With-Profits Fund 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 six months ended 30 June						For the year ended 31 December		
	2020			2019			2019		
	Equity holders	**Policyholders**	**Total**	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Profit before tax from continuing operations	**1,035**	**(370)**	**665**	998	430	1,428	1,305	440	1,745
Tax (charge)/credit from continuing operations	**(209)**	**370**	**161**	(203)	(430)	(633)	(240)	(440)	(680)
Profit for the period from continuing operations	**826**	**—**	**826**	795	—	795	1,065	—	1,065

6.1.3 Equity holders effective tax rate

The equity holders tax charge for the six months ended 30 June was £209m (30 June 2019: £203m) representing an effective tax rate for the six months ended 30 June of 20.2% (30 June 2019: 20.3%, year-ended 31 December 2019: 18.4%). The effective tax rate for six months ended 30 June 2020 was in line with that for 30 June 2019 with no significant differences to note.

6.2 Current tax assets and liabilities

	Current tax assets		Current tax liabilities	
	For the six months ended 30 June	For the year ended 31 December	For the six months ended 30 June	For the year ended 31 December
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Corporation tax	**384**	364	**(131)**	(255)
Other taxes	**39**	11	**(58)**	(43)
Total	**423**	375	**(189)**	(298)

6 Tax (continued)

6.3 Deferred tax assets and liabilities

	For the six months ended 30 June 2020 £m	For the year ended 31 December 2019 £m
Unrealised gains on investments	**(568)**	(999)
Life tax transitional adjustments	**(86)**	(93)
Other short term timing differences	**90**	73
Deferred acquisition costs	**49**	53
Defined benefit pensions	**(30)**	(33)
Capital allowances	**(29)**	(29)
Tax losses carried forward	**23**	18
Share based payments and deferred compensation	**25**	23
Net deferred tax liability	**(526)**	(987)
Assets	**95**	78
Liabilities	**(621)**	(1,065)
Net deferred tax liability	**(526)**	(987)

7 Earnings per share

Basic earnings per share for the six months ended 30 June 2020 was 31.8p (30 June 2019; 32.8p, 31 December 2019: 43.1p) and diluted earnings per share was 31.8p (30 June 2019; 32.8p, 31 December 2019: 43.0p). Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares and shares held by the employee benefit trust. Diluted EPS is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue.

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

	For the six months ended 30 June						For the year ended 31 December		
	2020			2019			2019		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Profit attributable to equity holders of the Company	**824**	**—**	**824**	793	59	852	1,062	58	1,120

	For the six months ended 30 June 2020 millions	For the six months ended 30 June 2019 millions	For the year ended 31 December 2019 millions
Weighted average number of ordinary shares outstanding	**2,589**	2,600	2,597
Dilutive effect of share options and awards	**4**	—	4
Weighted average number of diluted ordinary shares outstanding	**2,593**	2,600	2,601

	For the six months ended 30 June						For the year ended 31 December		
	2020			2019			2019		
	Continuing operations	**Discontinued operations**	**Total**	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	Pence per share	Pence per share	Pence per share
Basic earnings per share	**31.8**	**—**	**31.8**	30.5	2.3	32.8	40.9	2.2	43.1
Diluted earnings per share	**31.8**	**—**	**31.8**	30.5	2.3	32.8	40.8	2.2	43.0

8 Dividends

8.1 Interim dividends

	For the six months ended 30 June 2020		For the year ended 31 December 2019	
	Pence per share	**£m**	Pence per share	£m
Dividends relating to reporting period:				
Interim dividends - Ordinary	**6.00**	**155**	11.92	310
Interim dividends - Special dividends	**—**	**—**	3.85	100
Total		**155**		410
Dividends paid in reporting period:				
Interim dividends - Ordinary	**11.92**	**310**	—	—
Interim dividends - Special dividends	**3.85**	**100**	—	—
Total		**410**		—

Subsequent to 30 June 2020, the Board has declared an interim dividend for 2020 of 6.00 pence per ordinary share, an estimated £155m in total. The dividend is expected to be paid on 30 September 2020 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid.

8.2 Transaction with equity holders

For the year ended 31 December 2019 dividends included amounts paid to Prudential plc by M&G plc post incorporation on 2 July 2018 up to the date of demerger 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.

Prudential Capital Holdings Company Limited was transferred on 20 September 2019 from Prudential plc, and paid a £5m dividend prior to this.

9 Defined benefit pension schemes

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 30 June 2020 is the Prudential Staff Pension Scheme ("PSPS"), which accounts for 82% (31 December 2019: 82%) of the present value of the defined benefit pension obligation.

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

Under IAS 19: Employee Benefits and IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, the Group can only recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, PSPS's net economic pension surplus is restricted up to the present value of the Group's economic benefit, which is calculated as the difference between the estimated future cost of service for active members and the estimated future ongoing contributions. In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from the schemes (if any) would be recognised in full. As at 30 June 2020 the SASPS and M&GGPS schemes are in deficit based on the IAS 19 valuation.

Until 30 June 2019, the PSPS net economic pension surplus was attributed 70% to the With-Profits Fund and 30% to Prudential plc which is external to 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, and the full value of the scheme surplus allowable under IFRIC 14 was attributed to the Group from this date. This resulted in an incremental pension surplus of £15m recognised on the condensed consolidated statement of financial position of the Group, with the corresponding gain recognised in the condensed consolidated statement of comprehensive income during 2019.

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

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

	As at 30 June 2020			
	PSPS	**SASPS**	**M&GGPS**	**Total**
	£m	**£m**	**£m**	**£m**
Fair value of plan assets	**8,057**	**971**	**740**	**9,768**
Present value of defined benefit obligation	**(7,301)**	**(1,018)**	**(571)**	**(8,890)**
Effect of restriction on surplus	**(715)**	**—**	**—**	**(715)**
Net economic pension surplus/(deficit)[i]	**41**	**(47)**	**169**	**163**
Eliminate group issued insurance policies	**—**	**—**	**(198)**	**(198)**
Net total pension surplus/(deficit)	**41**	**(47)**	**(29)**	**(35)**

9 Defined benefit pension schemes (continued)

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

	As at 30 June 2020			
	PSPS	**SASPS**	**M&GGPS**	**Total**
	£m	**£m**	**£m**	**£m**
Attributable to:				
Shareholder-backed business	**12**	**(28)**	**(29)**	**(45)**
With-Profits Fund	**29**	**(19)**	**—**	**10**
Net total pension surplus/(deficit)	**41**	**(47)**	**(29)**	**(35)**

	As at 31 December 2019			
	PSPS	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	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

[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.

10 Issued share capital

	For the six months ended 30 June		For the year ended 31 December	
	2020		2019	
Issued shares fully paid	**Number of ordinary shares**	**Share capital £m**	Number of ordinary shares	Share capital £m
At 1 January	**2,599,906,866**	**130**	2,597,930,000	130
Issue of shares	**—**	**—**	1,976,866	—
At period end	**2,599,906,866**	**130**	2,599,906,866	130

Amounts recorded in share capital represent the nominal value of shares issued with any difference between proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued being credited to the share premium account. On 18 October 2019 in preparation of demerger 1,976,866 bonus shares were issued at par value of 5 pence per share by utilising the share premium reserve.

11 Policyholder liabilities and unallocated surplus

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

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

11.1.1 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.

11 Policyholder liabilities and unallocated surplus (continued)

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

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 includes 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 listed 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.

At 30 June 2020, 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 condensed consolidated income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

11.1.2 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.

11.1.3 Annuities and other long-term business

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

On 14 March 2018, part of the annuity liability was reinsured externally to Rothesay Life plc. 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.

11 Policyholder liabilities and unallocated surplus (continued)

11.1 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. 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(i)	Smoothing parameter (S_k)(ii)
30 June 2020	CMI 2017	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.75
31 December 2019	CMI 2017	For males: 2.25% pa For females: 2.00% pa	For males: 7.5 For females: 7.75

(i)As at 30 June 2020 and 31 December 2019, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence.

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

An increase in mortality rates may be expected to some extent over the short term due to the Covid-19 pandemic, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, the longer term implications for mortality rates amongst the annuitant population are unknown at this stage. While no change has been made to the annuitant mortality assumptions since 31 December 2019, this is an area the Group continues to monitor.

Valuation interest rates

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

The credit risk allowance for the Group’s shareholder-backed annuity business as at 30 June 2020 was 44 bps per annum (31 December 2019: 37 bps) corresponding to a net of reinsurance reserve of £837m (31 December 2019: £701m). For the annuity business written in the With-Profits Fund, this amount was 40 bps (31 December 2019: 33 bps) corresponding to a net of reinsurance reserve of £392m (31 December 2019: £324m). This increase is primarily due to strengthening the short-term provision, in anticipation of short-term deterioration in the number of company default and downgrades due to the current market conditions arising from the Covid-19 pandemic.

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.

The sensitivity of IFRS profit after tax to changes in the above assumptions, as at 31 December 2019, is shown in Note 34.2 of the 2019 Annual Report and Accounts. There have been no changes in the Group’s longevity or maintenance expense assumptions since 31 December 2019, and while the credit risk assumption has been strengthened, there have been no fundamental changes to the Group’s methodology or estimation techniques which would change the nature of the risk profile and the degree of sensitivity to reasonably possible changes in these assumptions previously disclosed.

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

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

11 Policyholder liabilities and unallocated surplus (continued)

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

		Shareholder-backed funds and subsidiaries				
	With-profits sub-funds[i]	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance asset	Net total
	£m	£m	£m	£m	£m	£m
At 1 January 2019	124,228	20,717	20,384	165,329	(2,812)	162,517
Comprising:						
Insurance contract liabilities	43,775	5,219	20,304	69,298		
Investment contract liabilities with DPF	67,018	—	20	67,038		
Investment contract liabilities without DPF	2	15,498	60	15,560		
Unallocated surplus of the With-Profits Fund	13,433	—	—	13,433		
Net Flows:						
Premiums	11,745	890	287	12,922		
Surrenders	(4,987)	(2,667)	(444)	(8,098)		
Maturities/deaths	(4,522)	(606)	(1,948)	(7,076)		
Net flows	2,236	(2,383)	(2,105)	(2,252)		
Reclassification of reinsured UK annuity contracts as held for sale	—	—	10,502	10,502		
Disposal of Hong Kong subsidiaries	(44)	(9)	53	—		
Shareholders' transfers post-tax	(263)	—	—	(263)		
Switches	(156)	156	—	—		
Investment related items and other movements[ii]	10,925	2,513	1,613	15,051		
Foreign exchange differences	(112)	—	(4)	(116)		
At 31 December 2019 / 1 January 2020	**136,814**	**20,994**	**30,443**	**188,251**	**(11,958)**	**176,293**
Comprising:						
Insurance contract liabilities	**42,717**	**5,396**	**30,367**	**78,480**		
Investment contract liabilities with DPF	**78,022**	**—**	**26**	**78,048**		
Investment contract liabilities without DPF	**3**	**15,598**	**50**	**15,651**		
Unallocated surplus of the With-Profits Fund	**16,072**	**—**	**—**	**16,072**		
Net Flows:						
Premiums	**3,289**	**423**	**105**	**3,817**		
Surrenders	**(2,968)**	**(1,556)**	**(42)**	**(4,566)**		
Maturities/deaths	**(2,144)**	**(315)**	**(1,004)**	**(3,463)**		
Net flows	**(1,823)**	**(1,448)**	**(941)**	**(4,212)**		
Reclassification of reinsured UK annuity contracts as held for sale	**—**	**—**	**—**	**—**		
Shareholders' transfers post-tax	**(126)**	**—**	**—**	**(126)**		
Switches	**(60)**	**60**	**—**	**—**		
Investment related items and other movements[ii]	**(3,547)**	**(801)**	**1,372**	**(2,976)**		
Foreign exchange differences	**84**	**—**	**—**	**84**		
At 30 June 2020	**131,342**	**18,805**	**30,874**	**181,021**	**(11,927)**	**169,094**
Comprising:						
Insurance contract liabilities	**41,494**	**4,796**	**30,781**	**77,071**		
Investment contract liabilities with DPF	**74,913**	**—**	**29**	**74,942**		
Investment contract liabilities without DPF	**1**	**14,009**	**64**	**14,074**		
Unallocated surplus of the With-Profits Fund	**14,934**	**—**	**—**	**14,934**		

[i] Includes the PAC With-Profits Sub-Fund, the Defined Charge Participating Sub-Fund and the Scottish Amicable Insurance Fund including the non-profit business written within these funds.

[ii] Investment related items and other movements include the impact of assumption changes. For the shareholder-backed business, assumption changes, including credit downgrade/default provisioning and annuitant mortality, increased policyholder liabilities by £134m for the six months ended 30 June 2020 (31 December 2019: £340m decrease). For the With-Profits Fund, the impact of assumption changes for the six months ended 30 June 2020 was an increase in policyholder liabilities of £48m (31 December 2019: £239m decrease), which was offset by a corresponding increase in unallocated surplus of the With-Profits Fund. The assumption change impacts have been amended from those reported in the 31 December 2019 Annual Report & Accounts with no impact on the movement table presented above.

11 Policyholder liabilities and unallocated surplus (continued)

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

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

	Insurance contract liabilities	Investment contract liabilities[ii]	Unallocated surplus of the With-Profits Fund	Reinsurance asset[iii]
	£m	£m	£m	£m
At 1 January 2019	69,298	82,598	13,433	(2,812)
Movement charged to the condensed consolidated income statement	(1,063)	12,688	2,549	1,356
Other movements including amounts included in other comprehensive income[i]	10,311	(1,583)	136	(10,502)
Foreign exchange differences	(66)	(4)	(46)	—
At 31 December 2019 / 1 January 2020	**78,480**	**93,699**	**16,072**	**(11,958)**
Movement charged to the condensed consolidated income statement	**(1,481)**	**(3,414)**	**(1,200)**	**33**
Other movements including amounts included in other comprehensive income[i]	**5**	**(1,246)**	**(9)**	**—**
Foreign exchange differences	**67**	**(23)**	**71**	**(2)**
At 30 June 2020	**77,071**	**89,016**	**14,934**	**(11,927)**

[i]'Other movements including amounts included in other comprehensive income include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the condensed consolidated statement of financial position in accordance with IAS 39; changes in the unallocated surplus of the With-Profits Fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income and balance sheet reallocations. The amount for balance sheet reallocations for the year ended 31 December 2019 includes the reclassification of the reinsured UK annuity business out of held for sale, together with reclassifications between insurance contract liabilities and the unallocated surplus of the With-Profits Fund.

[ii]This comprises investment contracts with discretionary participation features of £74,942m as at 30 June 2020 (31 December 2019: £78,048m) and investment contracts without discretionary participation features of £14,074m as at 30 June 2020 (31 December 2019: £15,651m).

[iii]Includes reinsurers' share of claims outstanding of £151m as at 30 June 2020 (31 December 2019: £156m).

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

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

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

	For the year ended 31 December 2019		
	Policyholder liabilities	Unallocated surplus of the With-Profits Fund	Reinsurance asset
	£m	£m	£m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in the condensed consolidated income statement	(11,625)	(2,549)	—
Movement in reinsurance asset included in the condensed consolidated income statement	—	—	(1,356)
Benefits and claims paid	(12,750)	—	—
Benefits and claims attributable to external reinsurers	—	—	1,787
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance as shown in condensed consolidated income statement	(24,375)	(2,549)	431

12 Subordinated liabilities and other borrowings

	As at 30 June 2020 £m	As at 31 December 2019 £m
Subordinated liabilities	**3,780**	3,767
Operational borrowings	**136**	130
Borrowings attributable to with-profits fund	**4,022**	3,602
Total subordinated liabilities and other borrowings	**7,938**	7,499

Subordinated liabilities

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

	As at 30 June 2020		As at 31 December 2019	
	Principal amount	**Carrying amount £m**	Principal amount	Carrying amount £m
5.625% Sterling fixed rate due on 20 October 2061	**£750m**	**858**	£750m	862
6.25% Sterling fixed rate due 20 October 2068	**£500m**	**608**	£500m	608
6.5% US Dollar fixed rate due on 20 October 2048	**$500m**	**473**	$500m	448
6.34% Sterling fixed rate due on 19 December 2063	**£700m**	**852**	£700m	856
5.56% Sterling fixed rate due on 20 July 2055	**£600m**	**681**	£600m	684
3.875% Sterling fixed rate due on 20 July 2049	**£300m**	**308**	£300m	309
Total subordinated liabilities		**3,780**		3,767

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

A description of the key features of each of the Group's subordinated notes as at 30 June 2020 and 31 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[i]	1 October 2018	1 October 2018	1 October 2018	16 December 2013 (amended 10 June 2019)	9 June 2015 (amended 10 June 2019)	8 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date thereafter)	20 October 2048 (and each semi-annual interest payment date thereafter)	20 October 2028 (and each semi-annual interest payment date thereafter)	19 December 2043 (and each semi-annual interest payment date thereafter)	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment date thereafter)
Solvency II own funds treatment	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2

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

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

	As at 30 June 2020 £m	As at 31 December 2019 £m
At 1 January	**3,767**	—
Fair value on initial recognition	**—**	3,789
Amortisation	**(17)**	(9)
Foreign exchange movements	**30**	(13)
At end of period	**3,780**	3,767

12 Subordinated liabilities and other borrowings (continued)

The subordinated liabilities were recognised at fair value on initial recognition, however the cash received in respect of these liabilities from Prudential plc was £3,219m. The difference was treated as 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.

13 Fair value methodology

13.1 Determination of fair value hierarchy

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

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

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

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

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

Level 2 principally includes corporate bonds and other 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.

13.2 Valuation approach for level 2 assets and liabilities

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

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

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

Of the total level 2 debt securities of £43,836m as at 30 June 2020 (31 December 2019: £44,683m), £391m were valued internally (31 December 2019: £344m). The majority of such securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments, factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to judgement.

13 Fair value methodology (continued)

13.3 Level 3 assets and liabilities

13.3.1 Valuation approach for level 3

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

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

As at 30 June 2020, the Group held £42,034m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (31 December 2019: £38,904m). This included £1,404m of loans (31 December 2019: £1,462m) and corresponding borrowings of £1,350m (31 December 2019: £1,422m) held by a subsidiary of the Group, attaching to a portfolio of buy-to-let mortgages financed largely by external third-party (non-recourse) borrowings. The Group's exposure to this portfolio is limited to the investments held by the WPSF. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. Within these valuations 55% contained a 'material uncertainty' clause due to the continued disruption to the market caused by Covid-19. These are driven primarily as a result of limited recent market transactions for certain sectors. The Group's investment properties are predominately valued using an 'income capitalisation' technique. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenants and location. Typically these variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. As a result of Covid-19, where there were more limited recent market transactions, more emphasis has been placed on the inherent valuation, using the factors previously described which could indicate more uncertainty than normal. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties as at 30 June 2020, and details of our sensitivity analysis to the key factors inherent in these valuations is given in note 13.9.1. The shareholder exposure to investment property is £1,529m, representing 8% of the total investment property of £19,192m.

13.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 30 June 2020 were £12,174m (31 December 2019: £11,207m), representing 8.6% of the total fair-valued financial assets net of financial liabilities (31 December 2019: 7.3%).

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

- Debt securities of £11,198m as at 30 June 2020 (31 December 2019: £10,187m), of which £9,360m (31 December 2019: £9,246m) were valued using discounted cash flow models with an internally developed discount rate. The remaining debt securities were valued using other valuation methodologies such as enterprise valuation and estimated recovery (such as liquidators' reports).
- Private equity investments in both debt and equity securities of £539m as at 30 June 2020 (31 December 2019: £548m), of which investments of £539m (31 December 2019: £357m) were valued internally using a discounted cash flow model. The most significant inputs to the valuation are the forecast cash flows of the underlying business, discount rate, and terminal value assumption, all of which involve significant judgement. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments are held by the Group's consolidated private equity infrastructure funds.
- Equity release mortgage loans of £1,780m as at 30 June 2020 (31 December 2019: £1,737m) and a corresponding liability of £411m (31 December 2019: £390m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yields. During 2019, there was a change to the deferment rate assumption which resulted in an increase in assumed property values at redemption. As at 30 June 2020 the assumed future property growth assumption has been adjusted to make allowance for the expected short-term dynamics in the residential property market, as a result of the Covid-19 pandemic.
- Liabilities of £1,134m as at 30 June 2020 (31 December 2019: £1,135m), for the third-party interest in consolidated funds in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities were valued by reference to the underlying assets.

13.3.3 Governance of level 3

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

13 Fair value methodology (continued)

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

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

	As at 30 June 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits:				
Investment property	—	—	17,236	17,236
Loans	—	—	1,479	1,479
Derivative assets	98	4,563	—	4,661
Equity securities and pooled investment funds	42,277	1,873	8,106	52,256
Debt securities	16,179	28,091	6,084	50,354
Total with-profits	**58,554**	**34,527**	**32,905**	**125,986**
Unit-linked:				
Investment property	—	—	427	427
Loans	—	—	—	—
Derivative assets	2	3	—	5
Equity securities and pooled investment funds	11,460	332	929	12,721
Debt securities	2,141	5,152	—	7,293
Total unit-linked	**13,603**	**5,487**	**1,356**	**20,446**
Annuity and other long-term business:				
Investment property	—	—	1,529	1,529
Loans	—	—	1,780	1,780
Derivative assets	81	817	—	898
Equity securities and pooled investment funds	14	—	2	16
Debt securities	3,218	10,052	7,339	20,609
Total annuity and other long-term business	**3,313**	**10,869**	**10,650**	**24,832**
Other:				
Investment property	—	—	—	—
Loans	—	—	—	—
Derivative assets	—	102	—	102
Equity securities and pooled investment funds	173	—	18	191
Debt securities	595	541	—	1,136
Total other	**768**	**643**	**18**	**1,429**
Group:				
Investment property	—	—	19,192	19,192
Loans	—	—	3,259	3,259
Derivative assets	181	5,485	—	5,666
Equity securities and pooled investment funds	53,924	2,205	9,055	65,184
Debt securities	22,133	43,836	13,423	79,392
Total assets at fair value	**76,238**	**51,526**	**44,929**	**172,693**

13 Fair value methodology (continued)

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

	As at 31 December 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	17,039	17,039
Loans	—	—	1,602	1,602
Derivative assets	67	3,225	—	3,292
Equity securities and pooled investment funds	48,532	2,219	7,154	57,905
Debt securities	21,913	28,430	5,008	55,351
Total with-profits	70,512	33,874	30,803	135,189
Unit-linked:				
Investment property	—	—	453	453
Derivative assets	3	3	—	6
Equity securities and pooled investment funds	12,968	352	987	14,307
Debt securities	2,382	5,908	—	8,290
Total unit-linked	15,353	6,263	1,440	23,056
Annuity and other long-term business:				
Investment property	—	—	1,644	1,644
Loans	—	—	1,737	1,737
Derivative assets	—	603	—	603
Equity securities and pooled investment funds	27	—	2	29
Debt securities	4,361	9,810	6,207	20,378
Total annuity and other long-term business	4,388	10,413	9,590	24,391
Other:				
Investment property	—	—	—	—
Loans	—	—	—	—
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

13 Fair value methodology (continued)

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

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

	As at 30 June 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Investment contract liabilities without discretionary participation features	**—**	**14,074**	**—**	**14,074**
Third-party interest in consolidated funds	**6,035**	**4,095**	**1,134**	**11,264**
Borrowings and subordinated liabilities	**—**	**—**	**1,350**	**1,350**
Derivative liabilities	**43**	**4,642**	**—**	**4,685**
Accruals, deferred income and other liabilities	**—**	**—**	**411**	**411**
Total liabilities at fair value	**6,078**	**22,811**	**2,895**	**31,784**

	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

13.6 Transfers between levels

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

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

	For the six months ended 30 June 2020		
	Financial Assets and Liabilities - Transfers between levels		
	Equity securities and pooled investment funds	**Debt securities**	**Total**
	£m	**£m**	**£m**
From level 1 to level 2	**—**	**7,843**	**7,843**
From level 1 to level 3	**9**	**—**	**9**
From level 2 to level 1	**—**	**4,187**	**4,187**
From level 2 to level 3	**617**	**1,030**	**1,647**
From level 3 to level 2	**—**	**23**	**23**

	For the year ended 31 December 2019		
	Financial Assets and Liabilities - Transfers between levels		
	Equity securities and pooled investment funds	Debt securities	Total
	£m	£m	£m
From level 1 to level 2	1,263	672	1,935
From level 1 to level 3	465	—	465
From level 2 to level 1	—	15,357	15,357
From level 2 to level 3	—	35	35
From level 3 to level 2	—	944	944

13 Fair value methodology (continued)

13.7 Reconciliation of movements in level 3 assets and liabilities

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

	For the six months to 30 June 2020										
	At 1 Jan	Total gains/ (losses) in income statement	Foreign exchange	Purchases	Sales	Transfer to held for sale	Settled	Issued	Transfer s into level 3	Transfers out of level 3	At 30 Jun
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	19,136	(671)	252	715	(82)	(158)	—	—	—	—	19,192
Loans	3,339	41	—	5	(131)	—	—	5	—	—	3,259
Equity securities and portfolio holdings in unit trusts	8,161	(73)	46	729	(434)	—	—	—	626	—	9,055
Debt securities	11,215	666	18	629	(128)	—	—	16	1,030	(23)	13,423
Total level 3 assets	41,851	(37)	316	2,078	(775)	(158)	—	21	1,656	(23)	44,929
Level 3 liabilities:											
Third-party interest in consolidated funds	1,135	(64)	—	—	—	—	(38)	101	—	—	1,134
Borrowings and subordinated liabilities	1,422	—	—	—	—	—	(72)	—	—	—	1,350
Other liabilities	390	24	—	—	—	—	(3)	—	—	—	411
Total level 3 liabilities	2,947	(40)	—	—	—	—	(113)	101	—	—	2,895

	For the year ended 31 December 2019										
	At 1 Jan	Total gains/ (losses) in income statement	Foreign exchange	Purchases	Sales	Transfer to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 Dec
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	18,003	(859)	32	2,333	(224)	(149)	—	—	—	—	19,136
Loans	3,281	147	—	120	(207)	—	(2)	—	—	—	3,339
Equity securities and portfolio holdings in unit trusts	6,952	262	(47)	1,558	(1,022)	—	(7)	—	465	—	8,161
Debt securities	12,192	693	(16)	689	(1,467)	—	—	33	35	(944)	11,215
Total level 3 assets	40,428	243	(31)	4,700	(2,920)	(149)	(9)	33	500	(944)	41,851
Level 3 liabilities:											
Third-party interest in consolidated funds	1,028	(59)	—	—	—	—	(142)	308	—	—	1,135
Borrowings and subordinated liabilities	1,606	—	—	—	—	—	(184)	—	—	—	1,422
Other liabilities	355	41	—	—	—	—	(6)	—	—	—	390
Total level 3 liabilities	2,989	(18)	—	—	—	—	(332)	308	—	—	2,947

13 Fair value methodology (continued)

13.8 Unrealised Gains and losses in respect of level 3 assets and liabilities

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

	For the six months ended 30 June 2020 £m	For the year ended 31 December 2019 £m
Investment property	**(687)**	(857)
Loans	**37**	147
Equity securities and pooled investment funds	**2**	282
Debt securities	**600**	711
Third party interest in consolidated funds	**(54)**	(48)
Other financial liabilities	**24**	41
Total	**(78)**	276

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

Where possible, the Group assesses the sensitivity of the fair values of level 3 assets to reasonable possible changes in significant unobservable inputs.

13.9.1 Investment property

As at 30 June 2020, the Group held £19,192m (31 December 2019: £19,136m) of investment property, excluding investment property held for sale, which is all held at fair value and is classified as level 3 in the fair value hierarchy. For £17,683m (31 December 2019: £17,389m) of these properties, the most significant unobservable inputs in determining the fair value are the equivalent yield and estimated rental value.

The sensitivity of the fair value of these properties to these inputs is presented below:

Unobservable input	Sensitivity	As at 30 June 2020 Change in fair value £m	As at 31 December 2019 Change in fair value £m
Equivalent yield	Decrease by 50bps	**2,084**	2,110
	Increase by 50bps[(i)]	**(1,681)**	(1,315)
Estimated rental value	Decrease by 10%	**(1,425)**	(1,334)
	Increase by 10%	**1,398**	1,427

[(i)]The sensitivity as reported in the 31 December 2019 Annual Report & Accounts has been restated due to better information being available.

As at 30 June 2020, investment property also included property under development and other properties amounting to £1,509m (31 December 2019: £1,747m) for which the above approach for assessing the sensitivity is not considered to be appropriate. For such properties, the Group has determined that the unobservable input is the fair value itself, therefore, sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase/decrease of 10% would result in the fair value increasing/ decreasing by £151m (31 December 2019: £175m).

13.9.2 Loans held at fair value

As at 30 June 2020, the Group held £3,259m (31 December 2019: £3,339m) of loans held at fair value, which were all classified as level 3 in the fair value hierarchy. Of these loans, £1,780m (31 December 2019: £1,737m) were equity-release mortgage loans ("ERMs"). The ERMs have a no-negative equity guarantee ("NNEG") that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against.

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

The most significant unobservable inputs relate to the discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yield, with the following sensitivities:

(i) An increase of 50bps in the discount rate would decrease the fair value of the loans by £161m (31 December 2019: decrease of £153m) and a decrease of 50bps would increase the fair value by £179m (31 December 2019: increase of £171m).

(ii) An increase of 10% in the current property value would increase the fair value of the loans by £52m (31 December 2019: increase of £48m). A decrease of 10% in the current property value would decrease the fair value of the loans by £61m (31 December 2019: decrease of £57m).

13 Fair value methodology (continued)

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

(iii) An increase of 100bps in the assumed future annual property growth rate would increase the fair value of the loans by £163m (31 December 2019: increase of £151m). A decrease of 100bps in the assumed future annual property growth rate would decrease the fair value of the loans by £227m (31 December 2019: decrease of £213m).

(iv) An increase of 100bps in the assumed future annual property rental yield would decrease the fair value of the loans by £98m (31 December 2019: decrease of £94m). A decrease of 100bps in the assumed future annual property rental yield would increase the fair value of the loans by £96m (31 December 2019: increase of £91m).

As at 30 June 2020, in addition to the ERMs, the Group also held other mortgage and retail loans at fair value amounting to £1,479m (31 December 2019: £1,602m) which are valued using broker quotes received from an external pricing service. For such loans, the Group has determined that the unobservable input is the fair value itself, therefore, sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase/decrease of 10% in the fair value of these loans would result in a fair value increase/ decrease of £148m (31 December 2019: £160m).

13.9.3 Other financial assets

As at 30 June 2020, the Group also held £22,478m (31 December 2019: £19,376m) of investments in debt and equity instruments which are classified as level 3 in the fair value hierarchy.

13.9.3.1 Equity securities and pooled investment funds

As at 30 June 2020, the Group held £9,055m (31 December 2019: £8,161m) of equity and pooled investment fund investments classified as level 3 in the fair value hierarchy. These investments predominantly comprise interests in partnerships, venture capital funds and private equity funds as well as unlisted property investment vehicles.

Of these investments, £8,856m (31 December 2019: £7,993m) is valued using net asset statements. A 10% increase in the net asset value of these investments would increase the fair value of the investments by £886m (31 December 2019: increase of £799m); a decrease of 10% would have an equal, but opposite, effect.

The remaining £199m (31 December 2019: £168m) related to equity investments held by the Group's consolidated private equity infrastructure funds which are further described below.

13.9.3.2 Infrastructure fund investments

As at 30 June 2020, £539m (31 December 2019: £357m) of other financial assets related to debt and equity investments held by the Group's consolidated private equity infrastructure funds which are classified as level 3 in the fair value hierarchy. These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2018). The methodology applied is a discounted cash flow approach using future expected cash flows. These cash flows include dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

The most significant inputs to the valuations are the forecast cash flows of the underlying business, discount rate and terminal value assumption, all of which involve significant judgement. Valuations are also benchmarked against comparable infrastructure transactions. An increase in the discount rate applied of 10% decreases the valuation of these investments by £49m (31 December 2019: decrease of £43m). A decrease in the discount rate applied of 10% increases the valuation of these asset by £57m (31 December 2019: increase of £52m). An increase in the terminal multiple value of 10% would increase the value of the assets by £6m (31 December 2019: increase of £7m) and a decrease in the terminal multiple value of 10% would decrease the value by £6m (31 December 2019: decrease of £7m).

13.9.3.3 Debt securities

As at 30 June 2020 , the Group held £13,423m (31 December 2019: £11,215m) of debt securities classified as level 3 in the fair value hierarchy. These investments mainly comprise investments in private placement loans, income strips and unquoted corporate bonds. In addition, the Group's consolidated private equity infrastructure funds held £340m (31 December 2019: £189m) of debt securities classified as level 3 as described above.

As at 30 June 2020, the Group held £8,959m (31 December 2019: £8,868m) of private placement loans which are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a credit spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the discount rate applied. An increase of 85bps in the discount rate would decrease the fair value of the private placement loans by £1,072m (31 December 2019: decrease of £690m) and a decrease of 85bps would increase the fair value by £1,325m (31 December 2019: increase of £947m).

Also included within debt securities classified as level 3 in the fair value hierarchy as at 30 June 2020 are income strips with a fair value of £401m (31 December 2019: £378m). The income strips are valued using a discounted cash flow model where the discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the discount rate applied. An increase of 50bps in the discount rate used would decrease the fair value of the income strips by £42m (31 December 2019: decrease of £38m) and a decrease of 50bps would increase the fair value of the income strips by £53m (31 December 2019: increase of £47m).

As at 30 June 2020, the remaining £3,723m (31 December 2019: £1,780m) of debt securities classified as level 3 in the fair value hierarchy are unquoted corporate bonds which are valued using valuation techniques including broker quotes, enterprise valuation and estimated recovery (such as liquidators' reports). For such instruments, the Group has determined that the unobservable input is the fair value itself, therefore, sensitivity has been assessed by applying a reasonable discount/premium to the valuation. An increase/ decrease of 10% would result in the fair value of these bonds increasing/decreasing by £372m (31 December 2019: £178m).

13 Fair value methodology (continued)

13.10 Fair value of assets and liabilities at amortised cost

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

	As at 30 June 2020				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets:					
Loans	**—**	**706**	**1,876**	**2,582**	**2,518**
Liabilities:					
Subordinated liabilities and other borrowings	**—**	**6,187**	**101**	**6,288**	**6,588**

	As at 31 December 2019				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets:					
Loans	—	773	1,934	2,707	2,615
Liabilities:					
Subordinated liabilities and other borrowings	—	5,902	85	5,987	6,077

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

14 Contingencies and related obligations

14.1 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.

14.2 Guarantees

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.

14.3 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:

14.3.1 Pension mis-selling review

The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator at that time) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged, to ensure they have the opportunity to take part in the review. Currently a provision amounting to £358m as at 30 June 2020 (31 December 2019: £420m) is being held in relation to this within insurance contract liabilities.

The key assumptions underlying the provisions are:

- Average cost of redressal per customer.
- 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).

14 Contingencies and related obligations (continued)

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

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

Assumption	Change in assumption	As at 30 June 2020 £m	As at 31 December 2019 £m
Average cost of redressal	increase/decrease by 10%	**+/- 17**	+/- 20
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 31**	+/- 30

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

14.3.2 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 £372m is held within the sub-fund as at 30 June 2020 (31 December 2019: £385m).

15 Related party transactions

The nature of the related party transactions of the Group had not changed from those described in the Group's consolidated financial statements as at 31 December 2019.

There have been no related party transactions in the six months to 30 June 2020 which have had a material effect on the results or financial position of the Group.

16 Post balance sheet events

There have been no significant events after the reporting period.

Supplementary information

Alternative performance measures

Overview of the Group's key performance measures

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

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

The Group's KPMs are summarised below, along with which of these measures are considered APMs by the Group. 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, strategic or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax to derive adjusted operating 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. Adjusted operating profit before tax methodology is detailed in Note 3.2 within the notes to the condensed consolidated financial statements.
Net client flows	**KPM**	Net client flows represent gross inflows less gross outflows during the period. Gross inflows are new funds from clients and customers. Gross outflows are funds withdrawn by clients and customers.
Assets under management and/or administration (AUMA)	**KPM**	Closing AUMA represents the total market value of all financial assets managed and administered on behalf of customers and clients 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.

Supplementary information (continued)

Adjusted operating profit before tax

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

	Savings and Asset Management			Heritage			Corporate Centre			Total		
	For the six months ended 30 June		For the year ended 31 December	For the six months ended 30 June		For the year ended 31 December	For the six months ended 30 June		For the year ended 31 December	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019	**2020**	2019	2019	**2020**	2019	2019	**2020**	2019	2019
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Fee based revenue	**541**	590	1,191	**39**	47	96	**—**	—	—	**580**	637	1,287
Annuity margin	**—**	—	—	**139**	311	458	**—**	—	—	**139**	311	458
With-profits shareholder transfer net of hedging	**24**	29	55	**110**	97	187	**—**	—	—	**134**	126	242
Total adjusted operating income	**565**	619	1,246	**288**	455	741	**—**	—	—	**853**	1,074	1,987
Adjusted operating expenses	**(382)**	(378)	(817)	**(30)**	(25)	(87)	**(75)**	(21)	(59)	**(487)**	(424)	(963)
Other shareholder (loss)/profit	**(26)**	13	30	**40**	46	98	**(76)**	(3)	(18)	**(62)**	56	110
Share of associates' and joint ventures' adjusted operating profit before tax[i]	**5**	8	15	**—**	—	—	**—**	—	—	**5**	8	15
Adjusted operating profit/(loss) before tax	**162**	262	474	**298**	476	752	**(151)**	(24)	(77)	**309**	714	1,149

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

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

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

Supplementary information (continued)

Adjusted operating profit before tax (continued)

For the six months ended 30 June 2019 £m	Savings and asset management Asset Management	Savings and asset management With-profits	Savings and asset management Other	Heritage Annuities	Heritage With-profits	Heritage Other	Corporate Centre Other
Asset Management fee based revenues	514	—	—	—	—	—	—
Other fee based revenues	—	—	76	—	—	47	—
Fee based revenues	514	—	76	—	—	47	—
Annuity margin	—	—	—	311	—	—	—
With-profits shareholder transfer net of hedging	—	29	—	—	97	—	—
Adjusted operating income	514	29	76	311	97	47	—
Asset Management operating expenses	(298)	—	—	—	—	—	—
Other operating expenses	—	—	(80)	—	—	(25)	(21)
Adjusted operating expenses	(298)	—	(80)	—	—	(25)	(21)
Other shareholder profit/(loss)	—	—	13	—	—	46	(3)
Share of associates and joint ventures operating profit before tax	—	—	8	—	—	—	—
Adjusted operating profit/(loss) before tax	216	29	17	311	97	68	(24)

For the year ended 31 December 2019 £m	Savings and asset management Asset Management	Savings and asset management With-profits	Savings and asset management Other	Heritage Annuities	Heritage With-profits	Heritage Other	Corporate Centre Other
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	—	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/(loss) before tax	381	55	38	458	187	107	(77)

Supplementary information (continued)

Adjusted operating profit before tax (continued)

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

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
Breakdown of contribution from annuity margin	**£m**	£m	£m
Return on excess assets and margin release	**94**	118	216
Asset trading and portfolio management actions	**40**	63	110
Longevity assumption changes	**23**	127	126
Other (see table below for breakdown)	**(18)**	3	6
Shareholder annuities	**139**	311	458

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
Breakdown of other contribution from annuity margin	**£m**	£m	£m
Mismatching profits	**28**	30	55
Other assumption and model improvements	**(15)**	(13)	32
Experience variances	**11**	8	4
Other provisions and reserves	**(42)**	(22)	(85)
Other contribution	**(18)**	3	6

Mismatching profits relate 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 impact of expense assumption changes, and the impact of model improvements.

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
Breakdown of other Savings and Asset Management adjusted operating profit	**£m**	£m	£m
International business	**11**	13	42
Investment income	**(10)**	16	25
Other	**(26)**	(12)	(29)
Other Savings and Asset Management	**(25)**	17	38

International business includes our share of profits from our asset management associate in South Africa and profits from our European savings businesses.

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

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

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Adjusted operating profit before tax	**309**	714	1,149
Short-term fluctuations in investment returns	**746**	364	298
Profit on disposal of business and corporate transactions	**—**	—	53
Restructuring and other costs	**(22)**	(82)	(198)
IFRS profit attributable to non-controlling interests	**2**	2	3
IFRS profit before tax attributable to equity holders from continuing operations	**1,035**	998	1,305
Tax from continuing operations	**(209)**	(203)	(240)
IFRS profit after tax attributable to equity holders from continuing operations	**826**	795	1,065

Supplementary information (continued)

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 assets managed and/or administered on behalf of customers and clients 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 and client investments to its products and funds.

(i) Detailed AUMA and net client flows

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

	As at 31 December 2018	Gross inflows	Gross outflows	Net client flows	Market/Other movements	As at 30 June 2019
	£bn	£bn	£bn	£bn	£bn	£bn
Institutional Asset Management	70.5	5.0	(5.8)	(0.8)	4.7	74.4
Retail Asset Management[(i)]	76.4	12.8	(16.6)	(3.8)	6.0	78.6
Retail Savings	50.6	5.4	(2.2)	3.2	3.5	57.3
of which: PruFund	43.0	5.5	(2.0)	3.5	3.1	49.6
Other	0.2	—	—	—	(0.1)	0.1
Total Savings and Asset Management	197.7	23.2	(24.6)	(1.4)	14.1	210.4
Shareholder annuities	24.9	(0.3)	(0.1)	(0.4)	1.1	25.6
Traditional with-profits	84.6	0.4	(2.8)	(2.4)	8.4	90.6
Other	14.0	(0.1)	(0.2)	(0.3)	0.8	14.5
Total Heritage	123.5	—	(3.1)	(3.1)	10.3	130.7
Corporate assets	—	—	—	—	—	—
Group total	321.2	23.2	(27.7)	(4.5)	24.4	341.1

(i) Approx. £3bn of the gross inflows and gross outflows in Retail Asset Management were in relation to the establishment of the Luxembourg SICAV fund range, in which the Spanish Traspasos regime was used to migrate non-Sterling assets from OEICS to newly created SICAVs, and due to the reregistration of assets as a result of M&A in the GFI (Global Financial Institutions) space.

Supplementary information (continued)

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

	As at 31 December 2018	Gross inflows	Gross outflows	Net client flows	Market/Other movements	As 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(i)	76.4	21.2	(28.6)	(7.4)	5.9	74.9
Retail Savings	50.6	11.0	(4.8)	6.2	6.7	63.5
of which: PruFund	43.0	10.2	(3.8)	6.4	4.4	53.8
Other	0.2	—	—	—	0.5	0.7
Total Savings and Asset Management	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
Corporate assets	—	—	—	—	1.6	1.6
Group total	321.2	43.5	(52.4)	(8.9)	39.2	351.5

(ii) AUMA by asset class

	For the six months ended 30 June 2020								
	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	**50**	**11**	**—**	**—**	**61**	**25**	**3**	**28**	**89**
Public fixed income	**41**	**3**	**20**	**—**	**64**	**35**	**44**	**79**	**143**
of which Government	**6**	**1**	**5**	**—**	**12**	**16**	**21**	**37**	**49**
of which Corporate	**35**	**2**	**15**	**—**	**52**	**19**	**23**	**42**	**94**
Private fixed income(i)	**5**	**—**	**3**	**—**	**8**	**1**	**17**	**18**	**26**
Real estate	**9**	**—**	**2**	**—**	**11**	**2**	**12**	**14**	**25**
Alternatives	**8**	**—**	**—**	**—**	**8**	**—**	**4**	**4**	**12**
Other(ii)	**23**	**1**	**14**	**2**	**40**	**1**	**1**	**2**	**42**
Other assets under administration									**2**
Total	**136**	**15**	**39**	**2**	**192**	**64**	**81**	**145**	**339**

(i)Includes debt securities and loans.

(ii)Includes cash and cash equivalents, deposits with credit institutions and reinsurance assets from Rothesay Life plc.

Supplementary information (continued)

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

	For the year ended 31 December 2019								
	On balance sheet AUMA					External AUMA			Total
	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Retail £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
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[i]	16	1	14	1	32	2	5	7	39
Other assets under administration									2
Total	143	16	37	2	198	75	77	152	352

(iii) AUMA by geography

	For the six months ended 30 June	For the year ended 31 December
	2020	2019
	£bn	£bn
UK	**281**	288
Europe	**44**	49
Asia-Pacific	**8**	8
Middle East and Africa	**5**	6
Americas	**1**	1
Total AUMA	**339**	352

AUMA by geography is based on the country of the underlying customer or 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.

Supplementary information (continued)

Solvency II capital position (continued)

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

	As at 30 June 2020 £bn	As at 31 December 2019 £bn
IFRS shareholders' equity	**5.5**	5.1
Add back unallocated surplus of the With-Profits Fund	**14.9**	16.1
Deduct goodwill and intangible assets	**(1.3)**	(1.3)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**0.4**	0.3
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.7)**	(1.5)
Fair value assets and liabilities not held at fair value under IFRS	**(0.4)**	(0.1)
Other	**0.1**	0.1
Solvency II excess of assets over liabilities	**17.5**	18.7
Subordinated debt capital	**4.1**	3.8
Ring-fenced fund restrictions	**(6.9)**	(7.6)
Solvency II eligible own funds	**14.7**	14.9

The key items in the reconciliation are explained below:

- *Unallocated surplus of the With-Profits Fund:* this amount is treated as a liability under IFRS, but considered surplus assets under Solvency II.
- *Goodwill and intangible assets:* these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.
- *Policyholder liability and reinsurance asset valuation differences:* there are significant differences in the valuation of technical provisions between IFRS and Solvency II. The most material differences relate to the exclusion of prudent margins in longevity assumptions under Solvency II, and also the use of different discount rates, both in relation to the valuation of annuity liabilities.
- *Solvency II risk margin (net of transitional measures):* the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.
- *Subordinated debt capital:* subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- *Ring-fenced fund restrictions*: any excess of the own funds over the solvency capital 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 30 June 2020 £bn	As at 31 December 2019 £bn
Tier 1 (unrestricted)	**10.5**	11.1
Tier 1 (restricted)	**—**	—
Tier 2	**4.1**	3.8
Tier 3	**0.1**	—
Total own funds	**14.7**	14.9

The Group's Tier 2 capital consists of subordinated debt instruments. The terms of these instruments allow them to be treated as capital for the purposes of Solvency II. The instruments were originally issued by Prudential plc, and subsequently substituted to the 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 12. The Solvency II value of the debt differs to the IFRS carrying value due to a different basis of measurement on the respective balance sheets.

The Group's Tier 3 capital of £0.1bn (31 December 2019: £nil) relates to deferred tax asset balances.

Estimated and unaudited shareholder view of the Solvency II capital position

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

Supplementary information (continued)

Solvency II capital position (continued)

The estimated and unaudited shareholder Solvency II capital position for the Group as at 30 June 2020 and 31 December 2019 is shown below:

	As at 30 June 2020 £bn	As at 31 December 2019 £bn
Shareholder Solvency II own funds	**9.9**	10.3
Shareholder Solvency II SCR	**(6.0)**	(5.8)
Solvency II surplus	**3.9**	4.5
Shareholder Solvency II coverage ratio(i)	**164%**	176%

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

The Group's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. Further information on the ring-fenced With-Profits Fund's capital position is provided in 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 are presented after an assumed recalculation using management's estimate of the impact of operating and market conditions at the valuation date, which as at 30 June 2020 differed from the approved regulatory position.
- 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.

Breakdown of the shareholder Solvency II SCR by risk type

	As at 30 June 2020 £bn	As at 31 December 2019 £bn
Equity	**1.4**	1.4
Property	**0.9**	0.9
Interest rate	**0.3**	0.4
Credit	**4.0**	3.8
Currency	**1.0**	0.8
Longevity	**1.9**	1.6
Lapse	**0.1**	0.2
Operational and expense	**1.5**	1.5
Sectoral(i)	**0.5**	0.5
Total undiversified	**11.6**	11.1
Diversification, deferred tax, and other	**(5.6)**	(5.3)
Shareholder SCR	**6.0**	5.8

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

Supplementary information (continued)

Solvency II capital position (continued)

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

Sensitivity analysis of the shareholder Solvency II coverage ratio

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

	As at 30 June 2020	As at 31 December 2019
Base shareholder Solvency II coverage ratio	**164%**	176%
20% instantaneous fall in equity markets	**158%**	170%
20% instantaneous fall in property markets	**158%**	171%
50 bp reduction in interest rates	**158%**	170%
100 bp widening in credit spreads	**159%**	172%
20% credit asset downgrade(i)	**159%**	170%

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

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

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

The estimated and unaudited Solvency II capital position for the Group under the With-Profits Fund view as at 30 June 2020 and 31 December 2019 is shown below:

	As at 30 June 2020 £bn	As at 31 December 2019 £bn
With-Profits Fund Solvency II own funds	**11.8**	12.2
With-Profits Fund Solvency II SCR	**(4.9)**	(4.6)
With-Profits Fund Solvency II surplus	**6.9**	7.6
With-Profits Fund Solvency II coverage ratio(i)	**241%**	267%

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

Estimated and unaudited regulatory view of the Solvency II capital position

The estimated and unaudited Solvency II capital position for the Group under the 'regulatory' view as at 30 June 2020 and 31 December 2019 is shown below:

	As at 30 June 2020 £bn	As at 31 December 2019 £bn
Solvency II own funds	**14.7**	14.9
Solvency II SCR	**(10.8)**	(10.4)
Solvency II surplus	**3.9**	4.5
Solvency II coverage ratio(i)	**136%**	143%

(i)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.

Supplementary information (continued)

Capital generation (estimated and unaudited) (continued)

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.30% for the six months ended 30 June 2020, 4.28% for the six months ended 30 June 2019 and the year ended 31 December 2019. For annuity business, the assumed average return on assets backing capital was 2.09% for the six months ended 30 June 2020, 2.44% for the six months ended 30 June 2019 and the year ended 31 December 2019.

The Group's capital generation results in respect of the six months ended 30 June 2020 and 30 June 2019, and year ended 31 December 2019 are shown below, alongside a reconciliation of the total movement in the Group's Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in the previous section of this supplementary information.

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

- The capital generated from the Prudential Vietnam Finance Company Limited and the capital impact arising on disposal of this entity during 2019, have been reflected within capital generated from discontinued operations.
- Merger accounting principles have been applied 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 2019. The movements in capital attributable to the discontinued corporate treasury activity of PruCap has been included within capital generated from discontinued operations.

		For the six months ended 30 June			For the six months ended 30 June			For the year ended 31 December		
		2020			2019			2019		
Reconciliation of movement in Group Solvency II surplus		**Own funds[i]**	**SCR[i]**	**Surplus**	Own funds[i]	SCR[i]	Surplus	Own funds[i]	SCR[i]	Surplus
		£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Underlying capital generation										
Savings and Asset Management	Asset Management	**163**	**(8)**	**155**	216	—	216	381	(2)	379
	With-profits	**87**	**(69)**	**18**	70	(66)	4	130	(130)	—
	of which: In-force	**76**	**(37)**	**39**	55	(18)	37	96	(35)	61
	of which: New business	**11**	**(32)**	**(21)**	15	(48)	(33)	34	(95)	(61)
	Other	**16**	**(3)**	**13**	24	(1)	23	37	(2)	35
	Savings and Asset Management underlying capital generation	**266**	**(80)**	**186**	310	(67)	243	548	(134)	414
Heritage	With-profits	**49**	**(9)**	**40**	40	(22)	18	71	—	71
	Shareholder annuity and other	**95**	**74**	**169**	131	73	204	255	133	388
	Heritage underlying capital generation	**144**	**65**	**209**	171	51	222	326	133	459
Corporate	**Interest and head office cost**	**(134)**	**2**	**(132)**	(23)	—	(23)	(95)	4	(91)
Underlying capital generation		**276**	**(13)**	**263**	458	(16)	442	779	3	782
Other operating capital generation										
	Savings and Asset Management[ii]	**(9)**	**27**	**18**	(43)	(28)	(71)	29	16	45
	Heritage	**152**	**110**	**262**	166	266	432	222	295	517
	Corporate Centre[ii]	**2**	**(6)**	**(4)**	8	(47)	(39)	28	(96)	(68)
Operating capital generation		**421**	**118**	**539**	589	175	764	1,058	218	1,276
	Market movements	**(326)**	**(288)**	**(614)**	688	(327)	361	983	(445)	538
	Restructuring and other	**(20)**	**—**	**(20)**	(102)	35	(67)	(168)	35	(133)
	Tax	**(141)**	**34**	**(107)**	(202)	74	(128)	(139)	(33)	(172)
Total capital generation		**(66)**	**(136)**	**(202)**	973	(43)	930	1,734	(225)	1,509
Capital generation from discontinued operations		**—**	**—**	**—**	(26)	30	4	70	88	158
Total capital generation including discontinued operations		**(66)**	**(136)**	**(202)**	947	(13)	934	1,804	(137)	1,667
Dividends and capital movements		**(410)**	**—**	**(410)**	(1,113)	—	(1,113)	(1,213)	2	(1,211)
Total (decrease)/increase in Solvency II surplus		**(476)**	**(136)**	**(612)**	(166)	(13)	(179)	591	(135)	456

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

(ii) Other operating capital generation for Savings and Asset Management and the Corporate Centre include the impact of operating investment variances, which were previously presented within underlying capital generation. This change reflects that these items will fluctuate with market conditions. The results for the six months ended June 2019 and the year ended 31 December 2019 have been restated in light of this change, which has no impact on operating capital generation or total capital generation.

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 Asset Management business are calculated.

(i) Cost/income ratio

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

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	£m	£m	£m
Total Asset Management operating expenses	**306**	298	652
Adjustment for revaluations[i]	**1**	(3)	(7)
Total Asset Management adjusted costs	**307**	295	645
Total Asset Management fee based revenue	**469**	514	1,033
Less: Performance fees	**(3)**	(3)	(20)
Total Asset Management underlying fee based revenue	**466**	511	1013
Cost/income ratio (%)	**66%**	58%	64%

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

(ii) Average revenue margin

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

	For the six months ended 30 June						For the year ended 31 December		
	2020			2019			2019		
	Average AUMA[i]	**Revenue[ii]**	**Revenue margin**	Average AUMA[i]	Revenue[ii]	Revenue margin	Average AUMA[i]	Revenue[ii]	Revenue margin
	bn	**£m**	**bps**	bn	£m	bps	bn	£m	bps
Retail Asset Management	**92**	**230**	**50**	104	299	58	102	584	57
Institutional Asset Management	**169**	**236**	**28**	160	212	26	165	429	26
Total Asset Management	**261**	**466**	**36**	264	511	39	267	1,013	38

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

[ii]Revenue margin is calculated by annualising underlying fee based revenues earned, which excludes performance fees, in the period divided by average AUMA for the period.

Credit risk

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

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

Debt securities

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

	As at 30 June	As at 31 December
	2020	2019
	£m	£m
Government bonds	**5,442**	5,678
Corporate bonds	**14,369**	13,909
Asset backed securities	**798**	791
Total debt securities	**20,609**	20,378

Supplementary information (continued)

Credit risk (continued)

Debt securities held in respect of annuities and other long term business are analysed below according to external credit ratings[3] issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative. Debt securities are internally rated where no external credit rating is available.

	As at 30 June 2020 £m	As at 31 December 2019 £m
AAA	**2,335**	2,548
AA+ to AA-	**7,593**	7,357
A+ to A-	**6,645**	7,352
BBB+ to BBB-	**3,395**	2,647
Below BBB-	**641**	474
Total	**20,609**	20,378

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

Asset-backed securities

The annuities and other long term business segment has holdings in asset-backed securities ("ABS") which are presented within debt securities on the condensed consolidated statement of financial position. These holdings in ABS comprise residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), collateralised debt obligations ("CDO") funds and other asset-backed securities. At 30 June 2020 the annuities and other longer term business segment holding in asset-backed securities was £798m (31 December 2019: £791m). The majority of these asset backed securities are UK securities.

Exposure to sovereign debt

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

	As at 30 June 2020 £m	As at 31 December 2019 £m
Spain	**53**	47
France	**22**	21
Germany	**—**	188
Total Eurozone	**75**	256
United Kingdom	**2,030**	3,003
Other	**167**	157
Total	**2,272**	3,416

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

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

Supplementary information (continued)

Credit risk (continued)

Exposure to debt securities issued by banks

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

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

As at 30 June 2020	Senior debt			Subordinated debt		
	Covered	Senior	Total senior debt	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m
France	12	33	45	—	—	45
Germany	3	—	3	93	93	96
Netherlands	—	44	44	—	—	44
Other Eurozone	—	23	23	—	—	23
Total Eurozone	15	100	115	93	93	208
United Kingdom	397	123	520	104	104	624
United States	—	250	250	29	29	279
Other	—	22	22	—	—	22
Total	412	495	907	226	226	1,133

As at 31 December 2019	Senior debt			Subordinated debt		
	Covered	Senior	Total senior debt	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m
France	16	16	32	—	—	32
Germany	3	—	3	83	83	86
Netherlands	—	23	23	—	—	23
Total Eurozone	19	39	58	83	83	141
United Kingdom	420	229	649	69	69	718
United States	—	230	230	30	30	260
Other	—	10	10	36	36	46
Total	439	508	947	218	218	1,165

Exposure of debt securities by sector

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

	As at 30 June	As at 31 December
	2020	2019
	£m	£m
Financial	6,291	5,905
Government	5,442	5,678
Real Estate	2,928	2,673
Utilities	2,843	2,886
Consumer	1,078	1,045
Industrial	788	820
Communications	423	428
Other	816	943
Total	20,609	20,378

Glossary

Term	Definition
Adjusted operating profit before tax	Adjusted operating profit before tax is the Group's key alternative performance measure. It is defined in the alternative performance measure section on page 47.
Alternative performance measure (APM)	An alternative performance measure (APM) is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations. The Group's APMs are adjusted operating profit before tax and the shareholder Solvency II coverage ratio.
Annuity policy	Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium.
Asset backed securities (ABS)	Asset Backed Securities (ABS) are collateralised securities whose value and income payments are derived from a specified pool of underlying assets.
Assets under management and administration (AUMA)	Assets under management and administration is the total market value of all financial assets managed and/or administered on behalf of customers.
Average fee margin	The average fee margin is calculated by annualising underlying fee based revenues earned in the period divided by average AuMA for the period, and demonstrates the revenue margin that was earned on the assets we manage.
Board	The Board of directors of the Company.
Brexit	The vote by the people of the United Kingdom to leave the European Union in the referendum held on 23 June 2016.
Chief Operating Decision Maker	The Group Executive Committee.

Term	Definition
Company	M&G plc, a public limited company incorporated in England and Wales with registered number 11444019 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom;
Cost/income ratio	The cost-income ratio represents Asset Management operating expenses excluding revaluations and restructuring costs, divided by Asset Management fee based revenue excluding performance fees.
Demerger	The demerger of the Group from the Prudential Group in October 2019.
Director	A Director of the Company.
Defined benefit pension scheme	A pension scheme where an employer/ sponsor promises a specified benefit on retirement that is predetermined by the scheme rules based on the employees earnings history, length of service and age, instead of depending directly on investment returns.
Defined contribution pension scheme	A pension scheme where the benefits at retirement are determined by contributions paid into the fund by the member and the employer. The amount in each fund at retirement depends upon the investment returns achieved and member and employer contributions.
Earnings per share (EPS)	Earnings per share (EPS) is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.
Employee benefit trust (EBT)	An employee benefit trust (EBT) is a trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards.
Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the condensed consolidated income statement.

Glossary (continued)

Term	Definition
FCA	Financial Conduct Authority - the body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.
Group	The Company and its affiliated companies.
Group Executive Committee	The Group Executive Committee is composed of board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are prepared in accordance with IFRS as endorsed by the European Union.
Key performance measure (KPM)	The Group measures its financial performance using a number of key performance measures. These include: adjusted operating profit before tax, net client flows, AUMA, shareholder Solvency II coverage ratio, total capital generation and operating capital generation.
Leverage ratio	The leverage ratio is calculated as the nominal value of debt as a percentage of total shareholder solvency II Own Funds.
Long term incentive plan (LTIP)	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to the Group's strategy.
M&G Group Limited	(MGG) is a private limited company incorporated in England and Wales with registered number 00633480 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.

Term	Definition
M&G plc	M&G plc is a company incorporated and with its principal place of business in England. M&G plc and its affiliated companies constitute a savings and investments business. M&G plc is the direct parent company of The Prudential Assurance Company Limited and M&G Group Limited. Throughout this document, unless otherwise stated, the term "M&G plc" should be taken as a reference to the Group of companies that includes M&G plc, and its affiliated companies.
Net client flows	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period.
Merger & transformation Programme	In August 2017, Prudential plc announced the merger of its UK and Europe business with the asset manager M&G to form the Group (the Merger). In conjunction with the Merger, and as part of the execution of its business strategy, the Group's business is implementing a transformation programme, with a number of initiatives and programmes, which is expected to be completed in 2022.
Operating capital generation	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring costs.
Own funds	Own funds 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.
PRA	Prudential Regulation Authority - the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
Prudential Group	Prudential plc and its subsidiaries and subsidiary undertakings.
Prudential plc	Prudential plc, a public limited company incorporated in England and Wales with registered number 1397169 whose registered office is 1 Angel Court, London EC2R 7AG, United Kingdom.

Glossary (continued)

Term	Definition
PruFund	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
Restructuring costs	Restructuring costs primarily reflect costs associated with the Merger and Transformation Programme and costs associated with the Demerger. These costs represent fundamental one-off group-wide restructuring and transformation.
Scottish Amicable Insurance Fund (SAIF)	SAIF is a ring-fenced sub-fund of the Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of M&G plc have no entitlement to the profits of this fund although they are entitled to asset management fees on this business.
Rothesay Life	Rothesay Life plc.
Shareholder Solvency II coverage ratio	Shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced with-profits fund.
Solvency II	The regime for the prudential regulation of European insurance companies that came into force on 1 January 2016.
Solvency Capital Requirement (SCR)	Solvency Capital Requirement represents the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to. The Solvency Capital Requirement is calculated using the Group's Solvency II internal model.
Solvency II surplus	Solvency II surplus represents the own funds held by the Group less the Solvency Capital Requirement.

Term	Definition
The Prudential Assurance Company (PAC)	The Prudential Assurance Company Limited, a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom;
Thematic review of annuity sales practices	This review, conducted by the Financial Conduct Authority, assessed how firms provided information to customers, on a non-advised basis, about shopping around for enhanced annuities.
Total capital generation	Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.
Total shareholder return (TSR)	TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.
Transitional measures on technical provisions (TMTP)	An adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January 2016. This decreases linearly over 16 years following the implementation of Solvency II, but may be recalculated in certain cases, subject to agreement with the PRA.
Unallocated surplus of the with-profits fund	Unallocated surplus of the with-profits fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders.
Unit-linked policy	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.
With-profits fund	A fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. Also known as a participating fund as policyholders have a participating interest in the with-profits fund and any declared bonuses. Generally, policyholder and shareholder participation in the with-profits fund in the UK is split in a 90:10 ratio.