News release

24 March 2021

Annual Report and Accounts 2020

Following the release by M&G plc (the "Company") on 9 March 2021 of the Company's 2020 Full Year Results Announcement for the year ended 31 December 2020, the Company announces that it has today issued the 2020 Annual Report and Accounts ("Annual Financial Report").

The document is available to view on the Company's website here and, in accordance with Listing Rule 9.6.1, a copy has been submitted to the National Storage Mechanism and will shortly be available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism

Printed copies of the Annual Financial Report are expected to be mailed to shareholders on or around 14 April 2021, together with the Company's 2021 Notice of Annual General Meeting, in line with shareholder communication preferences.

-ENDS-

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Information required under the Disclosure & Transparency Rules ("DTR")

The following information is extracted from the M&G plc Annual Report 2020 (page references are to pages in the Annual Report) and should be read in conjunction with M&G plc's Full Year Results announcement issued on 9 March 2021. Together they constitute the material required by DTR 6.3.5(1) to be communicated to the media in unedited full text through a Regulatory Information Service. This material is not a substitute for reading the M&G plc Annual Report 2020 in full.

LEI: 254900TWUJUQ44TQJY84
Classification: 1.1 Annual Financial Report

Principal risks and uncertainties

1 Business environment and market forces

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
Changing customer preferences and economic and political conditions could adversely impact our ability to deliver our strategy and have implications for the profitability of our business model. **The markets in which we operate are highly competitive while customer needs and expectations are changing rapidly.** **Economic factors, including those resulting from Brexit and the COVID-19 pandemic, may impact the demand for our products and our ability to generate an appropriate return. In addition, increased geopolitical risks and policy uncertainty may impact our products, investments and operating model.** **Our key savings proposition, PruFund, accounts for a high proportion of our total sales and we are also heavily reliant on the intermediated channel for sales of savings solutions. This heightens our**	We conduct an annual strategic planning process, which is subject to oversight by the Risk and Resilience function and the Board, and results in an approved strategy. The process considers the potential impact of the wider business environment and, throughout the year, we monitor and report on the delivery of the plan. We continue to diversify our savings and investments business to respond to developing customer needs in terms of products, distribution and servicing. We are also implementing a significant digital transformation programme to deliver a more diversified distribution strategy. We have expanded our operations in Europe to ensure that we can continue to grow and service our European customer base following the UK's departure from the European Union.	We believe competition will intensify in response to consumer demand, technological advances, the need for economies of scale, regulatory actions and new market entrants. We have launched a number of new products and the acquisition of Ascentric broadens our coverage of the Independent Financial Advisor market and accelerates our move into high value wealth management. Work is ongoing to develop new propositions and expand our institutional and international businesses. We continue to focus on minimising the impact of COVID-19 pandemic on the service we provide to our customers. We had prepared for a "no-deal" Brexit to manage the risk that the process and outcomes compromised our business model and strategy. In the run-up to, and immediately after 31	**2** **3** **4** **5** **6**	**Increasing**

2 Sustainability

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
Our stakeholders increasingly expect that we meet the needs of the present without compromising the ability of future generations to meet their own needs. In addition we recognise that sustainability, including issues concerning the climate, diversity and inclusion, corporate governance and biodiversity, is crucial to our success and that of the companies in which we invest. **A failure to address and embed sustainability within our products, business and operating model could adversely impact our profitability, reputation and plans for growth**	Sustainability risks, along with other risk types, are identified, assessed and managed under the M&G plc Risk Management Framework and specific emphasis on the management of this risk will be outlined within the M&G plc ESG Risk Management Framework, which is currently under development. Consideration of ESG Risk is built into the decision- making processes and a requirement of key strategic board risk assessment papers. Climate change risk is being integrated into our scenario analysis process with both top down and bottom up consideration over a range of time horizons.	We have made specific firm-wide public commitments in respect of Sustainability issues and we continue to address and embed sustainability within our products, business and operating model. As 2020 demonstrated, responding effectively to climate-related incidents such as flooding, world health issues such as the COVID-19 pandemic	1 2 3 4 5 6	New

3 Investment performance and risk

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
The investment objectives and risk profiles of our funds and segregated mandates are agreed with our customers and clients. A failure to deliver against these objectives (including sustained underperformance of funds), to maintain risk profiles that are consistent with our customers and client's expectations, or to ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for our larger funds or a range of funds, our profitability, reputation and plans for growth may be impacted.	Our fund managers are accountable for the performance of the funds they manage and the management of the risks to the funds. An independent Investment Risk and Performance team monitors and oversees fund performance, liquidity and risks, reporting to the Chief Risk and Resilience Officer. Such activities feed into established oversight and escalation forums to identify, measure and oversee investment performance, investment risk and fund liquidity risks.	Fund liquidity will remain a key theme as regulatory and market developments impact funds' investments in unquoted and hard-to-trade assets. 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. While market	2 3 4 5 6 7	**Increasing**

4 Credit

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
We are exposed to the risk that a party to a financial instrument, banking transaction or reinsurance contract causes a financial loss to us by failing to discharge an obligation. In the case of invested assets this relates to the risk of an issuer being unable to meet their obligations, while for trading or banking activities this relates to the risk that the counterparty to any contract the business enters into is unable to meet their obligations. Our solvency is also exposed to changes in the value of invested credit assets arising from credit spread widening and/ or credit rating downgrades.	Our Credit Risk Framework sets standards for the assessment, measurement and management of credit risk, which are monitored by a dedicated, independent team. We set and regularly review limits for individual counterparties, issuers and ratings, and monitor exposures against these limits. Our policy is to undertake transactions with counterparties and invest in instruments of high quality. We have collateral arrangements in place for derivative, secured lending, reverse repurchase and reinsurance transactions.	Our credit risk exposure is expected to reduce over time as our annuity business runs off. In the near term, there is a risk of a material 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	**2 4 6 7**	**Increasing**

5 Market

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
Our profitability and solvency are sensitive to market fluctuations. Significant changes in the level or volatility of prices in equity, property or bond markets could have material adverse effects on our revenues and returns from our savings and investment management businesses, while exchange rate movements could impact fee and investment income denominated in foreign currencies. Furthermore, material falls in interest rates may increase the amount that we need to set aside in order to be able to meet our future obligations.	Market risk appetite is set and monitored to limit our exposure to key market risks, and we have prescribed limits on the seed capital provided for new funds. Our established approach to managing market risk was successfully utilised and adapted to monitor and respond to the impact of the COVID-19 pandemic on markets, funds and operations. Where appropriate, and subject to risk limits and procedures, we use derivatives for risk reduction, for example, to hedge equities, interest rates and currency risks, and we carry out regular reviews of hedging and investment strategies, including asset-liability matching, informed by stress testing.	Our market risk exposure is expected to increase as the growth of the PruFund business outweighs the reduction in market risk that occurs from the run-off of the Heritage book. Additionally, there is the potential for further market volatility as the COVID-19 pandemic continues to impact markets. However, the risks are actively managed and monitored. As such,	**2 4 5 6 7**	**Increasing**

6 Corporate liquidity

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
We must carefully manage the risk that we have insufficient cash resources to meet our obligations to policyholders and creditors as they fall due. This includes ensuring each part of our business and M&G plc as a whole has sufficient resources to cover outgoing cash flows, under a range of severe but plausible scenarios.	Risk appetite is set such that we maintain adequate liquid resources and our liquidity position is regularly monitored and stressed. We have detailed liquidity contingency funding plans in place to manage a liquidity crisis. Liquidity, cash and collateral is managed for the Group by Prudential Capital, which holds liquid, high grade assets and has access to external funding.	We expect the nature of our exposure to liquidity risk, and our approach to managing the risk, will remain materially unchanged in the short-term.	**2** **4** **5** **6**	**Unchanged**

7 Longevity

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
We make assumptions regarding the life expectancy (longevity) of our customers when determining the amount that should be set aside to pay future benefits and expenses. Unexpected changes in the life expectancy of our customers could have a material adverse impact on both profitability and solvency. This risk mainly arises from our large annuity book and, although we no longer write new annuity business in the open market, the size of the back-book remains significant.	We conduct annual reviews of longevity assumptions, supported by detailed assessments of actual mortality experience and have a team of specialists undertaking longevity research. We perform regular stress and scenario testing to understand the size of the longevity risk exposure. We have undertaken longevity risk transfer transactions, where attractive financial terms are available from suitable market participants.	The pace of longevity improvements among the annuitant population has slowed in recent years. Additionally, our existing business will continue to run-off, reducing our longevity exposure over the longer-term. An increase in mortality rates may be expected to some extent over the short-term due to the COVID-19	**6** **7**	**Unchanged**

8 Operational

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
A material failure in the processes and controls supporting our activities, that of our third-party suppliers or of our technology could result in poor customer outcomes, reputational damage, increased costs and regulatory censure. We have a high dependency on technology and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact our ability to operate effectively. Additionally, serious failings in the delivery and/or persistent under performance of third-party supplier arrangements could impact the delivery of services to our customers.	Our Operational Risk Framework defines our approach to the identification, assessment, management and reporting of operational risks and associated controls across the business including IT, data and outsourcing arrangements. The benefits of our investment in operational resilience were demonstrated by our ability to maintain effective business operations during the disruption caused by the COVID-19 pandemic. We continue to progress our programme of work to enhance the firm's resilience to material operational incidents or business disruption. We maintain, test and upgrade our IT environment, processes and controls to maintain IT performance and resilience and prevent, detect and recover from security incidents, including cyber attacks. We are continuing our programme of work to enhance our oversight and risk management of third parties across the Group, including our approach to selection, contracting and on-boarding, management and monitoring, and termination and exiting.	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 operational risk in the following key areas: IT connectivity; data security and privacy; cyber crime; fraud; and processing failure due to changes to controls. Regulatory scrutiny of, and reputational damage from, issues arising from the processing of customer data, and the security and resilience of our technology and processes will remain high.	**1 2 3 4 5 6 7**	**Increasing**

9 Change

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
We have a number of significant change and transformation programmes underway to deliver our strategy for growth, key financial and non-financial benefits (including cost savings, improved customer experiences, greater resilience and strengthening our control environment) and regulatory change. Failure to deliver these programmes within timelines, scope and cost may impact our business model and ability to deliver against our business plan and strategy.	Project governance is in place (including oversight) with reporting and escalation of risks to management and the Board. Our Strategic Investment Board is responsible for prioritisation decisions, ensuring that the activities that maximise our ability to achieve the business plan, key regulatory items and growth activity are delivered and funded appropriately. We employ a suite of metrics to monitor and report on the delivery, costs and benefits of our transformation programmes. We conduct regular deep-dive assessments of transformation programmes, individually and collectively.	In response to the COVID-19 pandemic, we have reviewed and, where appropriate, reprioritised our change activity. We remain committed to our extensive change programme which underpins our strategy for growth, meet appropriate cost base targets, deliver a number of key non-financial benefits (including improved customer experiences and outcomes and strengthened resilience), and meet regulatory requirements. Our exposure to change risk will therefore remain material. The uncertainty of	**1** **2** **3** **4** **5** **6** **7**	**Unchanged**

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10 People

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
The success of our operations is highly dependent on our ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support our business strategy and culture. **As a large and listed public company, and as we continue to implement our change programme, our people risk and associated reputational impact is heightened in a number of areas including our pay practices, staff workloads and morale, the conduct of individuals or groups of individuals and industrial relations (our own and that of key third-party providers).**	Our HR Framework includes policies for Diversity and Inclusion, Employee Relations, Talent and Resourcing, Remuneration, and Performance and Learning. The framework is designed to align staff objectives and remuneration to our business strategy and culture. Our management and Board receive regular reporting on people issues and developments, for example, the succession plans for critical talent, the management of industrial relations, pay, culture and diversity. We conduct regular surveys to better understand colleagues' views on our business and culture, the findings of which drive actions to improve the experience of our staff. The Risk and Resilience team has begun monitoring and reporting as a series of indicators of behavioural risk.	Competition for top talent is expected to remain intense. We continue to increase our investment in leadership and manager development in order to be successful and drive the right culture, behavior and norms in today's fast changing world. The COVID-19 pandemic led to a rapid scaling up in remote working capacity and capability which has placed significantly greater reliance on virtual environments and introduced	**1** **2** **3** **4** **5** **6** **7**	**Increasing**

11 Regulatory compliance

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
We operate in highly regulated markets and interact with a number of regulators across the globe, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of national and international regulatory initiatives in progress, with a continuing focus on solvency and capital standards, financial crime, conduct of business and systemic risks. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, fines and restrictions on operations or products.	Accountability for compliance with regulatory and legal requirements sits with our senior management. Our dedicated Compliance function supports our businesses by coordinating regulatory activities, including interactions with our regulators, recognising the obligation of our regulated subsidiaries to meet their distinct regulatory requirements and to take decisions independently in the interests of their customers. The function provides guidance to, and oversight of, the business in relation to regulatory compliance, financial crime and conflicts of interest, and carries out routine monitoring and deep-dive activities to assess compliance with regulations and legislation. National and global regulatory developments are monitored and form part of our engagement with government policy teams and regulators, which includes updates on our responses to the changes.	While we have made significant progress in addressing historical regulatory issues, the legacy book will remain an area of considerable management and regulatory focus. As we continue to expand our international presence, our engagement and compliance with regulatory regimes beyond the UK will become more material. For example our expansion in the US means that the US sanctions regime is becoming more significant for us.	**1** **2** **3** **4** **5** **6**	**Unchanged**

12 Reputational

Principal risk	Management and mitigation	Outlook	Strategic Pillars[i]	Change from last
Our reputation is the sum of our stakeholders' perceptions, which are shaped by the nature of their expectations and our ability to meet them. Consequently, there is a risk that through our activities, behaviours or communications, we fail to meet stakeholder expectations in ways which adversely impact trust and reputation. Failure to effectively manage reputational risk could therefore have an adverse impact on our revenues and cost base, our ability to attract and retain the best staff and could also result in	Our Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks utilising a suite of metrics to monitor stakeholder groups. We have embedded reputational risk champions within our business and they perform an active role in identifying and monitoring key reputational risks and drivers. Champions also support our businesses in creating processes that include full consideration of reputational risks in key decisions.	The COVID-19 pandemic and the ongoing socio-political climate, together with an increase in activities being undertaken by the business means that we could face an increasing range and severity of reputational events. A number of factors mean that such pressures will increase, including	**1** **2** **3** **4** **5** **6**	**Unchanged**

[i]Our strategic pillars are detailed on page 23 of the M&G plc Annual Report and Accounts 2020

Responsibility statement of the Directors in respect of the annual financial report

The Directors are responsible for preparing the Annual Report and the consolidated and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and Company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework. In addition the financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the Group's profit or loss for that period.

In preparing the consolidated and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and prudent;
- for the consolidated financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Clare Bousfield

Chief Financial Officer

8 March 2021

37 Related party transactions

The Group and its related parties comprise members of the M&G plc Group, as well as the Group's joint ventures and associates, and any entity controlled by those parties.

37.1 Transactions with Prudential plc

For the year ended 31 December 2019 the Group earned revenue of £16m and incurred expenses of £63m with entities of the Prudential plc group up to the point of demerger on 21 October 2019 at which point Prudential plc group entities ceased to be related parties.

37.2 Transactions with the Group's joint ventures and associates

The Group received dividends of £19m for the year ended 31 December 2020 (2019: £192m) and made additional capital injections of £5m in the year ended 31 December 2020 (2019: £4m) into joint ventures or associates accounted for using the equity method. In addition, the Group had balances due from joint ventures or associates accounted for using the equity method of £133m as at 31 December 2020 (2019: £132m) and balances due to joint ventures or associates accounted for using the equity method of £nil as at 31 December 2020 (2019: £nil).

Furthermore, in the normal course of business a number of investments into and divestments from investment vehicles managed by the Group were made. This includes investment vehicles which are classified as investments in associates and joint ventures measured at FVTPL. The Group entities paid amounts for the issue of shares or units and received amounts for the cancellation of shares or units. These transactions are not considered to be material to the Group.

37.3 Compensation of key management personnel

The members of the Executive Committee, which was formed in 2019, are deemed to have power to influence the direction, planning and control the activities of the Group, and hence are also considered to be key management personnel.

Key management personnel of the Company may from time to time purchase insurance, asset management or annuity products marketed by the Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

Other transactions with key management personnel are not deemed to be significant either by virtue of their size or in the context of the key management personnel's respective financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

The summary of compensation of key management personnel is as follows:

	For the year ended 31 December	
	2020	**2019**
	£m	**£m**
Salaries and short-term benefits	**11.7**	11.1
Post-employment benefits	**0.6**	0.6
Share-based payments	**4.0**	5.9
Total	**16.3**	17.6

Information concerning individual directors' emoluments, interests and transactions are provided in the single figure tables in the Remuneration Report on pages 118 and 126.