Driving progress together

M&G plc
Annual Report and Accounts 2023

Performance highlights

Driving progress together in 2023

Financial highlights[i]

KPM APM REM
Adjusted operating profit before tax[ii]
£797m
(2022: £625m restated)

KPM APM REM
Operating change in Contractual Service Margin (CSM)
£355m
(2022: £129m)

KPM APM REM
Operating capital generation
£996m
(2022: £821m)

KPM APM
Total capital generation
£358m
(2022: £(397)m)

KPM APM
Assets under management and administration
£343.5bn
(2022: £342.0bn)

KPM
IFRS result after tax[ii]
£309m
(2022: £2,055m loss restated)

KPM APM
Shareholder Solvency II coverage ratio
203%
(2022: 199%)

KPM APM
Net client flows (excluding Heritage)
£1.1bn inflow
(2022: £0.2bn inflow)

Non-financial highlights

REM
Female representation on the Group Executive Committee and direct reports
37%
(2022: 37%)

REM
Ethnic diversity within the Group Executive Committee and direct reports[iii]
7.4%
(2022: 6.7% restated)

REM
Net promoter score (Life and Wealth)
+15
(2022: +14)

REM
Employee sustainable engagement score
70.7
(2022: 72.0)

REM
Operational carbon emissions: Scope 1, 2 and selected scope 3[iv]
7,996 tCO_2e
(2022: 4,505 tCO_2e restated)

i All financial measures are defined in Supplementary Information on page 366.
ii For some financial measures 2022 comparative results, previously prepared under IFRS 4, have been restated following the adoption of IFRS 17 from 1 January 2023. See page 191 for further details.
iii 2022 ethnicity data included undisclosed data. The 2022 figure has been restated to exclude undisclosed data as this is now being disclosed as a separate category. See page 19 for details.
iv When reporting totals, market-based emissions are used. Note that the 2022 figure has been restated, see page 77 for further details.

Key

KPM	Key performance measure (defined in glossary)
APM	Alternative performance measure (defined in glossary)
REM	Linked to remuneration measures for Executive Directors

Contents

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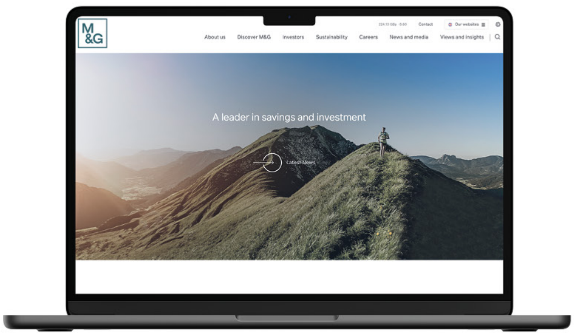


M&G at a glance

Who we are

From large institutional clients, to individuals looking to grow their investments, our unique business model helps our clients to save and invest

Our purpose

Give everyone real confidence to put their money to work

Our clients trust us with their savings and investments. We help them transform their wealth to deliver positive returns, including an opportunity to invest to have a positive impact on society and the planet.
Our new purpose reflects where we are as a business and our future ambitions. It is underpinned by our values and behaviours, which guide how we work and lead our strategy.

Our values

Our values guide what we do, the decisions we make and the way we respond to opportunities and challenges. By bringing our values to life through our behaviours, we are delivering progress on our strategy, and achieving our new purpose.

Care

We act with care – treating clients and colleagues with the same level of respect that we would expect for ourselves. We also invest with care, making choices for the long term.

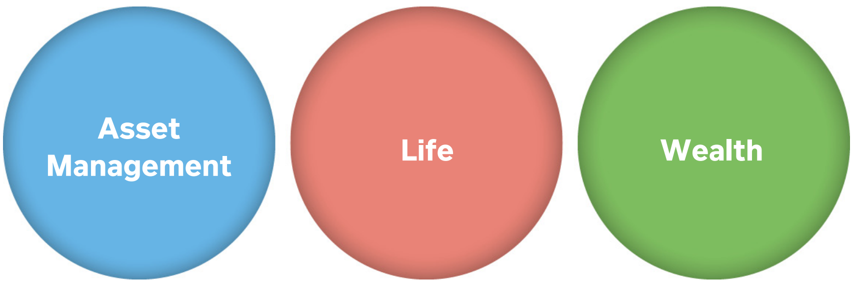
Integrity

We empower our colleagues to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we don't take that lightly.

Find out more about our behaviours on page 50

What we do

We have updated our business model to better deliver our strategic priorities. Our new structure has three distinct operating segments[i], Asset Management, Life and Wealth, which work together to provide access to balanced, long-term investment and savings solutions. This is how we give our clients real confidence to put their money to work.



Find out more about our business model on page 8
and business and financial review on pages 20-33

Our international reach

38
Offices worldwide

6
Continents

Who we serve

4.6m+
Individual clients

900+
Institutional clients

i We previously reported under two operating segments - Asset Management and Retail and Savings. Our Asset Management segment remains unchanged but Retail and Savings has now been split into two segments - Life and Wealth. See page 234 for more details.

Chair's statement

Building a stronger business

M&G's business continues to transform: with a clear purpose, client focus and our diversified business model we are well placed to deliver sustainable returns

Overview

A year ago, we announced the group's refreshed strategy. Since then, as his report shows, Andrea and his team have made good progress across all three pillars of our strategy – financial strength, simplification and growth. It is encouraging in this tough environment to have achieved higher net client flows and a robust financial performance.

Our purpose and strategy

During the year, we reviewed our purpose as part of a wider exercise to inspire and align ourselves on how best to implement the refreshed strategy. The conclusion of those detailed discussions was that our purpose is to give everyone real confidence to put their money to work.

Although it is not easy to achieve, it guides our actions and shows how our integrated strategy as an asset owner, asset manager and wealth adviser aligns with our goals and our powerful capabilities.

As well as reviewing the purpose, we also asked ourselves what values and behaviours were needed to make the shifts that we wanted to see across the business. This work was led by Andrea and the senior leadership team, gathering input from the Board and engaging with colleagues across M&G.

The process achieved unprecedented levels of engagement and feedback, which gives confidence that this articulation of our purpose, values and behaviours will embed deeply over time.

Our culture

Throughout 2023 the Board has continued to engage with our colleagues to better understand their experience of working at M&G, the role our culture plays and how we are striving to create an exceptional place to work: a positive culture where our colleagues enjoy each day, feel inspired to do their best for our clients, help grow the business and support the communities in which we operate.

Our people practices set a benchmark within our sector and in similar-sized organisations, and are recognised by the National Equality Standard, the UK's highest benchmark for equality, diversity and inclusion.

We continue to make every effort to develop a fully inclusive environment for our colleagues, clients and communities. Over the past year, we have continued to develop and implement colleague-based initiatives across our five global workstreams, which cover disability, gender, ethnicity/nationality, life stages and LGBTQ+, and support our ambition of building a safe, inclusive and diverse culture.

We are committed to achieving greater gender parity across all of our global operations. We have been a signatory of the UK HM Treasury Women in Finance Charter for six years and are signatories of the Women in Finance Charter in Ireland and the diversity charters in France and Italy, showing expanded support for this ambition internationally.

We are proud to have been one of the first companies in our sector to publish an ethnicity in leadership target and voluntarily publish ethnicity pay gap data.

Stakeholder engagement

As a responsible business we recognise the importance of proactive engagement across a range of different stakeholders and the value of partnerships with Governments, regulators, shareholders, trade associations and Non Governmental Organisations (NGOs).

Throughout the course of the year we have held regular meetings with key external stakeholders on a range of key issues and engaged directly to ensure the best outcomes for our clients.

"We continue to make every effort to develop a fully inclusive environment for our clients, colleagues and communities."

Edward Braham
Chair

Chair's statement continued

Shareholder returns

The Board recognises the importance of returns for our shareholders both through share price appreciation and capital returns. Generating strong and sustainable earnings is key and, while there is always more to be done, all who work in M&G should be proud of the robust financial performance that they have delivered.

The Board's dividend policy remains to pay stable or increasing dividends over time, with the recommendation of a total dividend for 2023 of 19.7 pence per share.

Directors

We are very well served by an excellent Board and I would like to thank them all for their support over the last year.

We aim to ensure that the composition of the Board represents a diverse mix of experiences and backgrounds to enhance discussion, deliberation and decision making.

I remain focused on ensuring that we have the right skills and capabilities within the Board to support the transformation of M&G and I am personally committed to the diversity of our Board.

Conclusion

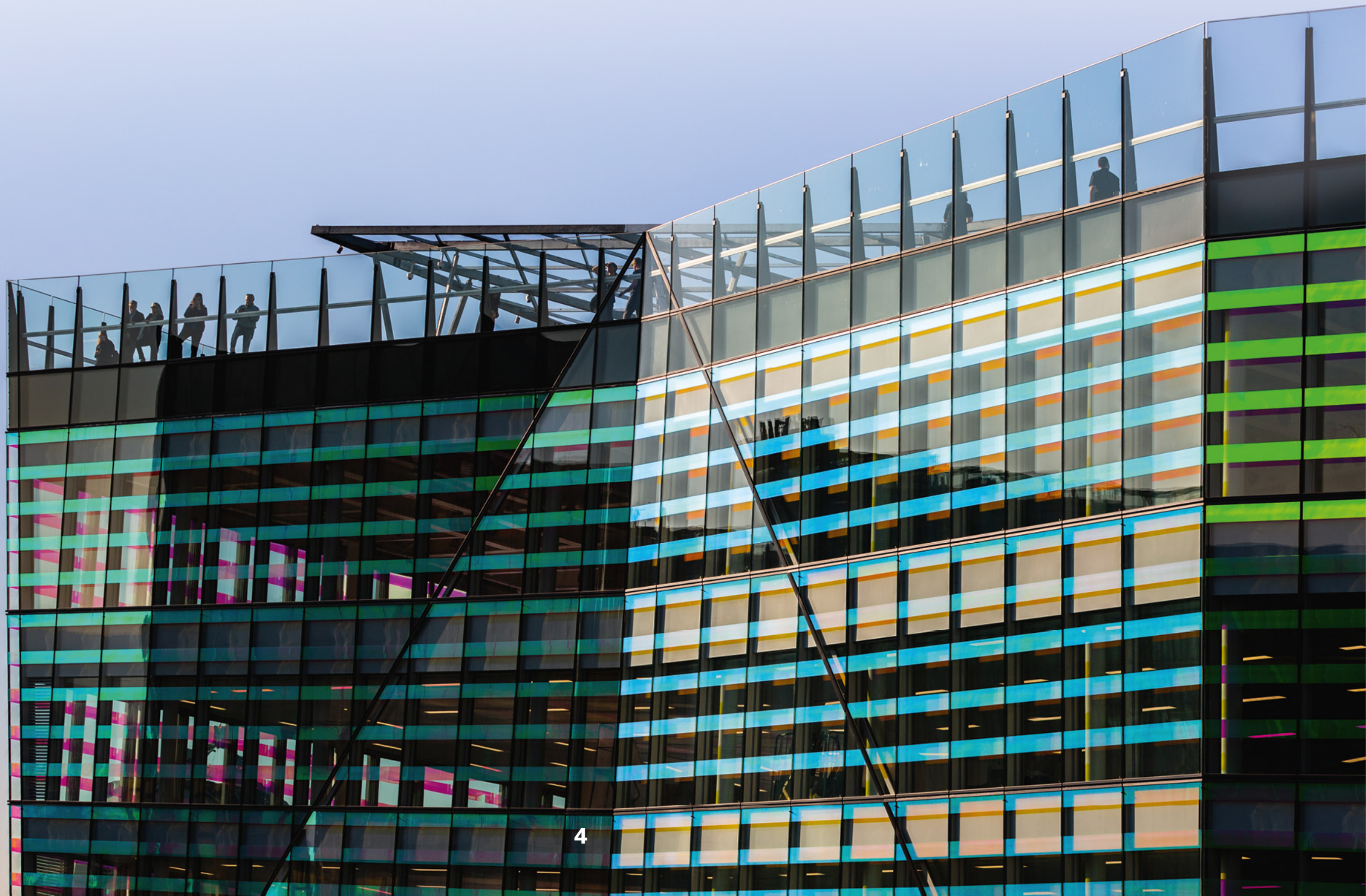
No Chairman's statement would be complete without thanking those who contribute to our success.

I continue to be impressed with the dedication and determination of the remarkable people at M&G and the high quality leadership of Andrea and his team.

I am hugely proud of how our colleagues have supported our clients throughout 2023 and continued to make a positive contribution to the communities in which we operate.

We have much still to do, but I am confident that the Group's purpose, client focus and unique business model give a strong foundation for our people to deliver higher, more sustainable returns for our shareholders, as well as serving the interests of our clients and our broader stakeholders.

Edward Braham
Chair



Group Chief Executive Officer's statement

A clear sense of direction

2023: Strong financial performance, continued business momentum and good strategic progress

The underlying strength of our differentiated business model is driving good strategic progress. Combined with the hard work and commitment of our colleagues, we are delivering a strong operational and financial performance, as we transform the business, with better client outcomes.

Building the foundations for future success

In 2023, we embarked on a journey of ambitious growth aspirations, strategic realignments, and transformative initiatives. I am proud of the foundations we are laying for our future success. We are establishing a corporate infrastructure that brings us together: simplifying our business and improving the way we serve our clients, thereby creating more opportunities to grow M&G.

Underpinning this is our new purpose 'to give everyone real confidence to put their money to work' which reflects our long term ambition as a business. Central to this is our unwavering commitment to serving our clients with excellence. By prioritising their needs and expectations we will elevate the quality of our service delivery, foster stronger relationships and deeper trust, in turn delivering better customer outcomes, creating financial strength and achieving profitable growth.

Our balanced, diversified and synergistic business model enables this and through our new structure and refocused strategy we are driving forward Asset Management, reigniting our Life business, and refocusing Wealth, supported by a dedicated leadership team. I'm delighted to welcome to the Group Executive Committee Joseph Pinto as CEO Asset Management, Clive Bolton as CEO Life, and Caroline Connellan as CEO Wealth.

Leveraging our business model to deliver on our priorities

Despite a backdrop of volatile financial markets and geopolitical uncertainties, we've remained resilient and adaptive. We have delivered good progress across each of our three core strategic pillars: financial strength, simplification and profitable growth, as we become a more efficient and more international organisation.

Financial strength

Over the past year we have become more profitable and more capital generative, as well as more resilient. We delivered an increased adjusted operating profit before tax of £797 million, helped by higher interest rates, up 28% year-on-year with our solvency ratio improving to 203%.

Through effective capital management, our operating capital generation was up 21% to £996 million. Given the strength of our operating capital generation, we are confident that we will achieve our £2.5 billion target by the end of 2024.

All of this means we are continuing to deliver attractive sustainable returns to our shareholders with a total dividend for 2023 of 19.7 pence per share.

Simplification

We are a year into our transformation programme and have already taken significant steps to improve the efficiency of the business in the pursuit of better client service and outcomes. This has included starting to implement our new operating model, with accountable leaders for each of our three businesses, reducing our office space and enhancing the efficiency of our support functions.

We have a clear focus on transforming our cost base, creating capacity to investment to support priority areas, better client outcomes and growth opportunities.

We remain confident in achieving our target of a much improved operating model with costs reduced by £200 million by 2025 compared to 2022, of which £73 million savings have already been achieved.

> “We have delivered good progress across each of our three core strategic pillars.”
>
> **Andrea Rossi**
> Group Chief Executive Officer

Group Chief Executive Officer's statement continued

Growth

We have made strong progress across all of our businesses.

Asset Management

Our Asset Manager has overcome significant market challenges and achieved positive net client flows of £800 million. It has delivered superior investment performance, grown internationally, and further diversified its client base and earnings mix. It is well positioned for the future, as it offers deep expertise in the asset classes attractive to our clients.

I am very pleased with the turnaround we delivered in our Wholesale business, underpinned by a strongly improved investment performance. Over the past two years, we achieved net client inflows of £2.0 billion, in contrast to the European market for active investment solutions which suffered net outflows of over £350 billion.

Last year, our Institutional business faced meaningful headwinds in the UK market due to the ongoing de-risking of defined benefit pension funds. On the other hand, it thrived internationally, generating £5.5 billion of net client inflows over the last year alone and £16 billion over the past four years.

Client outcomes were strong across both the Institutional and Wholesale franchises, with roughly 50% of our wholesale funds ranked in the top quartile on both a three and five-year basis. We also continued to innovate, expanding the range of funds and investment vehicles that we offer such as new Asian and Global bond funds.

International Growth

Since 2020, our international AUMA have increased by 38% to £83 billion. In 2023 alone, we had meaningful client inflows across key European and Asia Pacific markets. It is a testament to the quality of our capabilities.

Deep expertise

We have strong capabilities and expertise in a number of areas that are attractive to our clients. We are recognised as industry leaders in Public Fixed Income and currently have assets under management of £139 billion. We have a compelling range of funds across developed and emerging markets, government and corporate debt.

Within Private Markets we are a European leader with £73 billion assets under management. We expect our Private Credit franchise to expand strongly with supportive market dynamics over the coming years, leveraging our strong track record both in terms of investment performance and innovation.

Life

Throughout 2023 our aim has been to reignite our Life business through a number of key initiatives. First, we successfully entered the bulk purchase annuity (BPA) market, completing two deals in 2023 and a third in March this year, bringing total sales to over £900 million. We hope to reach £1 billion to £1.5 billion in BPA sales per year, to fully offset the run-off of our annuity book and increase long-term capital generation.

Secondly, we are working to leverage better the powerful combination of our With-Profits Fund and the shareholder balance sheet, to develop new propositions for the benefit of our clients, the With-Profits Fund and the wider Group. With a Solvency ratio of over 400% and surplus capital of more than £7 billion, the With-Profits Fund has the capacity and appetite to deploy capital over the long-term. Working together, we are highly effective in serving clients needs and have the opportunity to develop new compelling solutions for individual and corporate clients.

Making a difference

Supporting colleagues and communities

I am always keen to meet colleagues throughout the business. In late 2023, I visited our Kildean office in Scotland, listening to colleague views, including those from the Colleague Forum, our Client teams and Security Operations teams, and held a Townhall event.

Equally important is understanding more about our different community engagement projects, and I was delighted to meet 'Start Up Stirling' - a charity we partner with to assist local people and families in need.

The team, run largely on a volunteering basis, provides food, meals and key household items and were working around the clock to source 500 Christmas gifts for children, as well as cooking dinners to deliver over the festive season.

I also visited Stirling Albion, a football club we have sponsored for over 20 years. I met trustees and volunteers, and heard more about their work in the local community to support sport and fitness. We will continue breaking down barriers to build communities.

Group Chief Executive Officer's statement continued

Wealth

Our Wealth business has a strong brand and corporate heritage, an extensive reach through both tied-advice and third party distribution, and provides access for UK clients to a comprehensive range of multi-asset solutions, including our market leading PruFund.

Throughout 2023 we continued to see strong demand for our key propositions from our Wealth clients with PruFund Wealth sales increasing by 17%, reaching the highest level since 2019. We have seen great client feedback for PruFolio, our risk-rated range of multi-asset solutions and our Model Portfolio Service, with the latter achieving a best in class Net Promoter Score.

We see significant opportunities to grow our Wealth business over the coming years with over 12 million[i] people in the UK currently seeking assistance to achieve financial security. Clients want accessible advice, help in planning for life events, and a diversified multi-asset exposure that can reduce the volatility of their investments. Our Wealth franchise has what it needs to serve these clients and help them realise long-term value. By focusing on expanding our advice capabilities through our in-house Advice Training Academy and leveraging other multi-asset solutions to capitalise on growth opportunities, we expect to improve efficiency, client delivery, and financial outcomes in 2024 and beyond.

Making a difference

As a responsible corporate citizen, asset owner and asset manager, we can effect positive real-world change. Through community investment and sustainable practices, we're committed to creating value not only for our stakeholders but also for society at large, helping to break down barriers that prevent people from living the life they want, offering support at a strategic and local level and focused on urban regeneration, economic empowerment and community building.

> "Through community investment and sustainable practices, we're committed to creating value not only for our stakeholders but also for society at large."
>
> **Andrea Rossi**
> Group Chief Executive Officer

Growth capital and early-stage innovation remain the core focus for our purpose-led flexible private assets strategy, Catalyst, backed by a £5 billion mandate from the With-Profits Fund. It also invested €75 million in Biobest, a global leader in biological crop protection, and US$15 million into Harbinger Health, a US-based business that is innovating to detect the earliest stages of cancer.

Inspiring our colleagues

Our success is intrinsically tied to the dedication and expertise of our colleagues. By fostering a culture of innovation, collaboration and continuous learning, we are empowering our workforce to thrive and drive forward M&G.

Our aim is to create an exceptional place to work at M&G: a positive culture where our colleagues enjoy each day. We are committed to ensuring our colleagues' working lives are engaging and fulfilling, in a safe, inclusive and diverse environment. We want them to feel inspired to do their best for our clients to help grow the business and support the communities in which we operate. Our refreshed strategy, new purpose and focus on delivering sustainable and profitable growth requires our people to continue to evolve and adapt at pace. We continue to invest in our people across all our markets and have restructured and strengthened our leadership and management teams to take us forward into our next exciting stage of growth.

In addition to our new business CEOs, I was delighted to welcome Charlotte Heiss, General Counsel and Company Secretary and Rob Lewis, Chief Auditor to the Group Executive Committee. I'd like to again express thanks to Clare Bousfield, Alan Porter and Peter Grewal for their service to M&G and wish them all well for their future endeavours.

When I meet with colleagues, the sense of pride in the role that M&G plays and the determination to make a difference is clear. Thank you to everyone for their hard work and the part they have played in our success in 2023.

Outlook

As I look ahead to 2024 and beyond I am confident that we will continue to drive progress and deliver against the three pillars of our strategy - leading to sustainably better outcomes for clients and shareholders over time.

While I remain mindful of the current external environment that we operate in, and both the challenges and opportunities this presents M&G, the strength and diversification of our business model stands us in good stead.

Andrea Rossi
Group Chief Executive Officer

i Source: Boring Money 'How to know if you need financial advice'.

Our business model

Better together - an integrated proposition

Our three business segments are structured to work in harmony to direct our strategic priorities and deliver distinctive investment solutions

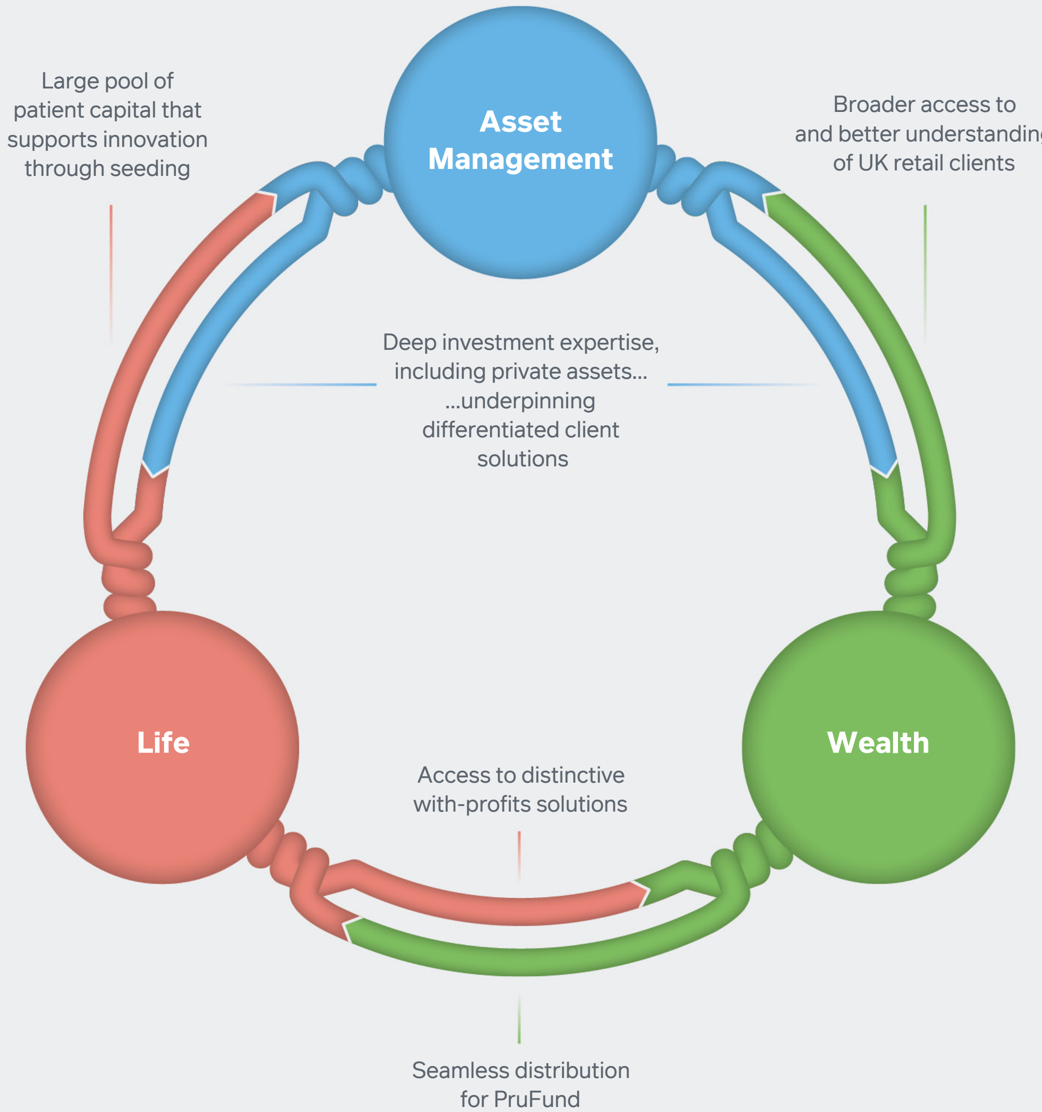
What we do

M&G is an international savings and investment business offering a range of financial products and services through Asset Management, Life and Wealth (which incorporate our retail and savings business). All three operating segments[i] work together to deliver attractive financial outcomes for our clients, and superior shareholder returns.

Our **Asset Management** business is an international active asset manager with differentiated, high-value investment capabilities. We are recognised for our expertise in private assets, public fixed income and multi-asset solutions and our growing range of sustainability-driven thematic equities products. Our Asset Management business powers the investment solutions we offer to clients.

Our **Life** business creates distinctive risk and investment solutions, including PruFund, alongside integrated insurance propositions. We have a long track record of successfully managing a scaled balance sheet to provide security to our clients, and it also allows us to leverage expertise in our Asset Management business to build new propositions to enhance financial outcomes.

Our **Wealth** business provides holistic and accessible advice to individual clients in the UK and access to our Asset Management and Life products through strong intermediary relationships. This in turn gives individuals in the UK access to our multi-asset solutions, including the PruFund range.



i We previously reported under two operating segments - Asset Management and Retail and Savings. Our Asset Management segment remains unchanged but Retail and Savings has now been split into two segments - Life and Wealth. See page 234 for more details.

Our business model continued

Creating value for all our stakeholders

Our combination of innovative products, solutions and our expertise gives our clients confidence that their finances are in the right hands

Differentiated business model

Our integrated business model allows us to combine the investment expertise and innovative thinking of our asset manager and the long-term investment needs of the With-Profits Fund, to develop distinctive investment solutions.

In the UK, our Wealth business brings us closer to our clients and their advisers, allowing us to build valued relationships, understand their needs and enhance access to our products and services.

Aligned to growth markets

The scope of our activities is aligned to growth areas in our target markets across the UK, Europe and Asia, all with favourable long-term dynamics.

With established track records in entering new geographical and investment markets, and in adapting to evolving client needs, we are well placed to deliver growth.

Find out more about market trends on page 14

Attractive financial prospects

We have committed to generating cumulative operating capital of £2.5 billion over the three years to the end of 2024.

Supported by a well-capitalised balance sheet and a resilient, diverse earnings profile, we will keep investing in a targeted set of high-potential growth opportunities, while delivering secure and attractive shareholder returns.

Find out more about our strategy on page 15

Working for everyone

Clients

Our investment expertise, insurance and advice capabilities combine to deliver best-in-class propositions.

Our unique model means we can smooth out investment volatility and co-invest alongside our clients.

Find out more about our clients on pages 11-13

Colleagues

We are committed to ensuring our colleagues' working lives are engaging and fulfilling, in a safe, inclusive and diverse environment, so they can contribute to our success.

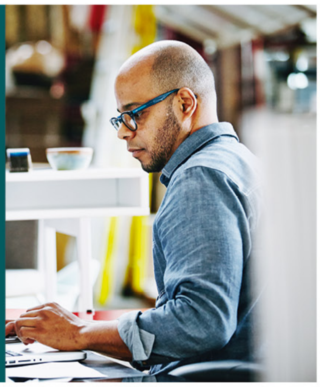
Find out more about our colleagues on pages 50-53

Shareholders

Our strong balance sheet and the diversification of our earning streams support our dividends.

Our strengths across our three businesses mean we can deliver growth and attractive returns.

Find out more about our financial performance on pages 20-33



Society

Our long-term horizon allows us to invest in what society needs, including real estate and infrastructure and technology.

Our business creates greater financial security for more and more people.

Find out more about our communities on pages 54-57

Our business model continued

Introducing our business CEOs

We have a new dedicated expert leadership team with ambitious plans to drive forward our Asset Management, Life and Wealth businesses

Asset Management

Joseph Pinto
Asset Management CEO

We have ambitious plans for Asset Management, and I'm excited about the opportunities ahead of us.

As an active investment manager, we have deep expertise in the parts of the market that are attractive to our clients – in fixed income, private assets, sustainability and thematic equity funds.

Our global network of investment and distribution teams enables us to be a local partner to our clients wherever they are in the world, delivering high-value solutions to help them navigate the investment challenges they face.

Asset Management is the engine that powers our investment solutions and enables M&G to deliver value to a wide range of clients.

Life

Clive Bolton
Life CEO

We have unique capabilities to deliver great outcomes for our individual and institutional clients and I'm excited by the opportunities to grow our Life business.

The strength of our balance sheet and With-Profits Fund means we have an unrivalled capability to meet the needs of our clients in a differentiated way, and our PruFund proposition in particular remains very popular. We re-entered the bulk purchase annuity market during the year, and will be developing our range further during 2024.

By building on the strong partnerships with Wealth and Asset Management, we're in the best possible position to leverage our strengths and grow M&G.

Wealth

Caroline Connellan
Wealth CEO

I'm confident that Wealth is well positioned to capture the significant market opportunity, with a customer focused strategy to grow from our strong foundations and deliver increased value to the Group.

Looking forward, we will focus on championing advice and advisers - supporting individuals to meet their life goals and have a more financially secure future.

Our strategy includes growing our Advice offering, with over 450 advisers today, and broadening our national distribution footprint. We will leverage the benefits of our Group model to deliver market-leading offerings to customers, as well as flows to Life and Asset Management.

> "We want to reach more clients in more places, and we want them to be able to trust us with their savings and investments. This is behind our new purpose: give everyone real confidence to put their money to work."

Andrea Rossi
Group Chief Executive Officer

Our clients

Delivering great client outcomes

Each of our businesses has individual focused priorities, but all three work together to deliver more, for more clients

Our clients

Asset Management

Our Asset Management business manages over £313.5 billion of assets on behalf of our Life and Wealth businesses and over 900 third-party institutional clients.

We are an international asset manager, focused on active management across public and private markets. The business is underpinned by deep and broad investment expertise across both fund management and extensive in-house research capabilities.

Within public markets, we focus on value-add equity and multi-strategy investment and within Fixed Income, M&G is recognised as one of Europe's leading investors.

Our private markets business encompasses capabilities across Private and Structured Credit, Private Equity, Impact, Infrastructure and Real Estate. With assets of almost £75 billion, M&G is one of the largest private market investors in Europe, and among the top 10 globally.

Life

Our Life business operates in the savings and pensions market, serving over four million clients, providing:

- Corporate risk solutions, including Bulk Purchase Annuities and our workplace pension book.
- Individual life and pensions solutions, including Retirement Account, our flexible individual pension product and onshore bonds which both offer PruFund as an investment option, and our legacy with-profits policies.
- International life solutions, including our offshore bonds sold via our Irish business and Future + which provides access to PruFund-like solutions adapted for markets outside the UK.

With the powerful combination of the shareholder balance sheet and the With-Profits Fund, our Life business has the opportunity to develop new and compelling solutions for individual and corporate clients. It is well placed to work together with our Asset Management business to respond to clients demand for smoothed investment returns and multi-asset investment solutions.

Wealth

Our Wealth business has over 450 advisers and over 54,000 customers receiving ongoing advice, making us one of the top five advice businesses in the UK.

We have a significant opportunity to support more people by providing advice to help them understand and plan for their futures: from planning for their children's education, to advice at retirement. We have a market-leading national distribution footprint, and collaborate with external advisers to support the success of their businesses and help them deliver for their clients.

Our teams in Advice and Distribution give access to our investment solutions, which we develop in partnership with Life and Asset Management, including our best-selling PruFund, and our retail multi-asset solutions such as Model Portfolio Service. We also provide technical support to advisers.

Our clients continued

Serving a range of clients

We are making it easier for people and institutions to do business with us, helping them to transform their savings and investments

Asset Management

Widening access to market opportunities

Once a niche asset class, the private debt market is expected to hit US$2.8 trillion by 2028. Yet access to private corporate debt can be difficult, particularly for small or non-institutional investors, as it requires embedded relationships and specialist market participants to source and access opportunities.

The M&G Corporate Credit Opportunities European Long-Term Investment Fund aims to enable wider access to private debt instruments for investors seeking attractive returns, appropriate liquidity and the scope to respond flexibly to changing market conditions.

Launched in October 2023, the strategy targets opportunities in private credit and is managed by M&G's Private Credit team. It launched with a c.€600 million investment from the With-Profits Fund and targeted returns of Euribor +5%–6% are underpinned by floating rate income.

M&G has a distinguished track record in private corporate lending. With the support of the With-Profits Fund, M&G was one of the first non-bank investors in Europe when we began investing in loans in 1999. Today we manage more than €9 billion in leveraged finance and direct private lending, including innovative structural solutions, for a wide range of clients.

Wealth

Advice that meets different client needs

As part of our purpose to give everyone real confidence to put their money to work, our advisers in Wealth help clients access a variety of financial products and services that match their needs. We are also doing more to ensure clients have access to advice that works for them.

For example, a client approached M&G to review a bond he had held for 10 years, as he was unhappy with its performance to date, charges and the lack of easy access to track it. He was in the 'accumulation' phase of his life and planning to start a family soon, but he had little to no long-term planning in place and needed assistance to help him plan for the future.

Our advisers recommended the M&G Wealth Passive range for all his investments, which suited his risk appetite and individual circumstances, gave him improved tracking, and used his ISA allowance. He is pleased with how his investments are now set up and he is now looking to the future with more clarity.

We also work with clients who have specific requests, for example around investing in sustainability. We worked with a widowed client, age 75, who needed to simplify her investments. She has strong environmental beliefs and was looking for growth in her investments. We worked closely with our client to understand her needs and

consolidate her ISAs and pension onto our platform. She also invested in trusts for inheritance tax planning, and is delighted that her investments are now delivering towards a sustainable future, as well as helping her loved ones by thinking about the financial legacy she is looking to leave.

Meeting our Consumer Duty responsibilities

The Financial Conduct Authority's new Consumer Duty rules set higher expectations for standards of care that firms across the financial services industry give to consumers in retail financial markets. We have established 'Our M&G' outcomes to align with the Consumer Duty outcomes, ensuring we stay focused on delivering great client outcomes.

Delivering our M&G customer outcomes is central to our culture and activities. To support their delivery, we have established a new M&G Customer Committee, and our Life and Wealth businesses continue to run their own forums which provide oversight of the delivery of good customer outcomes.

Our enhanced monitoring and analysis of client outcomes includes reviewing investment performance, customer journeys and product value for money. We also survey clients about their expectations and experience, which allows us identify and act to fix client pain-points.

M&G outcome	Consumer Duty outcome
I trust M&G to help me achieve my financial goals so I can live the life I want	**Price and value:** Consumers pay a price for products and services that represent fair value (prices and quality). Poor value products and services are removed from markets, leading to fewer upheld complaints about poor value, unexpected fees or charges.
I have the right solution for my needs	**Products and service:** Consumers are sold and receive products and services that have been designed to meet their: – needs – characteristics – objectives (fit for purpose)
I'm confident I can make an informed decision thanks to the help and support given to me	**Consumer understanding:** Customer service should enable consumers to realise the benefits of the products and services they buy and ensure they are supported when they want to pursue their financial objectives. Firms must monitor the quality of their support and act promptly where there's evidence they are falling short.
I find it easy to deal with M&G and I feel valued in my relationship with them	**Consumer support:** support customers' understanding through communications that: – are tested, monitored and adapted to meet information needs and are likely to be understood – equip timely, informed decisions – are tailored to intended recipients, having considered vulnerabilities, product complexity and the channel used

Life

Creating great client outcomes in corporate pensions

Our Life business manages several thousand corporate pension schemes, with more than 400,000 members and around £11.7 billion of funds under management. We look after these schemes on behalf of a number of different public and private sector organisations.

"For our clients, their pension scheme is a critical part of their compensation and benefit package for their employees so it's really important that we work hand-in-hand with them to ensure that the pension scheme we provide is giving the service and outcome that's expected and required," explains Alastair Hogg, Head of Corporate Pensions at M&G.

Our clients are pension fund trustees, employers and benefit consultancies. We support our clients to meet their regulatory duties, providing a pension scheme that offers value for money to their clients. We make sure our clients are aware of any product and proposition changes, including the funds the schemes are investing in and support with technical administration queries or investment reporting.

Market and industry trends

Opportunities and challenges

We are ideally placed to capitalise on supportive economic long-term trends to generate sustainable value for all our stakeholders

Our long-term drivers

Changing client needs

The rise of digitisation is transforming client expectations, with demand for low-cost, seamless and real-time service from providers. Broader availability of data is also fuelling the need for better analytics and use of technology to develop solutions with better fit and customisation.

Opportunity

Although investment fees have been under pressure for many years and technology spend continues to rise, data-driven providers with digital and AI capabilities are well-placed to attract and retain clients through better service and more relevant products.

M&G positioning

As part of our focus on simplifying our business, we aim to improve the digital experience we offer our clients, making it easier for them to deal with us. We are also using data to engage with our clients and better understand their personal needs.

11%

Higher average net promoter scores for digitally mature asset managers

Source: KPMG Getting Digital Right (2020)

Global sustainability challenges

Massive investment is required in response to global challenges such as climate change and nature loss, and to ensure safe, sustainable energy sources, food and infrastructure.

Opportunity

The financial sector is central to funding companies and initiatives that will accelerate the shift to a more sustainable economy, and will help companies to advance their own transition.

M&G positioning

We are continuing to develop our approach to sustainability, both in how we run our business and in the way we manage assets for our clients, while building our expertise in sustainable and impact investment.

$4.55 trillion

Average annual investment needed in 2023 to 2030 to reach global net zero (2022: $1.38tn)

Source: BloombergNEF

Savings and advice gap

Across most major markets, people are at risk of making insufficient financial preparations for their future, including in retirement. The options available to individuals are often complex and confusing, with poor access to advice to help them make the right decisions.

Opportunity

There is increasing appetite for access to assets that offer higher and diversified returns - both within and outside traditional asset classes.

By providing advice to individuals, providers can better understand their needs and design propositions that suit financial goals.

M&G positioning

M&G has a broad range of savings and investments propositions, and is one of Europe's leading investors in private assets.

Through our Wealth business, we improve access for advisers and increase the range of propositions available for their clients' requirements.

24 million

UK individuals in the advice gap (up from 15 million in 2015)

Source: The Lang Cat Advice Gap report 2023

Near-term considerations

Individuals and institutions are currently facing multiple pressures and uncertain conditions, with growing geopolitical tensions, higher interest rates, volatile markets and rising costs. While these factors are impacting short-term demand for savings and investments, with negative industry flows of €173.5 billion for European actively managed funds in 2023, they also create opportunities for providers that can create new propositions and deliver performance that meets changing client needs.

i Lipper LSEG European Fund Flow Report: December 2023

Our strategy

Building on our competitive advantage

We've made real progress in delivering our strategy, building on our strengths to shape a strong, focused business with a clear purpose

Our strategy

Maintain our financial strength

Ensuring our clients can depend on us, while rewarding shareholders.

Simplify our business

Becoming more nimble and efficient in how we work to best serve our clients.

Deliver profitable growth

Building on our strengths to better anticipate and address our clients' needs.

We offer a broad and distinctive set of savings and investment propositions across Asset Management, Life and Wealth. The three pillars of our strategy are centred on our new purpose: to give everyone real confidence to put their money to work.

The strength of our differentiated business model is helping us to deliver our strategy. By combining our deep understanding of client needs, international footprint, compelling products and services, investment capabilities and expertise, we are transforming M&G, delivering good operational and financial performance, and targeting superior client outcomes.

Our ability to generate long-term value is also dependent on how we address environmental and social issues through the investments we make on behalf of our clients, as well as our business operations.

Maintain our financial strength

Our financial strength is critical. It gives real confidence to our clients and shareholders that we are the right partner for them. We help our clients put their money to work and achieve their financial goals. For shareholders, we carefully allocate capital to invest in high-potential growth opportunities and reward them with attractive, dependable dividends.

Our priorities:

- Proactively manage our financial position
- Maintain a disciplined approach to capital allocation
- Grow and diversify revenue

We have a well-capitalised balance sheet, supported by predictable and dependable capital generation from our Life business, and our diversified sources of earnings.

The Shareholder Solvency II ratio is our primary measure of balance sheet strength, and remains above our long-term target range at 203% as at 31 December 2023.

We have also delivered a significant improvement in operating capital generation in 2023 and we have delivered 73% of our three-year target of £2.5 billion within the first two years.

In 2024, we will continue the conservative management of our financial resources in line with our capital management framework. We plan to grow and diversify revenue by focusing on opportunities in Asset Management through new fund launches and expansion of international distribution, and in Life through further participation in the UK pensions de-risking market.

Making a difference

Investing in clean energy solutions

In 2023, Infracapital successfully closed its largest ever co-investment process into Infracapital Greenfield Partners II investment Zenobē.

Zenobē provides innovative battery solutions; capturing renewable energy, balancing its supply on the grid and transporting it to electric fleets across the country.

Since Infracapital's initial investment in 2020, Zenobē has grown to establish itself as being at the forefront of two increasingly important industries.

Zenobē currently supports c.1,000 electric vehicles worldwide and has worked with operators to deploy vehicles in over 75 depots. By 2026, Zenobē aims to support 4,000 electric buses, trucks and commercial vehicles on the road.

The company also has 430MW of contracted grid-scale battery storage in the UK in operation or under construction, including its landmark 100MW battery storage asset, at Capenhurst, Cheshire, which is critical for facilitating the growth of renewable energy on the national grid.

Simplify our business

We are transforming the way in which we operate, so that we can better serve our clients and deliver our growth strategy more efficiently. We want to unlock M&G's potential by enabling our colleagues and business partners to work together more effectively, and improve the way we engage with clients. By doing this, we can find the right solutions for their needs more quickly.

Our priorities:

- Streamline our organisation
- Digitise and automate
- Modernise our technology estate

Our transformation programme will deliver a more efficient and responsive organisation, a stronger control environment and £200 million in cost savings (gross of inflation). The rollout of our new target operating model is well advanced, we have strengthened our Executive team with dedicated leadership for each of our three business segments, and have delivered savings of £73 million by the end of 2023.

In 2023, we migrated nearly two million more life policies to our modern administration platform, enabling us to decommission old IT systems, improve service to clients and reduce costs.

We will continue to simplify and automate processes, so we can better respond to client needs.

In Asset Management, we have improved our processes and adopted new workflow tools to enhance how we engage with clients, leading to quicker activation of new business and significantly faster responses to queries.

Our Life and Wealth businesses remain focused on delivering improvements in client service and experience so we are simpler and easier to engage with.

We have also continued to strengthen our Group Sustainability Governance model, improving collaboration, controls and decision-making. Our new Chief Sustainability Officer has a long track-record of advancing sustainable practices and brings renewed focus to this core area of our business.

Deliver profitable growth

Our differentiated business model gives us three distinct yet complementary capabilities across Asset Management, Life and Wealth. This creates a strategic advantage as we develop solutions and deliver outcomes for our clients and advisers, and helps us unlock the growth potential of a combined M&G.

Our priorities:

- Grow external flows in Asset Management
- Expand our Life solutions by leveraging the strength of the With-Profits Fund
- Develop our Wealth distribution footprint to provide more advice to more clients

Asset Management

During 2023, we have continued to build out our investment capabilities, onboarding the Asia fixed income team in Singapore and hiring a new Chief Investment Officer for Private Markets. We have simplified the business, by reorganising our Private Markets investment division into six centres of excellence, and strengthened our institutional sales structure to better engage with our clients based on their needs, across all asset classes.

Investment performance has seen steady improvement, with 64% of wholesale funds above median over 3 years, compared to just 20% in 2020, resulting in much improved net flows from wholesale partners across a wide range of fund strategies.

We have expanded our distribution reach to accelerate the growth of our international earnings. We have built up our institutional client teams in Europe, hired new leadership in Asia and secured new authorisations to serve wholesale markets in Singapore, Taiwan and South Korea. We are also actively building new relationships in the Middle East.

In 2024, we will continue to expand our investment expertise and distribution, while streamlining and digitising our processes to better serve our clients and reduce costs:

- Broaden our offering in private assets, increasing origination outside the UK and widening access to the investment strategies deployed in our Life business
- Expand our public assets solutions, such as building up our global fixed income offering and launching thematic equity funds focused on innovation
- Provide clients with the opportunity to invest in solutions that aim to support positive real-world outcomes
- Build distribution and scale in Asian markets, focusing on Hong Kong, Japan, Singapore, South Korea and Taiwan

Life

During 2023 we have repositioned the Life business for growth, we have continued to improve how we serve our clients, and have reduced business complexity.

- Corporate: We have re-entered the bulk purchase annuity market with two deals in 2023 totalling £0.6 billion and are building a solid pipeline of opportunities
- Individual: PruFund has added another year of dependable, resilient performance for policyholders resulting in a cumulative five year return of 30.4% in 2023 compared to 16.1% for the ABI benchmark fund[i]

From 2024, we aim to use our scale and expertise to capture the material growth potential in the Life business, designing innovative propositions that draw on our financial strength and ability to take risk on behalf of our clients.

- Corporate: We will take a selective approach to Bulk Purchase Annuity transactions, focusing on cases where our capabilities in private assets can make a material difference to clients, and aim to roll out bespoke capital-light de-risking solutions for certain pension schemes.
- Individual: Working with our Wealth colleagues, we aim to develop new innovative products that reflect the evolving needs of our clients and changes in economic conditions.

With most of our policies on modern systems by mid-2024, we will be in a better position to serve our clients, connecting them with the services and advice we offer through our Wealth business, so our clients have confidence in how they choose to accumulate their savings and use them in retirement.

Wealth

In 2023, we have continued to build our foundations to accelerate our growth and deliver against our priorities.

- Continued to develop and grow the M&G Wealth Advice Academy – with 166 Academy trainees as at the end of 2023, compared to 53 in 2022
- Focused on improvements to our service to clients and advisers, including enhanced service over tax year end and a major update to our digital platform solution
- Delivered increased volumes of advice to UK customers through our Wealth offering, as well as by working with external advisers

During the year, we have seen an increase in PruFund sales, supported, in part, by making PruFund available via our digital platform for the first time. Service remains a key focus to remove barriers for advisers to deal with us and to access our full range of services and propositions for their clients.

As we move forward, the ambition of Wealth is to serve as many of those clients as possible, in line with our purpose to give everyone real confidence to put their money to work.

i Prudential With-Profits OBMG Fund (gross of tax). Benchmark is the ABI UK – Mixed Investment 20% - 60% Shares Sector Average – Pension Funds

Our key performance measures

Financial highlights

We use a range of key performance measures to track how we are executing against our strategy

Adjusted operating profit before tax (AOP)

KPM APM REM

£797m
(2022: £625m restated)

AOP demonstrates our longer-term performance to equity holders, as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax.

Performance in 2023

AOP increased 28% on 2022, driven by strong results across our with-profits and annuities business.

Find out more on page 21

Operating change in Contractual Service Margin

KPM APM REM

£355m
(2022: £129m)

Includes changes from new business, interest accretion, experience changes and release of CSM but excludes the impact of short-term market movements and mismatches.

Performance in 2023

Operating change in CSM increased by £226m to £355m in 2023, due to increased contribution from our with-profits business.

Find out more on page 22

IFRS result after tax

KPM

£309m
(2022: £(2,055)m restated)

Profit/(loss) after tax demonstrates our financial performance to shareholders during the year on an IFRS basis.

Performance in 2023

Returned to profit in 2023 after large loss in 2022 driven by reduced adverse short-term fluctuations as result of improved market conditions.

Find out more on page 22

Total capital generation

KPM APM

£358m
(2022: £(397)m)

Capital generation is an integral financial metric that measures the change in surplus capital during the period, before dividends and capital movements.

Performance in 2023

Capital generation has increased from 2022, reflecting improved market movements and strong operating performance.

Find out more on page 23

Operating capital generation

KPM APM REM

£996m
(2022: £821m)

Operating capital generation demonstrates the longer-term view of the movements in our surplus capital. It is less affected by short-term volatility than total capital generation.

Performance in 2023

Operating capital generation has increased as a result of a strong underlying result and benefits from management actions.

Find out more on page 23

Shareholder Solvency II coverage ratio

KPM APM

203%
(2022: 199%)

The shareholder view of the Solvency II coverage ratio provides a more relevant reflection of our capital strength than the regulatory Solvency II coverage ratio.

Performance in 2023

A reduction in capital requirements from beneficial management actions has contributed to an increase in solvency ratio.

Find out more on page 24

Net client flows (excluding Heritage)

KPM APM

£1.1bn inflow
(2022: £0.2bn inflow)

Net client flows indicate how our business grows, and how successful it is at retaining and attracting new clients.

Performance in 2023

Strong inflows in Wholesale despite challenging markets and continued inflows to PruFund.

Find out more on page 371

Assets under management and administration (AUMA)

KPM APM

£343.5bn
(2022: £342.0bn)

AUMA is a key indicator of our scale, and demonstrates our potential earnings from investment return and fee income.

Performance in 2023

AUMA increased by £1.5 billion, predominantly driven by favourable market movements.

Find out more on page 371

Dividend per share (ordinary)

KPM

19.7p
(2022: 19.6p)

Dividend per share is the return of value to shareholders for each share held.

Performance in 2023

The Board has agreed to pay a second dividend of 13.2p per share on 9 April 2024, meaning a total dividend of 19.7p per share.

Find out more on page 252

Key

KPM Key performance measure APM Alternative performance measure REM Linked to remuneration measures for Executive Directors

Our strategy: Maintain our financial strength Simplify our business Deliver profitable growth

Our key performance measures continued

Non-financial highlights

We measure success in how we balance the interests of all our stakeholders, including colleagues, clients and communities

Female representation on the M&G Executive Committee and direct reports

REM

37%

(2022: 37%)

Female representation within the Executive Committee and their direct reports as at 31 December 2023.

Performance in 2023

We are committed to achieving our target of 40% female representation in senior leadership by 2025. As we position our business for future growth we are mindful to ensure that shifts in our leadership population focus on this goal.

Find out more on page 52

Ethnic diversity within the M&G Executive Committee and direct reports

REM

7.4%

(2022 (restated): 6.7%)

Black, Asian or minority ethnic representation within the Executive Committee and their direct reports as at 31 December 2023.

Performance in 2023

Work is ongoing to achieve our target of 20% ethnic minority diversity within senior leadership by 2025. Our ethnicity percentage historically included undisclosed data, but this is now being disclosed as a separate category for the first time. This added granularity will allow us to track our progress more accurately going forward. The 2022 figure has been restated to remove the undisclosed population.

Find out more on page 53

Net Promoter Score (Life and Wealth)

REM

+15

(2022:+14)

Net Promoter Score (NPS) is a measure of the willingness of a company's clients to recommend its products or services to others. It is measured across a rolling six-month period.

Performance in 2023

By continuing to focus on simplification, stabilisation and excellent service to make it easier for clients to do business with us, we are pleased to see our NPS continue to increase.

Operational carbon emissions: Scope 1, 2 and selected scope 3[i]

REM

7,996 tCO_2e

(2022 (restated): 4,505 tCO_2e)

Scope 1 Greenhouse Gas (GHG) emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 GHG emissions cover our indirect emissions from the purchase of electricity (including use of company electrical vehicles), heating and cooling.

Selected Scope 3 emissions include the emissions from our business travel (where booked through travel providers), as well as emissions from leased property, waste and water where data is available.

Performance in 2023

The increase year on year was driven by a large increase in Scope 3 business travel as COVID-related travel restrictions were lifted. The increase was partly offset by a reduction of 55% in our Scope 1 and 2 GHG emissions, largely driven by 2023 being the first full year we occupied our new energy-efficient site in Kildean.

Find out more on page 77

Employee sustainable engagement score

REM

70.7

(2022: 72.0)

Employee engagement is the degree to which employees invest themselves to drive positive organisational outcomes. We measure this in our OneVoice survey, asking colleagues how happy they are at work and if they would recommend M&G as a great place to work. The aggregate score (or the average of the responses) across both questions is presented as the sustainable engagement score.

Performance in 2023

We carried out three OneVoice surveys during 2023, in March, July and November, with an average response rate of 75%. The average Sustainable engagement score across the year remained relatively stable at 70.7. Our foundation of a culture of care and respect continues to be one of our key strengths which we can be proud of.

Find out more on page 50

i When reporting totals, market-based emissions are used. Note that the 2022 figure has been restated, see page 77 for details.

Business and financial review

A message from our Chief Financial Officer

Our financial performance in 2023 demonstrates the strength of our business model in a challenging macroeconomic environment

I'm delighted to present our 2023 results which continue to demonstrate the strengths of our business model and the progress we are driving as we focus on our three strategic pillars.

Wholesale Asset Management net client inflows of £1.5 billion (2022: £0.5 billion), continued the positive momentum in the business despite adverse market conditions.

Our Institutional business saw net client outflows of £0.7 billion (2022: £0.7 billion) driven by the continuing market volatility and redemptions following the September 2022 mini-budget in the UK. Despite these domestic headwinds, we continued to expand internationally, particularly in Europe.

Strong gross inflows of £7.0 billion led to net client inflows of £1.0 billion in our PruFund investment solution. In addition, our re-entry to the bulk purchase annuity market delivered £0.6 billion net inflows from two transactions announced in September in our Life business.

Total AUMA increased to £343.5 billion (2022: £342.0 billion), predominantly as a result of positive market movements on asset valuations which are offset by the expected outflows from our annuities and traditional with-profits businesses and a weakening of foreign currency-denominated assets.

Our 2023 IFRS result after tax shows a significant improvement on 2022; profit after tax attributable to equity holders for the year of £309 million (2022: £2,055 million loss).

Yields did not increase as meaningfully this year as we saw in 2022, resulting in lower fair value losses on the surplus assets in the annuity portfolio and a small fair value gain on the interest rate hedging we have in place to protect our Solvency II capital position.

Adjusted operating profit before tax was £797 million, up 28% on 2022 (£625 million) driven by strong results, across both our with-profits business and annuities, primarily as a result of the increase in risk-free rates during 2022 offset by Asset Management adjusted operating profit being modestly down on 2022 and higher losses in our Platform and Advice business. The Corporate Centre benefitted from higher treasury income.

Operating Change in CSM, introduced on the adoption of IFRS 17 gives a wider representation of the drivers of performance by including the impact of new business and management actions, increased to £355 million (2022: £129 million).

Underlying capital generation improved by 20% to £752 million (2022: £628 million), which together with other operating results of £244 million (2022: £193 million) primarily caused by asset trading and optimisation in the With-Profits Fund, delivered a strong operating capital generation of £996 million (2022: £821 million). This means we are now at 73% of the £2.5 billion cumulative target by 2024, two years into the three year period.

> "Our results underscore our continued focus on financial and operational discipline."
>
> **Kathryn McLeland**
> Chief Financial Officer

Total capital generation of £358 million was offset by the payment of our dividends however, our shareholder Solvency II coverage ratio increased to 203% (2022: 199%) as a result of the Solvency Capital Requirement also reducing due to benefits from management actions.

We have made a strong start to the targeted cost savings of £200 million by 2025, and are taking action to reduce our core asset management cost/income ratio to below 70% by 2025 and to reduce our leverage ratio to below 30% by 2025. We are also still targeting Asset Management and Wealth adjusted operating profit before tax to be over 50% of the Group total excluding Corporate Centre by the end of 2025.

We paid an interim ordinary dividend of £152 million equal to 6.5 pence per share on 3 November 2023. A second interim dividend of £311 million equal to 13.2 pence per share will be paid on 9 May 2024, which means 19.7 pence per share of total dividends were paid to shareholders in relation to 2023.

As we look to 2024 we are confident about the momentum in our business and the resilience of our diversified model. In 2024 we are expecting some headwinds to the Group's adjusted operating profit before tax due to market conditions in 2023 and the impact of strengthening persistency assumptions in 2023. This is due to the revised adjusted operating profit methodology following the adoption of IFRS 17 being applied for Life and Wealth. The revised methodology reflects the opening value of the CSM, its amortisation rate and the expected real world return based on risk-free rates and expected market risk premiums at the start of the year.

I am pleased with these results in the face of continuing economic and geopolitical challenges and also the successful publication of both our interim and full-year results under IFRS 17, concluding what was significant activity and change for our business and the insurance industry as a whole.

Kathryn McLeland
Chief Financial Officer

Business and financial review continued

Adjusted operating profit before tax

The following table shows adjusted operating profit before tax split by segment. Results for the comparative period have been marked as restated to reflect the retrospective application of IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' from 1 January 2023, as outlined in Note 1.2.1. Additionally, our operating segments have been revised in the year to reflect the change in management structure; our previous segment Retail and Savings has been replaced with two new operating segments, Life and Wealth, while our Asset Management segment remains unchanged.

For the year ended 31 December	2023 £m	Restated 2022 £m
Asset Management	**242**	264
Life	**586**	460
Wealth	**180**	158
Corporate Centre	**(211)**	(257)
Adjusted operating profit before tax	**797**	625

Adjusted operating profit before tax increased to £797 million in the year ended 31 December 2023 (2022: £625 million) driven by an increase in adjusted operating profit from Life and a reduction in the losses from the Corporate Centre.

In Asset Management, revenues and costs were impacted by responsAbility, our Swiss-based team who specialise in impact investing that we acquired in May 2022. Revenues earned were £995 million (2022: £995 million) and operating costs were £791 million (2022: £763 million) of which £42 million (2022: £23 million) and £38 million (2022: £22 million), respectively, relate to responsAbility. Removing the impact of responsAbility, revenue earned was down by 2%, in line with average AUMA, and costs increased by 1.6%, which is below inflation and demonstrates our continued focus on cost discipline. These movements in revenue and costs lead to a fall in adjusted operating profit before tax to £242 million (2022: £264 million).

The improvement in yields during 2022 has driven the increase in Life adjusted operating profit by £126m to £586m (2022: £460m). The opening CSM value for the traditional with-profits business at the start of 2023 was higher than 2022 leading to a larger amount being released to profit in 2023. The expected return on surplus assets in the annuity portfolio also increased. The higher CSM release and return on annuity surplus assets have been partially offset by a decrease in the impact of asset trading in the annuity portfolio.

Wealth adjusted operating profit before tax has increased by £22 million to £180 million (2022: £158 million), following an improvement in the adjusted operating profit from the PruFund UK business which has been partially offset by an increase in the loss from Platform and Advice business due to inflationary pressures on costs. Adjusted operating profit from the PruFund UK business has benefited from the improvement in yields during 2022, similar to Life traditional with-profits business.

The Corporate Centre has benefited from an increased investment return from our treasury function, of £57 million (2022: £13 million) as a result of higher interest rates.

Adjusted operating profit before tax to IFRS result after tax

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

For the year ended 31 December	2023 £m	Restated 2022 £m
Adjusted operating profit before tax	**797**	625
Short-term fluctuations in investment returns	**(171)**	(2,858)
Mismatches arising on application of IFRS 17	**(41)**	(244)
Amortisation of intangible assets acquired in business combinations	**(39)**	(35)
Restructuring and other costs[i]	**(141)**	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**405**	(2,659)
IFRS profit attributable to non-controlling interests	**16**	19
IFRS profit/(loss) before tax attributable to equity holders	**421**	(2,640)
Tax (charge)/credit attributable to equity holders	**(112)**	585
IFRS profit/(loss) after tax attributable to equity holders	**309**	(2,055)

i Restructuring and other costs excluded from adjusted operating profit relate to transformation costs allocated to the shareholder. These differ to restructuring costs included in the analysis of administrative and other expenses in Note 7 which include costs allocated to the policyholder.

IFRS result after tax

The IFRS result after tax attributable to equity holders is a profit of £309 million compared to a £2,055 million loss for the year ended 31 December 2022. The favourable movement reflects a reduction in losses from short-term fluctuations in investment returns to £171 million loss in the period (2022: £2,858 million loss).

Market conditions have led to lower losses from short-term fluctuations in investment returns in the current period with the impact of rising rates for the year ended 31 December 2023 not being as significant as the year to 31 December 2022. The overall losses primarily comprise of a £4 million gain (2022: £989 million loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates and £159 million loss (2022: £1,301 million loss) from the difference in actual and expected long-term investment return on surplus assets backing the annuity portfolio, both of which have significantly improved due to the smaller increase in yields in 2023 compared to 2022. There were also losses of £123 million (2022: £104 million gain) on the hedging instruments held to protect the Solvency II capital position from falling equity markets, which moved to a loss as a result of increases in equity markets.

In the year ended 31 December 2023, restructuring costs and other of £141 million mainly relate to costs to transform our operations of £73 million, £30 million of investment spend in building out capability in our Asset Management business and £19 million for the continuing development of the M&G Wealth platform business. This compares to £147 million of restructuring costs for the year ended 31 December 2022.

The equity holders tax charge for the year ended 31 December 2023 was £112 million (2022: tax benefit of £585 million) representing an effective tax rate of 26.6% (2022: 17.8%). Excluding non-recurring items, the equity holders' effective tax rate was 28.7% (2022: 28.7%). The equity holders' effective tax rate of 26.6% (2022: 22.2%) was higher than the UK statutory rate of 23.5% (2022: 19.0%) primarily due to the adverse impact of deductions not allowable for tax purposes.

Operating change in Contractual Service Margin (CSM)

Operating change in CSM is a new alternative performance measure introduced on the adoption of IFRS 17 and supplements the adjusted operating profit metric for the Life and Wealth segments. It represents the change in CSM during the period resulting from new business, interest accretion, experience changes and release of CSM to adjusted operating profit but excludes the impact of short-term fluctuations in investment return and accounting mismatches arising on the adoption of IFRS 17.

For the year ended 31 December	**2023** **£m**	2022 £m
Life	**125**	75
Wealth	**230**	54
Operating change in CSM	**355**	129

Operating change in CSM increased to £355 million in the year ended 31 December 2023 (2022: £129 million), driven by higher expected real-world return on the CSM from with-profits business.

In Life, operating change in CSM increased to £125 million (2022: £75 million) primarily due to an increased contribution from traditional with-profits business of £67 million from £23 million in 2022. Shareholder annuities operating change in CSM of £36m (2022: £35 million) remained stable year on year with an increased contribution from new business of £42 million (2022: £6 million) due to the two bulk purchase annuity transactions in September 2023, offset by a reduction in the impact of assumption changes and variances to £60 million (2022: £94 million) mainly due to a lower benefit from longevity assumption changes.

Wealth operating change in CSM relates to PruFund UK business and increased by £176 million to £230 million (2022: £54 million). The expected real-world return on the CSM for PruFund business of £330 million (2022: £186 million) more than offset the CSM released to adjusted operating profit of £231 million (2022: £154 million). In addition, there was a higher contribution from new business of £94 million (2022: £18 million) to the operating change in CSM, due to increased gross client inflows to PruFund during 2023 combined with the increase in yields over 2022.

Capital generation

The following table shows an analysis of total capital generation:

For the year ended 31 December	2023 £m	2022 £m
Asset Management	**246**	246
Life	**574**	486
Wealth	**163**	155
Corporate Centre	**(231)**	(259)
Underlying capital generation	**752**	628
Other operating capital generation	**244**	193
Operating capital generation	**996**	821
Market movements	**(507)**	(1,225)
Restructuring and other	**49**	(166)
Tax	**36**	173
Eligible own funds restriction	**(216)**	—
Total capital generation	**358**	(397)

Total capital generation was £358 million for the year ended 31 December 2023 (2022: negative £397 million), reflecting higher operating capital generation and an improved result from market movements, partially offset by the impact of the eligible own funds restriction. There are limits, prescribed by the regulator, on the amount of different types of own funds that can be used to demonstrate solvency. As at 31 December 2023, the sum of capital classed as Tier 2 and Tier 3 exceeds 50% of the regulatory Group Solvency Capital Requirement by £216 million. While this capital remains available to the Group, as it is above this regulatory threshold own funds must be restricted by this amount to determine eligible own funds.

Underlying capital generation increased to £752 million (2022: £628 million). The increase is driven mainly by the higher expected return on the annuity surplus assets and the present value of shareholder transfers in respect of with-profits business following the rise in interest rates over 2022.

The increase in other operating capital generation in the year ended 31 December 2023 to £244 million (2022: £193 million) mainly reflects benefits from asset trading and optimisation, in particular a £225 million capital benefit from an update to the strategic asset allocation for the With-Profits Fund. There was a further benefit from updates made to the capital model to capture the economic impacts of COVID-19 and the invasion of Ukraine and also to reflect increased interest rate and inflation volatility. These benefits were partly offset by the impact of reducing the level of equity hedging in place in the With-Profits Fund.

Market movements over 2023 have resulted in a negative impact of £507 million (2022: negative £1,225 million). Although equity markets have improved, returns on the With-Profits Fund were lower than expected, and credit has already been taken for the expected return in underlying capital generation. The negative market movements are driven by a loss of £321 million (2022: positive £454 million) arising from a fall in the present value of shareholder transfers less equity hedges, and a loss on the value of surplus assets in the annuity portfolio of £93 million (2022: £1,602 million loss). Other market impacts include a gain on interest rate swaps, designed to protect the Solvency II capital position in a falling interest rate environment, of £4 million (2022: £989 million loss). Contributing to the negative impact, the movement in Solvency Capital Requirements attributable to market movements is an increase of £90 million compared to a reduction of £1,034 million in 2022. The large fall in Solvency Capital Requirement over 2022 was driven by the increase in interest rates, which materially decreased longevity risk capital; following the reduction in interest rates over 2023, this benefit has not been repeated.

Market movements include a negative impact of £264 million in respect of the UK Government's consultation on ground rents. This impact reflects a ratings downgrade to all impacted notes from AA- to A+ and an increase in the illiquidity premium used in the valuation of these assets to allow for the additional uncertainty in the cashflows arising from legislative risk partially offset by a reduction in technical provisions, together with an increase in the SCR to reflect the possible outcomes set out in the consultation. We have been engaging with the UK Government on this consultation and are fully supportive of the government’s objective to strengthen leaseholder protection. Together with our peers, we have proposed a solution to achieve such a goal while preserving residential ground rents as an investable asset class for pension funds and the wider investment community. We remain hopeful of a solution that works for all parties.

The impact of restructuring costs and other movements of £49 million (2022: £(166) million) includes the impact on the capital position of restructuring costs. These costs are offset by a c.£177 million benefit from the impact of the Solvency II reforms, comprising a reduction in the Solvency II risk margin and the removal of a restriction that applied in relation to transition from Solvency I to Solvency II.

Business and financial review continued

Capital position

The Group's shareholder Solvency II coverage ratio increased to 203% (2022: 199%). However, Solvency II surplus decreased to £4.5 billion as at 31 December 2023 (2022: £4.6 billion), driven by a reduction in eligible own funds. Although capital generation, net of the eligible own funds restriction, was positive £358 million, this was offset by the payment of £462 million in dividends to shareholders. The solvency ratio increased as the Solvency Capital Requirement (SCR) also reduced, driven by benefits from management actions including asset trading and optimisation.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 403%, increased from the 362% reported at 31 December 2022. Surplus increased as a result of strong underlying capital generation from in-force business and positive impacts from market movements and management actions, as well as the Solvency II reforms to the risk margin and transitional measures on technical provisions. This was partially offset by the impact of the distribution of c.£1 billion of excess surplus to policyholders.

The regulatory Solvency II coverage ratio of the Group as at 31 December 2023 was 167% (2022: 164%). This view of solvency combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund.

Capital Management Framework

The primary focus of our capital management framework is to maintain financial strength and reward shareholders with attractive returns. This is achieved through actively managing M&G's solvency position and the quality of capital held.

When deploying additional capital, we prioritise investments that can generate long-term sustainable earnings growth. Any investment is always measured against the financial attractiveness of capital returns, as well as our Risk Appetite Framework.

Financing and liquidity

The following table shows key financing and liquidity information:

As at 31 December	2023 £m	2022 £m
Nominal value of subordinated debt	**3,242**	3,264
Shareholder Solvency II own funds	**9,143**	9,268
Leverage ratio	**35%**	35%

The leverage ratio is defined as the nominal value of debt as a percentage of the shareholder view of M&G plc's Solvency II available own funds, which excludes the eligible own funds restriction noted in the capital position section above and remained at 35% (31 December 2022: 35%).

The following table shows the movement in cash and liquid assets held by the Group's holding companies during the period:

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
Opening cash and liquid assets at 1 January	**986**	1,895
Cash remittances from subsidiaries	**725**	583
Corporate costs	**(129)**	(140)
Interest paid on core structural borrowings	**(189)**	(190)
Cash dividends paid to equity holders	**(462)**	(465)
Share buy-back	**—**	(503)
Shares purchased by employee benefits trust	**(5)**	—
Acquisition of and capital injections into subsidiaries	**(66)**	(221)
Interest income on intercompany loans	**42**	19
Other	**75**	8
Closing cash and liquid assets at 31 December[ii]	**977**	986

i In previous periods we disclosed cash and liquid assets for the Parent Company only. These periods have been restated to include the Group's other holding companies (M&G Group Regulated Entity Holding Company Limited and M&G Corporate Holdings Limited) as we believe it provides a more meaningful and representative disclosure.

ii Closing cash and liquid assets at 31 December 2023 included a £940 million (2022: £950 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 holding companies for the year ended 31 December 2023 represent the dividends and payments that will arise in the normal course of business. Total cash and liquid assets have decreased slightly over 2023 with dividend payments to equity holders of £462 million (2022: £465 million) and interest paid on structural borrowings of £189 million (2022: £190 million) mostly offset by cash remittances from our subsidiaries. During 2023, £66 million was injected into subsidiaries including £60 million funding to Wealth business subsidiaries. In 2022, £221 million was used to fund acquisitions and inject capital, including the acquisition of Sandringham and M&G Wealth Investments LLP and our partnership with Moneyfarm.

Business and financial review continued

Asset Management

2023 has been a mixed year for Asset Management, with momentum in our Wholesale business, but challenging market conditions in Institutional

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA[i] As at 31 December	
	2023	2022	**2023**	2022
	£bn	£bn	**£bn**	£bn
Institutional Asset Management	**(0.7)**	(0.7)	**98.2**	99.2
Wholesale Asset Management	**1.5**	0.5	**55.0**	53.9
Other	**—**	—	**1.0**	1.1
Total Asset Management	**0.8**	(0.2)	**154.2**	154.2

i £14.1 billion (2022: £12.7 billion) of total Asset Management AUMA relates to assets under advice.

Wholesale Asset Management had net client inflows for the second year running, of £1.5 billion (2022: £0.5 billion) continuing the positive momentum in this business, despite the adverse market conditions.

Over three and five years our performance remains strong or has strengthened with 64% of our Wholesale funds ranked in the upper performance quartiles over three years (2022: 67%), and 69% ranked in the upper performance quartiles over five years (2022: 60%). However, our Wholesale funds performance over one year has reduced relative to the previous year, with 51% of our Wholesale funds ranked in the upper performance quartiles over one year (2022: 68%).

Much of the growth within Wholesale Asset Management has come from the UK, where we have attracted net client inflows of £1.5 billion, reflecting the continuing execution of our strategy, which is focused on deepening our relationships with key wealth managers and intermediaries, in addition to a strong equity performance. Continuing economic uncertainty, market volatility and International channel assets not performing as strongly meant the growth in the UK was offset by net client inflows in other parts of our Wholesale business.

Wholesale assets under management and administration (AUMA) increased by £1.1 billion to £55.0 billion driven by the net client inflows. This was partly offset by negative market and other movements of £0.4 billion in 2023, in particular due to the weakening of foreign currency-denominated AUMA, notably South African Rand, during 2023.

Net client outflows of £0.7 billion (2022: £0.7 billion) in our Institutional Asset Management business reflects the continuing impact of the significant market volatility in the UK in 2022, with redemptions triggered following September 2022's mini-budget leading to net client outflows of £3.5 billion during 2023. This was partially offset by £0.8 billion related to a large mandate win in Switzerland (Swiss Investment Fund for Emerging Markets), with the remainder primarily due to net client inflows within our Real Estate business.

Our expertise in private assets, which offers private fixed income, alternatives, real estate and infrastructure equity offerings, is a key component of our Institutional investment capability, and represents a resilient, high-margin source of revenues. Our private assets under management reduced by 4% to £73.4 billion of AUMA as at 31 December 2023 (2022: £76.6 billion) owing to negative market and other movements.

Adjusted operating profit before tax

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

For the year ended 31 December	2023 £m	2022 £m
Fee-based revenues[i]	**1,025**	1,051
Asset Management operating expenses	**(791)**	(763)
Investment return	**24**	(5)
Adjusted operating profit attributable to non-controlling interests	**(16)**	(19)
Adjusted operating profit before tax	**242**	264

i £309 million of the fee-based revenue is in respect of assets managed on behalf of Life and Wealth (2022: £306 million).

Asset Management adjusted operating profit before tax decreased 8% to £242 million in the year ended 31 December 2023 (2022: £264 million) with improved investment return partly offsetting increased expenses.

Revenue earned by Institutional Asset Management was £588 million (2022: £598 million) and includes £42 million (2022: £23 million) from responsAbility, our Swiss-based team specialising in impact investing which was acquired in May 2022. The reduction in revenue is primarily due to lower fees earned on public fixed income as a result of the impact of lower AUMA from market volatility, and the continuing impact from the mini-budget crisis in 2022. In Wholesale Asset Management, revenue increased marginally to £407 million (2022: £397 million) as a consequence of increased AUMA. In addition, income earned from performance fees and carried interest included in fee-based revenue was £30 million (2022: £56 million), reducing after the higher revenue related to fund performance in 2022 which was not expected to repeat.

The Asset Management average fee margin of 33bps for 2023 was up from 32bps for 2022. Average fee margins in the larger Institutional Asset Management business increased to 30bps (2022: 29bps), while Wholesale Asset Management fee margins reduced to 37bps (2022: 38bps).

Asset Management operating expenses have increased by £28 million to £791 million (2022: £763 million) with costs of £38 million (2022: £22 million) from responsAbility. Removing the impact of responsAbility, costs increased by only 1.6%, significantly below inflation, demonstrating our continued focus on cost discipline. Market pressures meant that, excluding performance fees, the cost/income ratio for the Asset Management business increased to 79% (2022: 77%).

Investment return, which includes gains on seed investments, interest income on cash balances and hedges on management incentive schemes, improved by £29 million compared to 2022, reflecting an improvement in market conditions.

Capital generation

The following table shows an analysis of operating capital generation:

For the year ended 31 December	2023 £m	2022 £m
Underlying capital generation	**246**	246
Other operating capital generation	**50**	(33)
Operating capital generation	**296**	213

Underlying capital generation for the year ended 31 December 2023 remained stable at £246 million (2022: £246 million). The impact of higher costs and lower performance fee income has been offset by a reduction in the capital required to be held in respect of market risks, driven in part by the increased level of hedging in place.

Other operating capital generation has increased, driven primarily by the impact of an improvement in the process used to assess operational risk scenarios in respect of trade instruction and trade execution errors , which has resulted in a material reduction in the associated capital requirement. The improved investment income for 2023 relative to 2022 has also contributed to the increase. In 2022, other operating capital generation was negatively impacted by an increased allocation of operational risk capital requirements, offset elsewhere within the Group.

Business and financial review continued

Life

Our Life business has delivered strong results and successfully re-entered the bulk annuity market

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA As at 31 December	
	2023 £bn	2022 £bn	**2023 £bn**	2022 £bn
Traditional with-profits	**(4.2)**	(4.9)	**65.0**	67.5
Shareholder annuities	**(0.4)**	(1.1)	**15.8**	15.4
Europe	**0.1**	0.2	**6.4**	6.0
Other	**(1.2)**	0.1	**13.7**	14.1
Total Life	**(5.7)**	(5.7)	**100.9**	103.0

The Life business experienced total net client outflows of £5.7 billion (2022: £5.7 billion), as the majority of the business runs off. However, two bulk purchase annuity transactions in September 2023 contributed £0.6 billion (2022: £nil) gross client inflows following our strategic decision to re-enter the bulk purchase annuity market by taking a selective approach where our capabilities can make a material difference to clients and to increase our long-term capital generation. There were also net client inflows of £0.1 billion (2022: £0.2 billion) into PruFund by clients in Europe.

Life AUMA decreased to £100.9 billion (2022: £103.0 billion) driven by the net client outflows, partly offset by positive market and other movements of £3.6 billion (2022: £18.2 billion negative), reflecting movements in interest rates.

Adjusted operating profit before tax by source of earnings

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

	2023 £m	Restated 2022 £m
Traditional with-profits	**263**	200
Shareholder annuities	**331**	239
Europe	**(3)**	19
Other	**(5)**	2
Total Life adjusted operating profit before tax	**586**	460

Adjusted operating profit before tax from our Life business increased to £586 million (2022: £460 million) driven by increases in both the with-profits business and shareholder annuities business that reflect the impact of the increase in yields in 2022.

Europe includes the results of business written by Prudential International Assurance plc. Adjusted operating profit before tax reduced to a £3 million loss (2022: £19 million profit) caused by an increase in the provision under an agreement to reimburse the With-Profits Fund for its contribution to the costs for growing the business written in Poland, driven by an increase in expected expenses and decrease in expected future sales. In 2022, there was a benefit from extending the term of this agreement.

Traditional with-profits

The following table provides further analysis of the traditional with-profits business result in Life:

For the year ended 31 December	**2023 £m**	Restated 2022 £m
CSM release	**238**	186
Expected return on excess assets	**35**	19
Other	**(10)**	(5)
Traditional with-profits	**263**	200

The contractual service margin (CSM) for with-profits business is based on the expected value of future shareholder transfers. As a result of the rise in risk-free rates over 2022, the CSM at the start of 2023 is higher than at the start of 2022, and there has been an increase in the amount of the CSM released to adjusted operating profit to £238 million compared to £186 million for the year ended 31 December 2022. This represents 14.0% pa of the opening CSM attributable to the shareholder (2022: 13.2% pa).

The expected return on the shareholders' share of excess assets in traditional with-profits has increased by £16 million to £35 million. As the expected rate is set at the start of the reporting period, the rise in risk-free rates over 2022 resulted in an increased expected rate of return from 2.4% pa for 2022, to 6.0% pa for 2023.

Business and financial review continued

Shareholder annuities

The following table provides further analysis of the shareholder annuities result in Life:

For the year ended 31 December	2023 £m	Restated 2022 £m
Expected return on excess assets	**205**	113
CSM release	**96**	89
Risk adjustment unwind	**19**	24
Asset trading and portfolio management actions	**2**	41
Experience variances	**9**	—
Other provisions and reserves	**—**	(28)
Shareholder annuities	**331**	239

The shareholder annuities result has increased by £92 million to £331 million. The recurring sources of earnings from the annuity book are primarily the returns on surplus assets in excess of IFRS 17 insurance liabilities based on long-term expected investment returns and the release of the CSM. The expected return on excess assets, which is set at the start of the reporting period, has increased by £92 million to £205 million as a result of the rise in risk-free rates during 2022.

The release of the CSM to adjusted operating profit for shareholder annuities was £96 million compared to £89 million in the year ended 31 December 2022, benefiting from a higher opening CSM balance. The amount of CSM released represents 7.2% pa of the 31 December 2023 CSM before amortisation (2022: 6.9% pa).

Asset trading and portfolio management actions reduced £39 million to £2 million due to a reduction in asset trading profits on the matching adjustment portfolio. The 2022 profit was primarily one-off trading profits not repeated in 2023. Other provisions and reserves in 2022 included a loss from a change in assumptions in relation to lifetime mortgages, not repeated in 2023.

The credit quality of fixed income assets in the annuity portfolio remained strong over 2023. 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 19% are BBB. In addition 80% of the shareholder annuity portfolio is held in debt securities either categorised as Risk Free or Secured (including cash). Rating migrations resulted in very low level of downgrade experience (defined as movements in BBB notching and, otherwise, letter downgrades), with c.4% of bonds in the portfolio being impacted.

Operating change in Contractual Service Margin (CSM)

The following table shows operating change in CSM by source of earnings:

	2023 £m	2022 £m
Traditional with-profits	**67**	23
Shareholder annuities	**36**	35
Europe	**26**	29
Other	**(4)**	(12)
Total Life operating change in CSM	**125**	75

Operating change in CSM from the Life business increased to £125 million (2022: £75 million) primarily due to a higher contribution from traditional with-profits business.

The following table shows the traditional with-profits operating change in CSM in the period:

For the year ended 31 December	2023 £m	2022 £m
Expected real-world return on CSM	**309**	257
Release of CSM to adjusted operating profit before tax	**(238)**	(186)
Assumption changes and variances	**(4)**	(48)
Operating change in CSM	**67**	23

Business and financial review continued

The expected real-world return on the CSM more than offset the release of the CSM to adjusted operating profit, resulting in a net contribution to operating change in CSM of £71 million (2022: £71 million). The total expected rate of return on the CSM is determined at the start of the year and increased to 8.5% for 2023 compared to 4.8% for 2022 due to the increase in risk free rates over 2022.

Assumption changes and variances of £4 million loss (2022: £48 million loss) are driven by a reduction in future investment management expenses for traditional with-profits business offset by the impact of changes to the strategic asset allocation for the With-Profits Fund and higher actual claims than expected. The driver of the 2022 loss was higher claims compared to those expected causing future expected shareholder transfers to be lower leading to a reduction in the CSM.

The following table shows the shareholder annuities operating change in CSM in the period:

For the year ended 31 December	2023 £m	2022 £m
Interest accreted on the CSM	**30**	24
Release of CSM to adjusted operating profit before tax	**(96)**	(89)
New business	**42**	6
Assumption changes and variances	**60**	94
Operating change in CSM	**36**	35

Interest accreted on the CSM at 2.3% pa in 2023 (2022: 1.9% pa) and increased by £6 million to £30 million. The interest rate is based on the forward curve 'locked in' at IFRS 17 transition date (1 January 2022) and as limited new business is written the interest applied will increase over time, moving along the upward-sloping December 2021 yield curve.

The increase in the contribution from new business to the operating change in CSM was driven by the two bulk purchase annuity transactions in September 2023.

Assumption changes and variances have fallen to £60 million (2022: £94 million). There was a large benefit in 2022 from longevity assumptions changes, which arose from lower expected future improvements in mortality rates, offset by an increase in short-term expense assumptions for project costs. In 2023, the impact of longevity assumption changes and experience variances is much smaller.

Capital generation

The following table shows an analysis of operating capital generation:

For the year ended 31 December	2023 £m	2022 £m
Traditional with-profits	**182**	192
Shareholder annuity and other life	**350**	251
Europe	**42**	43
Underlying capital generation	**574**	486
Model improvements	**77**	(8)
Assumption changes	**8**	158
Management actions and other (incl. experience variances)	**62**	(83)
Other operating capital generation	**147**	67
Operating capital generation	**721**	553

Traditional with-profits business generated underlying capital of £182 million in the year ended 31 December 2023 (2022: £192 million) due to an increase in the value of shareholder transfers driven by higher yields over 2022 offset by losses on equity hedges.

There also continued to be significant capital generation from the shareholder annuity and other life business, contributing £350 million (2022: £251 million). The underlying capital generation for annuity business has increased because the rise in yields over 2022 results in an increase in the expected return on surplus assets in the annuity portfolio. The bulk purchase annuity transactions entered into over 2023 generated a capital strain of £26 million at the date of the transaction.

Other operating capital generation increased to £147 million (2022: £67 million), largely reflecting model updates and management actions including the beneficial impact of an update to the strategic asset allocation of the With-Profits Fund offset by the impact of reducing the level of equity hedging. Asset trading in the annuity portfolio contributed £52 million in 2023, offset by the impact of an update to the matching adjustment strategy. The benefit from model improvements reflects updates made to the capital model to fully capture the economic impact of the COVID-19 pandemic and the Russian invasion of Ukraine, as well as the increased volatility in inflation and interest rates. In 2022, other operating capital generation included a significant £213 million benefit from longevity assumption changes, which has not been repeated in 2023.

Management actions and other has increased by £145 million to £62 million which includes the impact of non-market experience.

Business and financial review continued

Wealth

Net client inflows into PruFund have improved following strong underlying investment performance

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA As at 31 December	
	2023	2022	**2023**	2022
	£bn	£bn	**£bn**	£bn
PruFund UK	**0.9**	0.5	**54.8**	52.3
Platform and Advice	**0.3**	0.2	**19.2**	18.0
Other Wealth	**(1.0)**	(0.5)	**13.1**	13.1
Total Wealth	**0.2**	0.2	**87.1**	83.4

Overall, Wealth achieved net client inflows of £0.2 billion (2022: £0.2 billion). Wealth AUMA increased to £87.1 billion (2022: £83.4 billion) driven by positive market and other movements of £3.5 billion.

PruFund is an insurance-based smoothing solution offering a blend of public and private investments to clients of Wealth and Life. PruFund UK attracted net client inflows of £0.9 billion (£1.0 billion including non-UK in Life) for the year ended 31 December 2023 (2022: £0.5 billion; £0.7 billion including non-UK in Life). The improved inflows into PruFund follow strong underlying investment performance and digitisation in 2023. These trends underscore the importance of broadening the accessibility of our propositions offered to our Wealth clients and in May we launched PruFund Growth, PruFund Cautious and five Risk Managed PruFunds on our M&G Wealth platform, expanding the reach of this unique proposition, while improving and digitising adviser journeys.

Adjusted operating profit before tax by source of earnings

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

For the year ended 31 December	**2023** **£m**	Restated 2022 £m
PruFund UK	**228**	190
Platform and Advice	**(32)**	(24)
Other Wealth	**(16)**	(8)
Total Wealth adjusted operating profit before tax	**180**	158

Wealth adjusted operating profit before tax increased to £180 million (2022: £158 million) with an increase in the adjusted operating profit arising from PruFund UK business being partly offset by higher losses from our Platform and Advice business. The losses from the Platform and Advice business increased to £32 million (2022: £24 million) driven by an increase in costs owing to inflation and a one-off intangible asset write-off in the first half of 2023 of £7 million. In Other Wealth, revised pricing in non-with-profit products has led to lower revenues.

The following table provides further analysis of the with-profits business (PruFund UK) result in Wealth:

For the year ended 31 December	2023 £m	Restated 2022 £m
CSM release	**231**	154
Expected return on excess assets	**34**	21
Other	**(37)**	15
PruFund UK	**228**	190

CSM has increased due to the same reasons outlined in Life, resulting in an additional £77 million released to profit compared to the year ended 31 December 2022. This represents 11.6% pa of the opening CSM attributable to the shareholder (2022: 10.6% pa). The amortisation rate for PruFund business is lower than the rate for the traditional with-profits business in Life as that business is more mature and is running off faster.

The expected return on the shareholders' share of excess assets in Wealth has increased by £13 million to £34 million. The higher expected rate of return of 6.0% in 2023 compared to 2.4% in 2022 increased the expected return on excess assets to £42 million (2022: £21 million). This is partly offset by £9 million loss as a result of an arrangement entered into between the With-Profits Fund and the shareholder fund in the year. The nature of this transaction is a monetisation of future shareholder transfers, whereby a portion of these transfers will be refunded to the With-Profits-Fund in exchange for an immediate cash sum. The loss recorded reflects the real-world unwinding of the swap liability created.

In Other, the year to 31 December 2023 included a £28 million loss as a result of the above arrangement; primarily a one-off due to the valuation difference between the real world valuation of the swap liability created relative to the IFRS 17 measurement basis. There is a further £15 million loss due to an increase in expected expense overrun on writing new PruFund UK business during the year partially offset by a reduction in risk adjustment.

Operating change in Contractual Service Margin (CSM)

The following table shows the operating change in CSM for PruFund business in Wealth in the period:

For the year ended 31 December	2023 £m	2022 £m
Expected real-world return on CSM	**330**	186
Release of CSM to adjusted operating profit before tax	**(231)**	(154)
New business	**94**	18
Assumption changes and variances	**37**	4
Operating change in CSM	**230**	54

The expected real-world return on the CSM for Prufund UK business more than offset the release of the CSM to adjusted operating profit, resulting in a net contribution to operating change in CSM of £99 million (2022: £32 million). The expected real-world rate of return on the CSM increased to 8.5% for 2023 compared to 4.8% for 2022 due to higher risk free rates at the start of the year. The opening CSM for PruFund UK business also increased due to the higher risk free rates and net client inflows. The combination of the higher opening CSM and expected real-world rate of return lead to the expected real-world return on CSM increasing to £330 million (2022: £186 million).

PruFund UK new business also contributed £94 million (2022: £18 million) to the increase in CSM over the period, the rise relative to 2022 is due to the material increase in yields over 2022 and the higher net client inflows.

Assumption changes and variances of £37 million (2022: £3 million) are driven by a reduction in future investment management expenses on PruFund UK business and an improvement in persistency.

Capital generation

The following table shows an analysis of operating capital generation:

For the year ended 31 December	2023 £m	2022 £m
PruFund UK	**207**	180
– In-force	**229**	216
– New business	**(22)**	(36)
Platform and Advice	**(29)**	(25)
Other Wealth	**(15)**	—
Underlying capital generation	**163**	155
Model improvements	**10**	(9)
Assumption changes	**(18)**	—
Management actions and other (incl. experience variances)	**90**	136
Other operating capital generation	**82**	127
Operating capital generation	**245**	282

Underlying capital generation from Wealth increased in the year ended 31 December 2023 to £163 million (2022: £155 million).

The contribution from in-force PruFund UK business increased to £229 million (2022: £216 million) as a result of the increase in expected return given the rise in yields over 2022, partially offset by a reduction in the value of equity hedges.

New business strain from the PruFund UK business has reduced to £22 million (2022: £36 million); the increase in risk-free rates increased the value of future expected shareholder transfers reducing the cost of writing new business. Included in 2022 was the release of a £15 million provision for new business expense overruns.

Platform and Advice and Other Wealth business contributed negative capital generation, driven mainly by operating losses in respect of Platform and Advice business and some unit-linked business. In 2022, smaller losses in respect of Other Wealth business were offset by a reduction in SCR, resulting in nil net impact.

Other operating capital generation of £82 million reflects a c.£180 million benefit from the update to the strategic asset allocation of the With-Profits Fund, partly offset by the reduction of the level of hedging in place in the With-Profits Fund. Non-market experience variances contributed a loss of £40 million compared to a gain of £61 million as at 31 December 2022.

Our approach to sustainability

Sustainability and M&G

Using our broad capabilities to drive positive real-world change and support the move to a more sustainable world

Enabling real-world change

As an asset owner and asset manager, with strong capabilities in public and private markets, we're well positioned to support positive environmental and social change.

We seek to create long-term value for our stakeholders by addressing the interconnected risks and opportunities presented by sustainability, both through the investments we manage on behalf of our clients and throughout our business operations.

During 2023, we continued to prioritise climate change and diversity and inclusion, as well as developing our governance structure and approach to sustainability, to make sure we are focusing and developing in the right areas, for our clients, people and communities. This includes financing and enabling the deployment of solutions and early-stage innovation through long-term patient capital from our asset owner.

We have continued to make investments in private assets that contribute to a more sustainable economy, for example through our £5 billion Catalyst strategy and our emerging markets impact manager, responsAbility. In terms of public assets, our clients continue to benefit from targeted strategies offering exposure to sustainability themes and positive impact via our Planet+ range of funds.

Our product offering continues to evolve, with the proportion of our funds compliant with SFDR Article 8 or 9 in our SICAV range increasing from 54% at the end of 2022 to 79% at the end of 2023.

Climate change

As a business, we are committed to reaching net zero emissions by 2050 at the latest and have set interim decarbonisation targets for in-scope investments as well as for our business operations.

Last year, our asset manager submitted a target update to the Net Zero Asset Managers Initiative (NZAMi), including a 2030 decarbonisation goal for real estate, aligning its commitments with our asset owner.

Financing climate solutions is a key aspect of our approach and an area where we see an opportunity for growth. Our asset manager continues to develop climate strategies and solutions – ranging from climate-related investments for our clients, to products that support the low-carbon transition.

To improve our investment decisions and stewardship efforts we have adopted an enhanced asset manager net zero investment framework and introduced a separate, but complementary, climate solutions investment framework, to provide a clearer and more holistic assessment of transition opportunities.

These frameworks have fed into product developments, including our newly launched Sustainable Alpha Opportunities Fund, which uses the net zero investment framework as part of its monitoring criteria.

responsAbility, our emerging markets impact manager, achieved recognition during COP28 for the launch of a new climate-focused strategy, the Asia Climate Fund.

As an active investor, engagement and investment strategy form a critical part of M&G's levers to decarbonise our investment portfolio. In 2023 we progressed the implementation of our asset manager's Thermal Coal Investment Policy, with a focus on issuers in OECD/EU countries, and have laid the foundations for engagement with companies in non-OECD countries in 2024.

We continued to participate in a range of collaborative initiatives, including Climate Action 100+, and joined the newly launched Net Zero Engagement Initiative, as well as Nature Action 100. We have also supported efforts to improve climate and nature-related industry guidelines through initiatives such as the PRA and FCA convened Climate Financial Risk Forum.

Find out more in our Climate-related disclosures on pages 69-90

Diversity and inclusion

As a business, we are committed to diversity and inclusion both within our workforce and across our investment portfolios.

In 2023, our asset manager continued to engage companies on its minimum diversity expectations. Of the 200 companies identified as not meeting its criteria in September 2022, more than half have made progress and over a third now meet these expectations.

Internally, we have targeted 40% female representation and 20% from Black, Asian and minority ethnic backgrounds by 2025. We actively evaluate the diversity policies of investment managers that manage assets on our behalf, and look at how they challenge investee companies to improve and maintain diversity.

Find out more on Diversity and Inclusion on pages 51-53

Our approach to sustainability continued

Risks

Sustainability presents a mosaic of risks and significant uncertainty, particularly given the complexity and scale of global challenges. Climate change and nature loss are twin drivers of a range of risks that can cascade and compound, impacting people, companies and economies. Mismanagement of social issues, such as human rights infringements and poor D&I practices, can influence our social license to operate and cause reputational and financial damage.

There are different transmission channels for sustainability risks for M&G, through the investments we manage, and also via our ability to attract and retain staff and clients – impacting our strategic pillars. Sustainability risks can also manifest in our operations and damage our credibility, for example if we are perceived to greenwash.

We follow a three lines of defence model, with specific polices implemented by our asset manager, asset owner and second-line risk teams (see page 47).

Policy and regulation

Changing policy landscape (for example carbon pricing) forcing business adjustment and greater transparency.

Technological disruption

Cleaner technologies causing obsolescence and stranding of polluting and uneconomic assets.

Changing sustainability expectations and preferences

Evolving consumer and investor decision-making criteria, and greater scrutiny from stakeholders.

Physical risks due to climate change and nature loss

Damage and disruption caused by extreme weather, chronic physical impacts and less resilient ecosystems.

Litigation and reputational damage

Mismanagement of impacts or accusation of greenwashing, leading to reputational damage and potential legal action.

Examples of risk monitoring and management include:

Net zero investment framework

Read more on page 78

Thermal coal policies

Read more on page 78

ESG Risk Management Framework

Read more on page 61

Supply chain due diligence and engagement

Read more on page 75

Opportunities

Behind the many risks posed by sustainability challenges, there are also major long-term opportunities, aligned with our purpose and strategy. The climate transition alone will require significant investment in solutions, to transform the global energy system and build resilience to future impacts.

Changing client expectations and preferences is another strategic opportunity, given our strong public and private asset capabilities, and ability to cater for a wide range of needs. Regulatory developments such as the UK Sustainable Disclosure Requirements (SDR) should drive greater transparency and trust around sustainable investing, helping clients select strategies that are aligned with their priorities.

To practice sustainability authentically we also need to address our direct impacts, through our operational decarbonisation and environmental management, as well as create a diverse and inclusive culture where all M&G employees can perform at their best.

Sustainability and impact-orientated investment strategies

Meeting changing client preferences, in public and private markets.

Capital allocation to sustainability solutions

Helping finance and enable solutions to sustainability challenges.

Operational transition to improve environmental and social impacts

Leading by example and engaging our supply chain to accelerate the transition.

Examples of opportunities include:

Planet+

Read more on page 74

Catalyst and responsAbility

Read more on page 74

Waste, energy and travel

Read more on page 76

Diversity and inclusion

Read more on pages 51-53

Our approach to sustainability continued

Evolving our approach

Developing our assessment of sustainability risks and opportunities, to deliver long-term value for our stakeholders

Kathy Ryan
Chief Sustainability Officer

This is a pivotal time for global sustainability. The interconnected challenges of climate change and nature loss demand unprecedented and far-reaching changes across all aspects of society and the economy.

It's a privilege to work in an industry that has a major role to play in improving sustainable outcomes. M&G is committed to play its part by using our broad capabilities to drive positive change, including financing solutions that can deliver real-world impact.

Aligning our business and investments to thrive in a more sustainable, low-carbon economy is both a challenge and opportunity. We are harnessing our strengths and continue to place emphasis on collaboration, both internally and externally. This coming year will be crucial as we renew our strategic approach to sustainability to focus on real-world outcomes.

In 2023, our focus has been to strengthen our overall sustainability resource and governance, which is key to drive further progress across the business.

Our first Chief Sustainability Officer, Kathy Ryan, joined in November and has a long track record in advancing sustainable practices across the financial industry through her work at the Great West Life Group, leading on responsible investment for Irish Life Investment Managers, and previously at Aviva Investors.

Kathy brings a fresh perspective to M&G, and will be responsible for developing and implementing our Group sustainability strategy, including our strengthened governance framework.

We have also improved our committee oversight structures, including work to embed our Executive Sustainability Committee, and hired new expertise into the business, including a new Head of Sustainability in our asset management business.

We're working to better embed sustainability across our business portfolio, continually reviewing and evolving our actions, including our 10-point approach, to ensure we are focusing our efforts on the most material issues and meeting our clients' changing needs and preferences.

To ensure we develop in the right areas, we have conducted a Group-wide assessment of sustainability themes, based on discussions with a range of internal stakeholders. From this, we created a shortlist of areas mapped against both their potential effect on M&G and our impact on the issue. Areas of high strategic significance included climate change, diversity and inclusion, and financial resilience and inclusion. Our assessment also identified themes likely to become more significant to M&G, including natural capital ('biodiversity') and digital innovation.

Work is already underway across the business to improve how we integrate and manage themes, including measuring our nature-related investment exposures and using artificial intelligence to improve our ability to assess the sustainability credentials of investee companies. Recognising the interdependencies between climate and natural capital, we have also started work to enhance our measurement and stewardship in this area.

We acknowledge that this is a dynamic process and that we need to reassess risks and opportunities on an ongoing basis, with input from both internal and external stakeholders. Expectations continue to evolve, against a backdrop of regulatory change and updated recommendations from the scientific community. As long-term stewards of our clients' assets we need to incorporate both regulatory and scientific developments into our business planning.

Our approach to sustainability continued

Natural capital

Natural capital refers to the world's stock of renewable and non-renewable natural assets, such as soil, air and water, and all living things, from which a wide range of ecosystem services, such as pollination, air purification and provision of raw materials, can be derived. Biodiversity, including every living thing on Earth, is one part of natural capital, and a key determinant of the resilience of ecosystem services – a decline in the state of nature can reduce the resilience of ecosystems, and their capacity for providing ecosystem services.

Our societies, economies and financial systems fundamentally depend on natural capital, and the basic health and resilience of biodiversity. Research suggests that approximately $44 trillion of economic value generation 'moderately' or 'highly' depends on natural capital and its ecosystem services. However, scientific findings suggest that natural capital is deteriorating globally, and faster than at any time in human history.

Nature loss through biodiversity loss impacts the entire planetary system and is subject to the interdependencies of its multiple drivers (ie climate change, land use change, natural resource exploitation, pollution and invasive species). The Intergovernmental Panel on Climate Change (IPCC) has underlined that effective action on climate depends upon the preservation of biodiversity and natural regulatory systems, and needs to include consideration of associated social implications.

If left unmanaged, the wide-ranging physical impacts of natural capital loss and climate change, combined with the socio-economic impacts of these issues, could have disruptive consequences on asset valuations, the stability of financial markets and the global economy overall.

At M&G, we are focusing on developing our knowledge on impacts, dependencies, risks and opportunities around natural capital in an investment context. We have started to conduct due diligence on emerging data providers, to develop our framework for engagement, and have rolled out initial investment team training, building on our existing approach to climate change. Last year, our private asset Catalyst strategy invested in a company that is providing solutions to reduce the environmentally harmful use of chemical pesticides as outlined in the case study below.

As members of the Taskforce for Nature-related Financial Disclosures (TNFD) Forum, we continue to engage with the materials provided by the Taskforce, including the final TNFD Framework released in September 2023. Upon its launch, we have joined the investor engagement initiative Nature Action 100, extending our collaborative climate-related stewardship efforts to include nature considerations. We are also leading the nature work stream of the Climate Financial Risk Forum's Financial Resilience working group.

Financial markets require clear and long-term economic incentives and regulatory signals from policy-makers in order to effectively shift capital away from nature-negative investments towards those in nature-positive activities. We are looking to participate in the evolving dialogue on the challenges for investors to effectively take action on nature loss. As a financial services company, our main nature-related impacts, dependencies, risks and opportunities reside in the investments we manage and administer. However, we recognise the importance of identifying, measuring and reducing our impacts and dependencies on nature through our own operations too.

Making a difference

Supporting sustainable crop management

Traditional chemical pesticides are associated with negative impacts, including environmental damage, pest resistance and health issues. In readiness for the inevitable market shift, chemical companies are funding natural pesticide and bio-fertiliser programmes. The US$70 billion global pest-control market is growing at a rate of 3% per annum, of which biological control products make up US$10 billion - US$12 billion.

M&G's purpose-led flexible private assets strategy, Catalyst, has made a €75 million investment in Biobest, a global leader in this field, whose mission is to promote sustainable production of high-value crops through biological crop protection and pollination. Biobest creates tailored biological stimulants and pest control solutions which support strict environmental and regulatory requirements.

The capital injected by Catalyst helped fund Biobest's acquisition of Biotrop - a Brazilian biological solutions specialist in open field crop nutrition and protection. The acquisition will position Biobest as a major player in South America, expanding its range of biological solutions and complementing its existing portfolio.

Our approach to sustainability continued

Sustainability governance

We are embedding our sustainability governance model to improve collaboration and decision-making, to deliver sustainable shareholder value

Board oversight

M&G's Board has responsibility for oversight of the long-term sustainability and success of the business, and is responsible for creating and delivering sustainable shareholder value. This includes setting the Group's sustainability strategy. The Board delegates specific duties to sub-committees as follows:

- Reporting in the Annual Report and Accounts and any other material public documents in respect of climate change and sustainability matters (for compliance with relevant regulations, legislation and standards) is included in the Audit Committee's terms of reference.
- Assessment of sustainability and ESG risk within the Group Risk Management Framework, including climate-related stress and scenario testing, the reporting of climate-related risk disclosures and provision of advice to the Board in setting M&G's sustainability strategy, is included in the Risk Committee's terms of reference.

The diagram below presents the Group governance structure as it relates to sustainability. All terms of reference for our Board-level governance committees are available on our website.

The newly renamed Nomination and Governance Committee is responsible for the composition of, recruitment to and succession planning for the Board and its committees, taking into account the future viability of our business. This includes reviewing the Board's gender and ethnic diversity, and related targets.

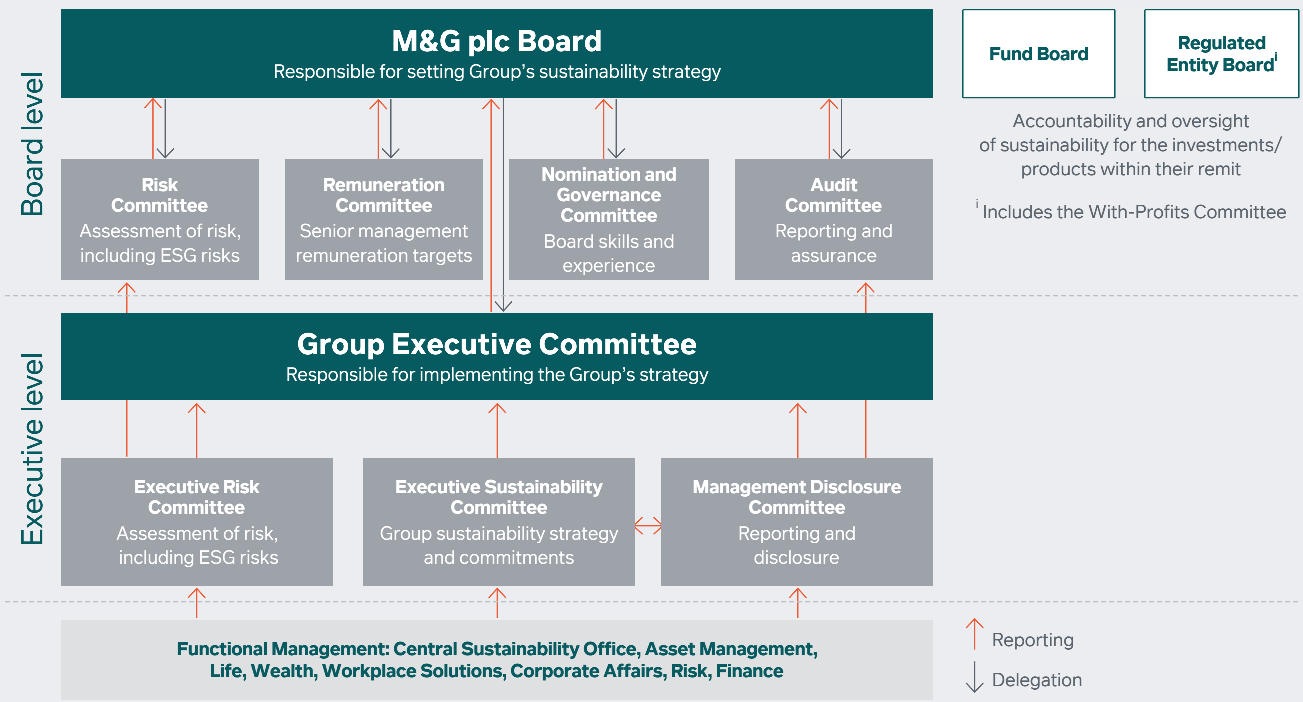
The Board also reviewed the progress against the Group's diversity commitments at half year and full year.

The Audit Committee receives regular updates on sustainability reporting and developments in this area. During the year the Audit Committee have reviewed and challenged market disclosures and the methodology applied in relation to the production of our climate metrics.

Regular Risk and Compliance reporting is provided to the Risk Committee through the Chief Risk and Compliance Officer's report. During the year the Chief Risk and Compliance Officer presented a number of topics that consider sustainability and ESG risks including the top and emerging risks facing our business, risk appetite and Own Risk and Solvency Assessment (ORSA) stresses and scenarios.

Find out more in the Committee Reports on pages 109-119

Group governance structure



Our approach to sustainability continued

Remuneration

The Remuneration Committee is responsible for setting senior management remuneration targets. Our Executive Directors' reward structure is linked to core performance management scorecards, which include sustainability-related metrics.

For our executive LTIP arrangements (the M&G Performance Share Plan) for 2023-2025, the overall weighting for sustainability-related targets has increased from 15% to 25%, evenly divided between: our organisation's operational emissions reductions, and our gender and ethnicity diversity targets. This allocation has been retained for the LTIP arrangements set for the 2024-2026 target period.

We review annually our objectives and remuneration structures, including any sustainability-related targets.

Find out more in the Directors' Remuneration Report on pages 120-124

Management's role

Our Chief Financial Officer (CFO) has responsibility at an executive level for sustainability, including climate. Our new Chief Sustainability Officer (CSO), who joined us in November 2023, supports the CFO by leading on sustainability strategy, policy, commitments, and governance model.

The CFO presents a report to each Board meeting which gives a regular opportunity to escalate any material climate or other sustainability issues and policy decisions. In addition, in 2023 the CFO took separate sustainability update papers to the Board covering a range of topics including governance, risk, control environment, resource and the outcome of an assessment of material sustainability themes relevant to our business conducted during the year.

The Executive Sustainability Committee (ESC) is a sub-committee of the Group Executive Committee with cross functional membership including the CEOs of the Asset Management, Life and Wealth segments.

The ESC, chaired by the CSO, meets on a monthly basis to support the oversight of sustainability-related risks and opportunities across the Group, undertaking quarterly regulatory horizon scanning.

The ESC makes recommendations to the Group Executive Committee and/or Board as needed, supporting the execution of the sustainability strategy and working alongside other committees such as the Management Disclosure Committee (MDC), where required.

Sustainability disclosures and reporting considered material to the Group are presented to the MDC, which has responsibility for the review and challenge of all material group-level external reporting and disclosure, before submission to the Audit Committee and/or Board for approval. The MDC is chaired by the CFO.

During the year we have taken a number of other actions to advance our Group-wide sustainability governance. These include:

- Promoting and driving a collaborative sustainability approach across the Group
- Evolution of sustainability governance including working groups to support execution of sustainability strategy with local expertise
- Developing and implementing a Sustainability Communications Control Model and engaging with key internal stakeholders on material sustainability topics to increase awareness across M&G

Risk management

Sustainability and ESG has been identified as a principal risk to our business. Find out more about this in the Risk Management section on page 61.

Across M&G and its subsidiaries, we have integrated sustainability risk through our ESG Risk Management Framework across the three lines of defence (business, risk and compliance and internal audit). Overall responsibility for assessing sustainability and ESG risk is designated to the Risk Committee.

Consideration of ESG and sustainability risk is being built into our decision-making, with sustainability themes and risk factors being incorporated into our general investment and risk management processes.

Find out more on Risk Management on pages 58-59

Policy

Our Group Governance Framework defines our approach to governance and internal controls, and includes policies covering sustainability-related topics. Each policy is owned and sponsored by a member of the Group Executive Committee.

Section 172 Statement

How the Board fulfils its duties

Understanding the needs of our stakeholders is essential to help us fulfil our purpose and drive value creation over the longer term

The following pages provide more detail on how the Board has fulfilled its duties as set out in Section 172(i) (a) to (f) of the Companies Act 2006 (Section 172) and how it has engaged with and taken account of our stakeholders' interests over 2023. We have also described how the Board considers our key stakeholders and their views.

How the Board fulfils its Section 172 duties

Section 172 requires a company director to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. The following aspects demonstrate how the Board establishes a structure to help it fulfil the Section 172 duties.

Establishing our purpose, strategy, culture and values

The Board sets M&G's purpose, values, and strategy, and monitors our culture to ensure that these are aligned and this sets the tone for how we want to do business. Our culture and values inform our purpose, and are an essential underpin for our decision-making on strategy and what we want to achieve. Find out more on page 94.

Board skills and stewardship

The establishment of a strong Board is essential for successful stewardship at M&G. We seek to recruit and retain Directors with diverse skills and expertise to govern decision-making. We develop our Directors through a comprehensive induction process and engagement with management, training, and workshops. This process helps our Directors to enhance their skills, so they can contribute to stronger decision-making and are better placed to help shape proposals and provide constructive challenge. Find out more on page 103.

Board information

The Board has guidelines and training for colleagues to ensure that material prepared for Directors is of a high standard and considers aspects relevant for Section 172, including long-term impact and how key stakeholder interests have been considered. We encourage Directors to provide feedback to paper preparers to guide this process.

Board discussion and decision-making

As part of its discussions, the Board provides rigorous evaluation, assessment of risk and challenge to ensure decisions promote our long-term sustainable success and balance the needs and interests of our stakeholders. Key themes and issues relating to our stakeholders are considered when the Board has discussions, and they influence the Board's decision-making.

Section 172 Statement continued

Key decision #1

Asset Management, Life and Wealth

In 2023, the Board approved restructuring our business into three distinct but complementary operating segments and appointed new CEOs to each segment, and it also reviewed and approved the strategy for each business.

This new segmental approach will help to deliver our strategic priorities: better serve our clients and develop our product offering; to grow external flows into Asset Management; to deploy an integrated pensions and savings distribution channel in the UK; and to build a defined benefit pension solution business.

Stakeholders considered

Clients, colleagues, investors and regulators.

Decision-making process

Management recommended the proposal to restructure M&G into three businesses for several reasons, including: deepening our understanding of client needs; increasing trust in M&G; enhancing convenience for our clients, by making it easy for them to engage with us; delivering targeted growth; and simplifying and strengthening our operating model.

The Board agreed that separating the Retail and Savings business would help management focus more on the Life and Wealth strategies, which would support the goals of financial strength, simplification and growth.

The Board noted the emphasis on good client outcomes was both good for the business and aligned with Consumer Duty.

The Board approved the proposal because it would help achieve profitable growth for shareholders, better meet and respond to our clients' needs, and be beneficial for colleagues in terms of collaboration, empowerment, accountability and removing obstacles to execution.

Key decision #2

New purpose

The Board approved our new purpose, together with new behaviours and strategic drivers aligned to our strategy and business plan.

This approach links the why (our purpose), what (our drivers) and the how (our behaviours), providing the basis for M&G to achieve our growth, simplification and financial strength targets.

Stakeholders considered

Clients, colleagues, investors and regulators.

Decision-making process

Management first engaged with clients and colleagues, and considered the views and interests of regulators and the external environment.

In November 2023, a workshop was held with the Board to discuss the proposed purpose, drivers and behaviours, and to consider stakeholder interest, ahead of the Board approving them in December.

The Board considered and discussed the matters relating to culture, values and behaviours, including the culture needed to drive execution and simplification, the importance of tone from the top, and investing in our people to ensure greater depth and stronger internal succession.

The Board also took into account the interests of clients, shareholders and regulators and how the purpose, values and behaviours were aligned to the Group's strategy.

As part of the programme of activity, the Executive Directors and Group Executive Committee members held in-person meetings with clients and colleagues to discuss direct feedback on the proposition, which was factored into the development of our new purpose, drivers and behaviours.

Section 172 Statement continued

Key decision #3

Bulk purchase annuities

The Board approved the strategy for defined benefit pension solutions and approved two bulk purchase annuity (BPA) transactions for a combined premium of £617 million.

Re-entering the BPA market is a key component of our strategy and represents our first transactions since we closed the annuity book to new business in 2016. This move into Life opens a third channel to support growth at M&G, alongside Asset Management and Wealth, creating value for our shareholders and clients.

Stakeholders considered

Clients, colleagues, investors and regulators.

Decision-making process

The Board considers re-entering the BPAs market as an opportunity to access a growing market to offset the natural run-off of our in-force Shareholder Annuities book, expand and extend the capital generation capacity of the Group, and drive inflows into our Asset Management operations.

The Board considered the individual BPA transactions from a capital allocation perspective and concluded that they would promote M&G's success for the benefit of its investors, and would be beneficial to the Group's stakeholders in terms of our strategic priorities: to deliver profitable growth, simplify the business and maintain financial strength.

The Board also considered the interests of colleagues, including in relation to operational readiness, and emphasised the importance of the detailed implementation plan including colleague requirements and ways to increase their skills and capabilities.

The Board took into consideration the needs and interests of clients, and concluded that re-entering this market would be beneficial to clients by offering new and unique solutions to pensions market.

Key decision #4

Simplify our business

The Board approved our transformation plan, which aims to improve client outcomes, simplify our operating model and improve accountability and employee engagement.

We want to simplify our business and empower employees, remove barriers to execution and make M&G a better place to work. We aim to deliver £200 million of cost savings gross of inflation by the end of 2025, support our growth ambitions and deliver value for our shareholders, colleagues, and clients.

Simplification and efficiency activities include digitising and automating processes to reduce operational risk and unlock benefits of scale.

Stakeholders considered

Clients, colleagues, investors and regulators.

Decision-making process

The Board noted the focus on improving client outcomes, strengthening the risk and control environment and simplifying the business model to create capacity to invest.

The Board also considered the interests of colleagues and questioned management on the benefits to colleagues. It was satisfied that colleagues would benefit from clearer ownership and accountability, lifting barriers to execution, and reducing the complexity of processes. In balancing the needs of stakeholders, the Board accepted that there would be redundancies and ensured that the terms of the voluntary redundancy programme for colleagues were appropriate and fair, and included full redeployment support.

The Board took into consideration the needs and interests of clients, and concluded that this programme would accelerate product innovation, reduce time-to-market and contain costs, while also improving client outcomes.

Our stakeholders

How we engage

Colleagues

M&G has over 6,000 permanent colleagues in 38 offices globally. Our colleagues are core to everything we do and fundamental to the success of the Group. The Board believes that ongoing engagement and two-way dialogue with colleagues is vital to ensuring that their interests and concerns are understood, and that we take appropriate action. An engaged workforce is the foundation to delivering for our other stakeholder groups.

Engagement with our colleagues includes formal and informal meetings, a series of sessions between Non-Executive Directors and colleagues, colleague surveys, Townhall meetings, and other interactions as part of Board site visits.

Find out more about our colleagues on pages 50-53

How we engage

During 2023, there were a number of formal sessions between Non-Executive Directors (NEDs) and colleagues from across the Group. The NEDs attended sessions with colleagues across different locations and seniority levels, and included colleagues from different business areas, graduates and colleague ambassadors. The purpose of these regular sessions is to give our Board members the opportunity to engage directly with colleagues, gain insights into M&G's culture and understand colleague views and interests.

The Board visited the Milan office in September 2023 and held a variety of colleague events including a Townhall with colleagues, hosted by the Chair and Group CEO, and breakout groups with NEDs and colleagues on topics including diversity and inclusion, and client-centricity. The Townhall was attended by all Board members and colleagues from the Milan office.

Listening to colleague feedback is vital. Our 'OneVoice' surveys capture feedback and track engagement across M&G. Each business area has its own action plan and engagement initiatives, and progress is tracked by the Group Executive Committee and discussed by the Board.

Key themes, issues and matters

- Positive feedback on culture and workforce/people policies
- Removing barriers to execution including technology
- Hybrid working and return to office in the context of collaboration
- Balance of controlling costs and investing for growth
- Empowerment and desire for increased autonomy
- Importance of learning and development, career progression, and pastoral care, including for graduates
- Collaboration and prioritisation

Actions and progress

The key themes and issues are taken into account when having discussions as a Board and they influence the Board's decision-making. Feedback on themes from Board conversations with colleagues were documented and shared for discussion with the NEDs, the Chief People Officer and, where appropriate, senior management.

The Board discussed the key themes from its direct engagement with colleagues and emphasised to management the importance of growing internal talent, strengthening succession plans, and further improving the employee proposition.

The Board discussed the key themes and issues from the colleague surveys and questioned management on their proposed actions in response. Senior leadership had increased the frequency of attending the office in-person to enhance collaboration. Management had provided greater clarity on strategy, committed to simplification and to making further improvements to IT experience.

The Board discussed and approved the actions being taken to improve accountability, which included the approach to performance and reward to ensure it improved objective setting for senior leaders and strengthened alignment with the new purpose. The events for senior leaders held in 2023 were designed to enhance collaboration, accountability and understanding of the strategic direction, as well as removing barriers to execution.

Clients

We distribute our investments and savings products to a broad range of pension funds, insurance companies, wealth managers, financial advisers and other distribution partners across 6 continents. Our M&G Wealth business offers an end-to-end distribution channel for savings products in the UK, through financial advisers and directly to individual clients. We manage savings for approximately 4.6 million policyholders, across all age and wealth brackets.

Find out more about our clients on pages 11-13

How we engage

The Board receives regular reporting on key client metrics, which are discussed with management.

The Board strategy offsite included a client panel discussion, which included two-way dialogue on client expectations and how M&G can best serve them, continuous improvement of client/adviser outcomes, and client priorities in the Group's Business Plan.

The Board also received direct feedback from clients as part of the programme of work on our new purpose.

The Group CEO regularly meets clients to understand their views, discuss ways to further enhance our relationships and product offerings, and provides their feedback to the Board.

Client engagement meetings are held to enable management to understand what matters to our clients and to build strategic relationships with them.

Management also engages regularly with our clients on a day-to-day basis, in meetings, at roundtable events and conferences.

Key themes, issues and matters

- Product offering
- Product innovation
- Investment returns
- Digitisation and digital transformation
- Client outcomes
- Client experience and service

Actions and progress

The Board provided oversight of the programme of activity regarding Consumer Duty and the focus on delivering good customer outcomes.

The Board regularly reviews and discusses a range of client management information to ensure we are delivering good client outcomes, and in 2023 questioned management on proposed actions in response to client feedback and other matters, such as complaints.The Board encourages management to improve how they measure feedback and client satisfaction.

The Board and management regularly discuss and actively advocate for a client mindset and consideration of the client in everything we do, together with the importance of ensuring that colleagues are spending time understanding their clients' priorities.

The Board and management discussed the ways M&G can execute on growth opportunities, including from a distribution standpoint, and the investment spend required in data and technologies across strategically important areas, including client experience.

Our stakeholders continued

Regulators

Maintaining an open and cooperative relationship and dialogue with regulators and policymakers is critically important. The Group has a number of regulated entities, which are supervised at the legal entity level. We engage with regulators at both a Group and subsidiary level.

How we engage

The Chair, Group CEO and other Board and Executive Committee members meet regularly with the supervisory and other teams at the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). Representatives from both the FCA and PRA attended a Board meeting to discuss regulatory priorities.

Key themes and regulatory priorities

- Governance and control environment
- Impacts arising from the economic environment, in the context of credit risk and liquidity risk
- Climate risks
- Consumer Duty
- Strategy
- Operational resilience
- Outsourcing arrangements

Actions and progress

The Board believes that open and regular dialogue promotes transparency between the Group and its regulators and ensures that M&G is in a position to reflect the views of our regulators when setting strategy. The outcomes of our engagement with our regulators influence the Group's priorities and focus for the year.

One of the Board's main priorities is ensuring that the governance, leadership and culture at M&G facilitates good decision-making, problem solving, and the delivery of good client outcomes.

During the year, the Board's activities have included consideration of sustainability matters, the Group's readiness and compliance with the Consumer Duty, together with a range of matters and decisions relating to strategy and execution.

During the year, the Risk Committee's activities have included reviewing a range of climate scenarios as part of the ORSA process, reviewed and challenged matters relating to risk management, internal controls, operational resilience and outsourcing.

During the year, the Nomination and Governance Committee's activities have included leadership and succession planning and appointments to the Group Executive Committee.

As well as the key stakeholder groups above, the Board is committed to engaging with other stakeholders to ensure that we maintain positive relationships and take account of their views and interests. These include communities, charity partnerships and suppliers.

Communities

Our operating model for Corporate Responsibility is to build inclusive and resilient communities through urban regeneration, economic empowerment and community building. We want to use our community investment to help break down the barriers that prevent people from living the life they want. Our framework for community engagement provides support at a strategic and local level.

Charity partners

We work closely with our charity partners to develop strong, sustainable projects that meet local needs. We nurture spaces and places that help people and nature to thrive, giving people skills and opportunities to be financially secure, and building and strengthening relationships within and between communities.

Business partners

Our suppliers are critical to our business and the long-term success of the Group. We are committed to the principles of the Prompt Payment Code, and aim to treat suppliers fairly and consistently. The Chief Risk and Compliance Officer's (CRCO) report to the Risk Committee provides a regular assessment of key risks, including any issues regarding third-party suppliers and outsourcers. The Board oversees the performance of business partners and suppliers through reporting from management and the Risk function. Day-to-day oversight is conducted by the operational teams and substantive issues are escalated to the Board through regular management reporting. Our annual Modern Slavery Transparency Statement will be approved by the Board and published later in 2024. Given the nature of our business and our use of third parties, this is focused on our efforts to find, fix and prevent modern slavery in our supply chain.

Non-financial and sustainability information statement

Playing our part as a responsible business

M&G's non-financial and sustainability information statement, produced to comply with sections 414CA and 414CB of the Companies Act 2006

The table below sets out our approach towards the key matters from the legislation, with a guide to where further disclosures are located throughout the report. Our climate-related financial disclosures can be found in the 'Climate-related disclosures' section of the report, with a mapping of the section's contents to the requirements of section 414CB (2A) and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) provided on page 69.

Reporting requirements	Approach	Supporting disclosures in Annual Report
Environment	Scientific evidence shows that climate change is one of the biggest threats to our planet, and that carbon emissions are contributing to climate change. Our objective is to ensure that our operations and the assets we manage are aligned with the goals of the Paris Agreement, using the levers we have to support the necessary transition to net zero. These levers include investment strategy, stewardship, advocacy and our own operations.	– Our approach to sustainability Pages 34-37 – Climate-related financial disclosures (incl. SECR) Pages 69-90
Our employees	We understand that exceptional people need the right environment in which to thrive. Our ambition is to create and sustain a safe, diverse and inclusive culture where our colleagues enjoy each day and feel inspired to do their best for our clients and the communities in which we operate.	– Our colleagues Pages 50-53
Social matters	Our ambition is to build inclusive and resilient communities through urban regeneration, economic empowerment, and community building. Social mobility is our core focus and we want to use community investment to help break down the barriers that prevent people from living the life they want. As a responsible long-term investor, our sustainability ambition supports a socially just transition; our dedicated capabilities in emerging markets investing further complements this position through capital deployment in areas such as financial inclusion.	– Social impact Pages 54-57 – Our approach to sustainability Pages 34-37
Human rights	As an organisation, we do not tolerate any form of slavery, servitude and forced or compulsory labour and human trafficking. We hold our suppliers to the same ethical standards to which we hold ourselves and require them to remain in compliance with all applicable laws and regulations. Our influence also extends to the companies and assets in which we invest - grounded in our investment principles, engagement with investee companies helps to ensure they are considering and appropriately managing modern slavery risks.	– Human rights Page 48
Anti-bribery and anti-corruption matters	Addressing financial crime is integral to protecting and stimulating economic growth as well as for instilling confidence in consumers within the financial services sector. We are committed to preventing, detecting and where necessary, reporting instances of such criminal conduct to the appropriate authorities and regulators. We strive to ensure highest possible levels of financial crime awareness among our employees and parties acting on our behalf - this is supported by mandatory training and reporting requirements.	– Anti-bribery and anti-corruption Page 49 – Risk management Pages 58-59 – Risk Committee Report Pages 118-119

For details on Business model see page 8

For details on Non-Financial KPIs see page 19

For details on Principal risks see pages 60-68

Non-financial and sustainability information statement continued

Our Group Governance Framework sets out the general principles by which we conduct our business and ourselves - it defines our approach to governance and internal controls, ensuring consistency in how we make decisions across the whole of our business.

A selection of relevant policies and other documents that guide our approach to these key matters are summarised below. The table also presents which elements of the value chain may be considered for each policy or framework[i]. The 'Investments' label covers assets managed and administered through both M&G Investments (our main asset manager) and The Prudential Assurance Company (PAC, our main asset owner), unless otherwise stated.

Policies, frameworks and statements guiding our approach	Reporting requirements					Value chain		
ESG Risk Management Framework and ESG Risk Policy*	●		●	●		OPE	SUP	INV
Environment Policy	●	●				OPE	SUP	
People policies* (eg Time off when you need it Policy)		●				OPE		
Employee Relations Policy*		●				OPE		
Diversity and Inclusion Policy		●				OPE	SUP	
Community Investment Policy		●	●			OPE		
Whistleblowing Policy*		●		●	●	OPE		
Health and Safety Policy		●				OPE	SUP	
Code of Conduct*		●			●	OPE		
Conduct Risk Policy*		●			●	OPE		
Conflicts of Interest Policy*		●			●	OPE	SUP	INV
Financial Crime Policy*		●			●	OPE	SUP	
Modern Slavery Transparency Statement		●	●	●	●	OPE	SUP	INV
Supplier Code of Conduct	●			●	●		SUP	
Just Transition Position Statement	●		●					INV
M&G Investments Voting Policy	●		●	●	●			INV
PAC Voting Standard	●		●	●	●			INV
ESG Investment policies (M&G Investments[ii] and PAC)	●		●	●	●			INV
Engagement policies (M&G Investments Engagement Policy and PAC Shareholder Engagement Policy)	●		●	●	●			INV
M&G plc's position on thermal coal, supported by M&G Investments Thermal Coal Investment Policy[ii] and PAC's thermal coal approach*	●		●					INV

Key

OPE **Operations** M&G's direct business operations

SUP **Supply chain** M&G's procurement/ supplier activities

INV **Investments** Assets managed and administered by M&G Investments and PAC

* Certain policies are internal standards and guidelines which are not published externally

i Application of policies and frameworks listed may vary for newly acquired businesses where integration with wider group frameworks is ongoing.

ii Policy scope excludes M&G Investments Southern Africa.

Non-financial and sustainability information statement continued

Human rights

Human rights concerns all of us and is core to our business interests and we believe in supporting human rights by acting responsibly in everything we do including in key areas such as modern slavery, anti-bribery and anti-corruption, diversity and inclusion, health and safety, the environment and our carbon footprint.

We are committed to working with all our suppliers and stakeholders to help end slavery, human trafficking, child labour and any other abuse of human rights. We review and approve annually our M&G Supply Chain Modern Slavery Business Standard. This supports the management of modern slavery risk and how we approach third-party supplier relationships. Through annual attestation against the standard, we assess our approach and ensure we meet the minimum standards stipulated by the UK Home Office, while ensuring we are compliant in our license to operate in line with the Modern Slavery Act 2015 (the Act).

We regularly review how non-financial risks are embedded within our third-party supplier lifecycle to ensure continuous improvement and alignment to regulatory policy and best practice, including modern slavery-related supply chain risks.

Our commercial procurement teams across our UK businesses have embedded a co-ordinated response to the requirements of the Act, focused on our external supply chain, as follows:

- Commercial procurement highlights within all tender activity our expectations around modern slavery. We undertake this process regardless of a supplier's statutory position (suppliers under the £36 million threshold stipulated by the Act are not exempted from our requirements) and it is included in the due diligence process.
- Our Code of Conduct and Supplier Code of Conduct is regularly maintained. All our suppliers must sign up to the Code as part of our due diligence process. These Codes outline the standards to which we expect our suppliers to adhere, including human rights and modern slavery-related issues.
- Both commercial procurement and Third-Party Risk determine the nature of services provided by suppliers and identify associated risks, including any potential risk exposure to modern slavery.

  Where suppliers do not appear to have appropriate standards in place, we will work in close collaboration to improve standards. This ongoing monitoring, especially focused on the onboarding of new material suppliers to M&G, builds on previous reviews of our supplier base when we reviewed the common procurement category themes and measure our potential exposure to modern slavery risk.
- As part of our ongoing sustainability initiatives we have carried out in-depth reviews on our high-risk suppliers with UK-originated spend to understand the potential inherent risk to our business. Where needed, we have taken the necessary steps to identify opportunities to improve standards. We will continue to work with suppliers to align their approach to ours on an ongoing basis.
- Our comprehensive e-learning module on modern slavery helps our employees understand the link between our business and human rights and raise awareness around modern slavery, its scale and complexity. This training was refreshed in 2023 to reflect changes at M&G and trends in the topic of modern slavery.
- The e-learning module is targeted at specific employees across core areas of our business. Our Board and Senior Executives have undertaken refresher training to demonstrate our commitment to combatting modern slavery and human trafficking.
- In 2023, we refreshed and updated M&G contracts for modern slavery provisions. In addition, purchase order terms and conditions, applied to all spend, include the appropriate modern slavery conditions and requirements.

We recognise our responsibility to comply with all relevant legislation included within the Act. Our annual Modern Slavery Transparency Statement (to be published later in 2024) confirms how we comply with all relevant legislation; the steps we've taken to assess and mitigate against the risk of modern slavery and human rights violations within our business and supply chains; and how we've managed and will continue to proactively monitor those risks.

In relation to our investment activity, areas at material risk of human rights violations form part of our investment analysis. If we were to become aware of violations or where we believe there are insufficient protections around such issues, we would undertake engagement with investee companies, enabling us to have constructive dialogue with those exposed to human rights abuses such as modern slavery risks, both in their direct operations and within supply chains. In cases where we believe this would not be effective to reach a more sustainable outcome we may escalate, including to divestment. Funds managed by our asset manager are also able to apply an exclusion to companies breaching global norms principles (eg UN Global Compact principles) which includes issues such as modern slavery and human rights, through the application of our Global Norms Exclusions List, overseen by the Global Norms Committee. Our asset owner funds, where they have control of the mandate design, apply a global norms exclusion.

During 2024, we will continue to focus on embedding modern slavery risk management as part of our continuous improvement activities. This will include reviews of our supplier onboarding, risk assessment and due diligence processes and controls, as well as Group-wide, third-party oversight governance.

We will also embed our new Supply Chain Modern Slavery Business Standard and enhanced processes. This will allow us to actively assess our exposure to these risks and how we mitigate them within our business and supply chain, supporting our continued commitment to working with our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

Adherence to policies

We regularly review how non-financial risks are embedded within our third-party supplier lifecycle to ensure continuous improvement and alignment to regulatory policy and best practice.

Non-financial and sustainability information statement continued

Anti-bribery and anti-corruption

We are committed to the highest levels of integrity in the way we conduct business and have a no tolerance approach to bribery and corruption given its adverse impact on society and undermining of economic development.

We require all our employees across the globe, including firms that conduct activity on our behalf, to adhere to our Financial Crime Policy and relevant standards requirements, which include anti-bribery and anti-corruption controls, and to carry out their duties with openness and transparency.

Periodic mandatory training and reporting requirements ensure that employees (and associated persons) are aware of their obligations under the UK Bribery Act 2010, including additional training requirements for certain front-line colleagues.

Risk management and control failures could lead to criminal prosecution, fines or reprimands and/or cause significant damage to M&G's reputation.

As an investor, we comply with applicable financial sanctions regimes – any company sanctioned by these regimes is excluded from our investment universe. Furthermore, governance is a fundamental part of investment analysis performed by our asset manager, which includes consideration of bribery and corruption risks and associated controls, so that these can be considered in investment decisions and/or to prioritise engagement for improvement. If we believe that a company which is not subject to financial sanctions has significant risk associated with bribery and corruption, this is considered as part of our investment decision-making, and may be escalated where appropriate.

From an asset owner perspective, where we have investment decision-making authority, such instances will prompt engagement with the appointed asset manager, which may lead to exclusion from our portfolio if unsuccessful.

Adherence to policies

We have a no tolerance approach to bribery, which is articulated in M&G's Risk Appetite, Financial Crime Policy and related standards.

The resulting framework ensures M&G complies with its obligations under applicable law, with adequate controls to ensure all Associated Persons (including employees) are acting with integrity.

Our colleagues

Looking after our colleagues

We are committed to ensuring our colleagues' working lives are engaging and fulfilling, in a safe, inclusive and diverse environment

Inspiring people to do their best

In achieving our new purpose and driving growth, we have a responsibility to do what's in the best interests of our colleagues. We are creating an exceptional place to work: a positive culture where our colleagues enjoy each day, feel inspired to do their best for our clients, help grow the business, and support the communities in which we operate.

Our people practices set a benchmark within our industry and in similar-sized organisations, and are recognised by the National Equality Standard, the UK's highest benchmark for equality, diversity and inclusion.

Over the past year, we have continued to develop and implement colleague-based initiatives across our five global workstreams, which cover disability, gender, ethnicity/nationality, life stages and LGBTQ+, and support our ambition of building a safe, inclusive and diverse culture.

"Achieving re-accreditation of the National Equality Standard reflects our incredible journey over the past three years, and the collective team effort that has gone into defining our working environment and culture."

Mark McLane
Head of Diversity, Inclusion and Well-being

Our behaviours

Our values of care and integrity underpin our behaviours, which guide how all our colleagues should act and interact with each other, clients and all stakeholders. Our new behaviours are aligned with our culture and values, and help us to deliver our new purpose and strategy:

Tell it like it is: Respectfully speaking up to create better ways forward - both direct and empathetic

Own it now: Putting your name on things with confidence to drive progress and results quickly

Move it forward together: Forming cross-functional teams to seize the right opportunities and solve real problems

Progress takes many forms

We are committed to becoming more diverse and inclusive. By benchmarking ourselves against others in the marketplace, across all aspects of our diversity and inclusion strategy, it holds us to a higher level of accountability than just reaching the M&G strategy targets. It provides additional data we use to evolve and improve our approach to diversity, inclusion and well-being.

Our Code of Conduct ensures we conduct ourselves ethically, putting our values and behaviours into action every day, and in accordance with our policies and procedures, global laws and regulations.

Our Whistleblowing Policy details whistleblower protections in place across M&G, so that anyone who speaks out feels safe and confident in doing so. It is supported by our Speak Out programme, which includes different confidential reporting channels, managed by the Speak Out team, which reports directly to the Chief People Officer.

All reports are taken seriously, with qualifying reports independently and confidentially investigated. All investigations are governed by our Speak Out programme.

To monitor how we are progressing on delivering change and ensuring accountability, as well as meeting increasing market and regulatory demand for transparency, we are expanding how we collect, analyse and report data.

In 2023, we moved to regular employee engagement surveys across the year. By gathering more data and analysing trends using our surveys, we are getting a deeper insight into how well our policies and initiatives are working in real time. This helps us to act more quickly on feedback, as well as improve our colleagues' experience. Our new metrics include the overall percentage of colleagues who identify as LGBTQ+, disabled and our social mobility data.

We measure employee engagement through our OneVoice surveys to track how happy people are at work and whether they would recommend M&G as a great place to work. Results are split by demographic group and results analysis takes into consideration risk and emerging challenges. The aggregate Sustainable Engagement score for 2023 was 70.7 (2022: 72.0). Our culture focus groups deep dive into themes arising from engagement survey results and we determine key areas for improvement.

For more on how we engage with our colleagues see page 43

For more on how we manage colleague-related risk see page 66

Leading policies that meet colleague needs

We are continually adapting our people approach to support our colleagues' evolving needs and ensure their positive well-being at work. Our market-leading, progressive people policies meet every life stage, including our Inspiring Families Policy with neo-natal leave, fostering and kinship entitlements. We have a Menopause Policy with extended healthcare benefits around fertility and reproductive health, and we also offer Time Off When You Need It and Transitioning at Work policies.

Our colleagues continued

In addition to our extensive range of policies that support our colleagues, we are mindful of the cost-of-living pressures faced by many during a challenging external economic environment, resulting in a further one-off financial support payment to our lower-earning colleagues in May 2023.

Ensuring colleague mental health and well-being

Our good practice initiatives and campaigns give colleagues access to well-being resources, including mental health support, 24/7, such as our well-being and inclusion app; our well-being on-demand channel; and Nudge (our financial well-being platform).

In 2023, over 2,700 colleagues registered to attend our well-being workshops and resources.

Our dedicated Colleague Support Adviser provides colleagues with a confidential, bespoke service to help resolve personal concerns, as well as group coaching.

We are conscious of absence as a result of mental health, and monitor absence, including mental health, through monthly reporting as part of our overall People Risk assessment. We have a specific question on stress levels at work in our OneVoice surveys, and share results with the Group Executive Committee and the Board.

Developing all colleagues: Winning Mindsets

A new purpose, refreshed strategy and greater focus on delivering sustainable and profitable growth requires our people to continue to evolve and adapt at pace. In 2023, we launched a new colleague-wide learning experience called Winning Mindsets. It offers a variety of experiences to inspire our colleagues, including immersive experiences supported by bite-sized workshops, equipping colleagues to put learnings into practice across four areas: thinking client, decision-making, keeping it simple, and embracing change.

Accreditations

- LGBT Great gold standard 2023 for LGBT+ equality
- Social Mobility Employer Index Top 75 Employer 2023
- Rate My Apprenticeship Best 100 Employers List 2022/2023
- Disability Confident Leader – reaccredited January 2024
- National Equality Standard accreditation (reaccreditation April 2023)

Colleague engagement was high: over 5,000 enrolments across 52 events globally. Impact was considerable: 86% of colleagues who responded to feedback requests said that their confidence to take action increased following learning and 88% said they developed skills to adopt a Winning Mindset.

Developing exceptional people managers: People Manager Academy

We have comprehensive targeted training and guidance for our people managers. Building upon our five People Manager Expectations, we ran five cohorts of our People Manager Academy in 2023, with 450 people managers taking part.

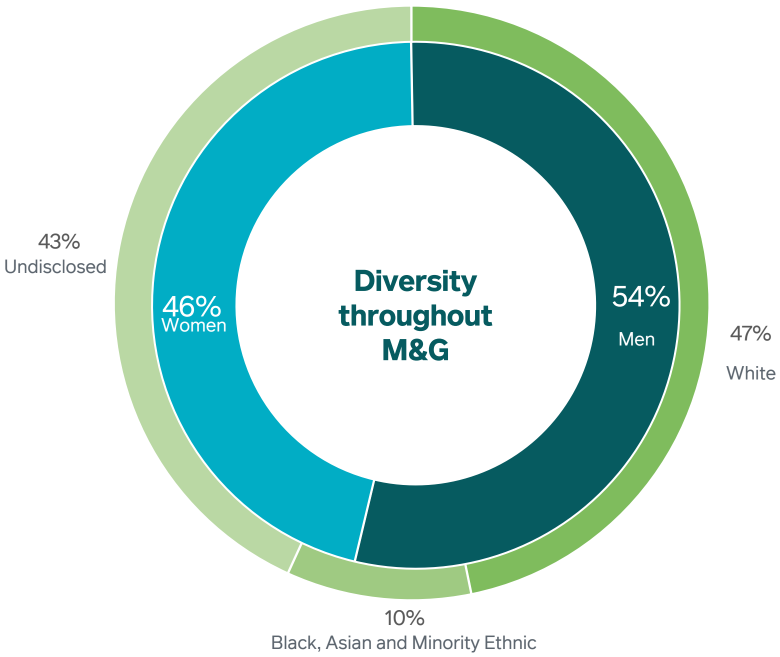
The total alumni of our People Manager Academy is now 1,466. The People Manager Academy includes practical workshops, digital simulations for safe practice, personal diagnostics and peer coaching, including diversity and inclusion content. People managers are also supported via critical moment checklists and toolkits.

Diversity and inclusion throughout M&G

We have a five-year Diversity and Inclusion (D&I) plan and governance model, with pre-defined roles for the Executive Committee and Board, alongside our D&I team, diversity forums, diversity networks and enterprise workstreams.

Our D&I targets keep us focused on building a positive workplace and we have initiatives throughout the talent management lifecycle, from sourcing candidates to recruitment, career progression and succession. We are aiming to improve gender balance across our organisation and appointed several women to key senior roles over 2023, including Caroline Connellan as Wealth CEO and Kathy Ryan as our first Chief Sustainability Officer.

To find out more about how we are delivering on our D&I targets see our gender and ethnicity pay gap report.



Undisclosed ethnicity data is being reported separately for the first time. See page 53 for further details. All data in the chart is as at 31 December 2023. Figures based on all employees globally (excluding contingent workers).

Our colleagues continued

Our colleague-led diversity networks provide support and networking opportunities and are aligned with our five global workstreams:

- Elevate, our gender network
- Enable, our accessibility and neurodiversity network
- Embrace, our ethnicity, nationality and faith network
- Pride, our LGBTQ+ network
- Mind Matters, our mental health and well-being network.

Throughout 2023, we have run events such as 'Understanding Fibromyalgia' and 'Suicide Awareness'. Enable also runs regular coffee mornings for colleagues with caring responsibilities.

We ensure that everyone at M&G has the opportunity to fulfil their potential and realise their aspirations. We have 1% of employees who self-declare as LGBTQ+, (with 69% non-disclosed), and 1.66% of employees in the UK who consider themselves disabled.

Measuring D&I at M&G

Diversity in senior leadership: We are aiming to achieve 40% women and 20% ethnic diversity in senior leadership by 2025. In 2023, women in senior leadership was 37% (2022: 37%) and ethnicity in senior leadership was 7.4% (2022 restated: 6.7%). See page 53 for more details.

Colleague inclusion index: This continues to be measured on a regular basis as part of the OneVoice Survey, with an average score of 66.7 across three surveys in 2023. It is based on two questions - 'Leaders at M&G value different perspectives' and 'I feel free to speak my mind without fear of negative consequences'. Taking into account the level of change at the senior leadership during the year, our score is slightly lower than last year (2022: 69.0), but continues to reflect that care and integrity remain core values at M&G.

Early career hires in 2023

21

Apprentices

52% women – 33% Black, Asian or Minority ethnic

23

Graduates

48% women – 35% Black, Asian or Minority ethnic

35

Interns

42% women – 50% Black, Asian or Minority ethnic

In 2023, we were re-accredited as a Disability Confident leader, the highest level recognised under the Department for Work and Pensions Disability Confident Scheme.

The Scheme supports employers to make the most of the talents disabled people bring to the workplace.

Partnerships to support industry diversity

We recognise that the financial services industry has traditionally not been as diverse as other industries and so we are actively supporting cross-sector initiatives to develop diverse talent. We sponsor the Financial Services Skills Commission, and chaired the workstream that developed and published the Inclusion Measurement Guide, a framework that encourages the financial sector to consistently measure inclusion.

Our external partnerships also drive social mobility in our industry, for example through our work with Talent Foundry and Urban Synergy on early intervention and pre-apprenticeships.

These projects also improve diversity in our own talent pipeline and build our community outreach.

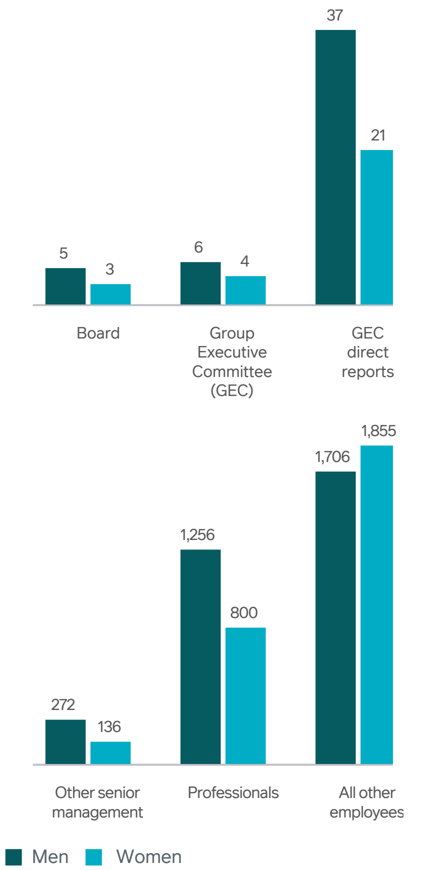
Our gender and ethnicity pay gap

Our mean gender pay gap across the business for 2023 continues to improve to 28.5% (2022: 29.2%) and our average bonus gap has improved to 66.6% from 67.5%.

We are proud to have been one of the first companies in our sector to publish an ethnicity target in leadership and we voluntarily publish ethnicity pay gap data. In 2023, our Group mean ethnicity pay gap improved to 3.2% (2022: 5.5%).

For more on our gender and ethnicity pay and approach to diversity see our gender and ethnicity pay gap report on our website.

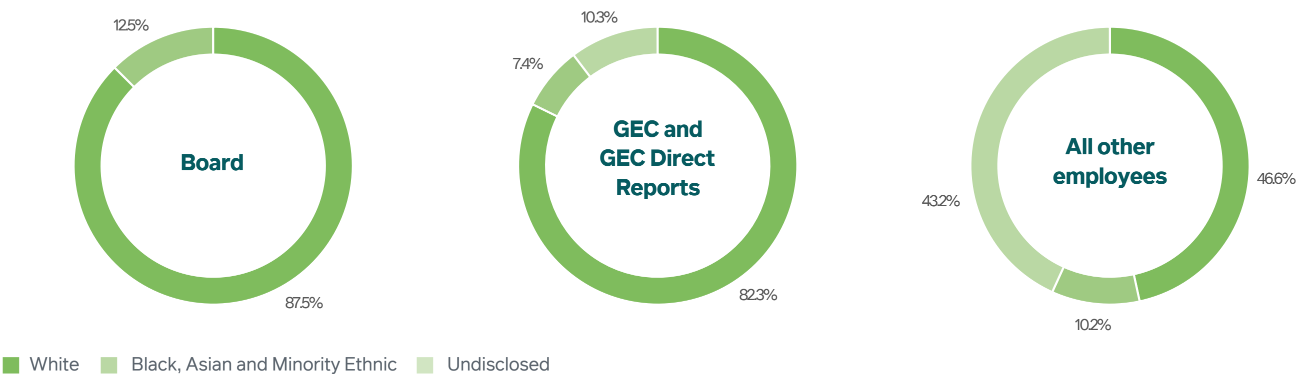
Employee profile gender diversity
Number of people



Under the Companies Act 2006 (the Companies Act), we are required to report on the gender diversity of our employees, our 'senior managers' and our Board. The gender diversity of our employees and our Board is shown above. 'Senior managers' is defined by the Companies Act, as anyone who has responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and must include the number of persons of each sex who were the directors of the undertakings included in the consolidation. Where such persons hold multiple directorships across the Group they are only counted once. For this purpose, 'senior managers' includes our GEC members (excluding those on the Board), our GEC direct reports and our 'Other senior management' from the chart above. On this basis, we have 474 senior managers (314 men, 160 women).

Our colleagues continued

Employee profile ethnic diversity
%



Our ethnic diversity reporting includes a separate category of 'undisclosed' for the first time. To support our evolution to more granular reporting, we have taken a number of measures over the past two years to improve our data accuracy and enhance our definition of diversity, reporting capabilities and competitiveness in attracting a diverse talent pool.

However, our HR data system is configured to record ethnicity data in the UK and Ireland only. The total 'undisclosed' figure of 43% therefore includes a large proportion of overseas colleagues where ethnicity data has not been captured. For colleagues based in the UK and Ireland, the undisclosed figure is 18%.

We remain committed to achieving our target of 20% ethnic diversity in senior leadership by 2025. Our ethnicity percentage for GEC and GEC direct reports has increased slightly to 7.4% at the end of 2023 from 6.7% at the end of 2022 (restated to exclude undisclosed). This is an increase of over 5% from our 2019 baseline of 2% (excluding undisclosed). We have several initiatives in place to enhance the overall diversity of our talent pipeline, including participation in #10000 Black Interns programme, using the Black Women in Asset Management (BWAM) job board, hosting professional networking events with BWAM members, introducing the Aspire Career Exploration programme encouraging colleagues who identify as Black, Asian and minority ethnic to explore client-facing roles, and enhancing internal mobility of diverse talent.

Board diversity

The FCA Listing Rule 9.8.6(9) sets out a number of requirements for Board diversity based on the following targets:

- At least 40% of M&G's Board are women (including those self-identifying as a woman)
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman (including those self-identifying as a woman)
- At least one member of the Board is from a non-white ethnic minority background (as referenced in categories recommended by the Office for National Statistics (ONS))

The Board continues to meet the requirement for at least one of its members to be from an ethnic minority. Currently, 50% of the senior Board positions (Chair, CEO, SID and CFO) are held by a woman and gender diversity on the Board is 37.5%. However, whilst the percentage of women on the Board began the year at 44%, the departure of Fiona Clutterbuck after the AGM in May 2023 has meant that the Company did not meet the 40% target at 31 December 2023. See page 110 for further details.

Gender	Number of our Board members	Percentage of our Board	Number of senior positions on our Board[i]	Number in executive management	Percentage of executive management
Men	5	62.5	2	6	60
Women	3	37.5	2	4	40
Ethnic Group					
White British	4	50	2	6	60
Other white (including minority-white groups)	3	37.5	2	3	30
Mixed/multiple ethnic groups	—	—	—	—	—
Asian - Asian British	1	12.5	—	1	10

All data in graphs and tables are as at 31 December 2023. Data relating to the gender and ethnic diversity of the Board was collected by way of a questionnaire. This questionnaire asked Board members individually to disclose their gender identity and ethnic background, on a voluntary self-reporting basis, by selecting options aligned with those in the left-hand columns of the table above (and therefore included the option not to specify an answer). M&G employees (including executive management) are encouraged to confirm their gender and ethnicity at the onboarding stage, on a voluntary self-reporting basis, by selecting options (which include the option not to specify an answer). Data relating to the gender and ethnic diversity of executive management was sourced from this existing data, which is held within M&G's secure HR system.

i Chair, CEO, SID and CFO

Social impact

Building safer and stronger communities

We work with charity partners to create opportunities for a better future

Through our community investment, we help to break down barriers that prevent people from living the life they want. We provide a framework for community engagement and offer support at a strategic and local level. With a focus on urban regeneration, economic empowerment and community building, we help build inclusive and resilient communities, working with our charity partners to develop strong, sustainable projects that meet local needs.

We aim to provide the essential needs for communities to thrive, to equip people with the tools they need to be financially secure and to provide opportunities for people to prepare for the future. Our operating model for Corporate Responsibility (CR) guides and supports each office and market to manage charitable activities, within a consistent, business-wide approach. Our CR strategy and performance is reviewed bi-annually by the Group Executive Committee.

Breaking barriers, building futures

Helping to build inclusive and resilient communities

Urban regeneration

Nurturing spaces and places that help people and nature to thrive

UR

Economic empowerment

Giving people skills and opportunities to become financially secure

EE

Community building

Building and strengthening relationships within and between communities

CB

Disaster and emergency response

Social impact continued

Habitat for Humanity GB

UR

Our partnership with Habitat for Humanity GB focuses on using empty buildings across Europe to address the social housing crisis by turning unused spaces into homes for vulnerable groups. We used data to understand the scale of the opportunity presented by empty buildings; repurposed properties to showcase the viability of the approach and developed a coalition of experts to design a toolkit to share this knowledge more widely.

Our efforts in the UK are being shared across All Party Parliamentary Groups on housing and homelessness, and our efforts in Poland have changed legislation to encourage adoption of vacant residential units. To date, we have renovated 16 empty spaces into homes in England (London) and Poland (Warsaw and Silesian Region) and construction is currently underway in new locations including Scotland, Ireland and Germany.

"Working with Habitat for Humanity gave us the opportunity to think very deeply about the accommodation needs of young people leaving care. It has enabled us to reconsider our options with private providers and to have the skills and confidence to partner with organisations like Habitat and M&G to do things differently and to do things better."

Andrew Borwick-Fox
Children's Care and Support Services Manager, London Borough of Barking and Dagenham

The Tree Council

UR

Our partnership with The Tree Council supports schools in urban areas with high levels of deprivation and nature-poor grounds. We aim to give young people the skills and knowledge to help tackle the climate and ecological crises.

Between 2019 and 2023, we have enabled 250,128 students and teachers in 769 UK schools to take part in The Tree Council's 'Young Tree Champions' programme. Alongside pupil workshops and teacher training, we have planted more than 32,000 trees in schools across the UK.

250,128

students in 769 schools have taken part in The Tree Council's 'Young Tree Champions' programmes since 2020.

Shinfield St Mary's Primary School in Reading has been a Young Tree Champion since 2021. It has established one of the largest Miyawaki Forests in a school in the UK, with 2,000 trees planted this year. The school has also successfully embedded the project into its curriculum and is establishing a school tree nursery to supply local schools with saplings.

"The school's ecology work is ambitious and exceptional. Sessions are carefully planned to develop pupils' understanding of the natural world. Pupils know how they are explicitly applying and making links with their learning in many subjects, including mathematics, science and geography. Pupils are unequivocal in their views about why this environmental work matters. They see it as crucial for their and others' future."

OFSTED review 2023

The Talent Foundry

EE

Skills for Life is a series of interactive, employability workshops delivered in schools across the UK, at M&G offices, and via an online CV review service. These workshops support students from under-resourced backgrounds in understanding how best to promote themselves when they are applying for jobs, university or apprenticeships; provide crucial guidance; and empower talented young people by helping them develop skills to take their future into their own hands and become independent, active citizens.

In 2023, 5,533 young people took part in Skills for Life programmes, and M&G colleagues volunteered over 540 hours of support.

"Having external visitors deliver workshops that help students recognise the importance of skills and attributes that they need to become career ready is a major plus for our students. By nurturing their soft skills through the workshop activities, they have grown in confidence, work better with their team and have improved their communication skills through presentations, mock interviews etc."

Teacher
Pioneer Academy, Slough

Social impact continued

SOS Children's Villages EE

The international Empowering Families programme helps young people and their families in Europe and India to realise their full potential by accessing entrepreneurship and leadership skills, enabling struggling families to support their children's health and educational attainment. We have supported young people through digital mentorships with M&G colleagues, distance learning activities, and apprenticeships – helping them to take the next steps in their employability journey. Since partnership launch almost four years ago, M&G and SOS Children's Villages have been reaching 121,000 young people and parents every year in India, Italy, Germany, Poland, France and Spain.

We have also supported young people through digital mentorships with M&G colleagues, distance learning activities and apprenticeships – helping them to take the next steps in their employability journey.

Making a difference

Helping families

Meenakshi, aged 9, and her family were referred to SOS Children's Villages in India after enduring poor living conditions and struggling to provide regular healthy and nutritious meals. Meenakshi's weight was worryingly low, so the family were allocated nutritional food kits for four months. They were also shown how to easily source nutritious food items themselves and the benefits of a balanced diet. Meenakshi's weight has since been restored and she is enjoying school again. The support provided by the Family Strengthening Programme in recent years has been instrumental to Meenakshi receiving a good education.

In addition, through SOS Children's Villages India's self-help groups, Meenakshi's mother has learnt about financial independency and improved her written and communication skills. She is now a step closer to securing a stable source of income for her family.

Junior Achievement Europe EE

The 10X Challenge enterprise programme and digital platform helps young people develop entrepreneurial and financial capability skills, particularly investment and longer-term saving, and empowers teachers to be confident about teaching financial capability. It is run over four weeks and young people use a £/€10 pledge to get their business ideas off the ground.

As a result of M&G's funding, 10X Challenge now engages students in schools across France, Germany, Ireland, Italy, Poland, Spain and the UK. Over four years; more than 1,200 schools have taken part in the challenge, engaging over 100,000 young people, 64% of participants improved their understanding of key financial concepts such as revenue, profit, savings and investment, and 74% of educators increased their confidence in delivering financial and enterprise education.

> The best part of 10X is the opportunity to apply the skills I developed – such as teamwork and communication – further on in my life. It's a good way to encourage young people into the business world."
>
> **10X student**

100,000+

young people have taken part in the 10X Challenge since 2020

Age UK CB

The Age UK Building Resilience programme aims to equip vulnerable, older people with the tools, skills and opportunities needed to build resilience at difficult stages of their lives. The holistic support offered includes in-depth information and advice, support and referrals to appropriate services through Age UK's Advice Line.

Now in its fourth year, M&G's support has enabled Age UK to help 6,446 older people and respond to 30,629 enquiries to Age UK's Advice Line.

Making a difference

Building resilience

Terry is 80 years old and lives alone since his wife's death last year. The impact was profound and Terry grappled with feeling 'useless', struggling to learn cooking, cleaning and managing the household finances. He found it difficult to pay the bills and feared putting on the heating, despite experiencing breathing difficulties worsened by the cold. Terry felt very alone and would often go five days without speaking to a soul.

Terry turned to the Age UK Advice Line for help, and with its support he was awarded Attendance Allowance. "It saves me worrying about where the money is going to come from next," says Terry. "I'm so grateful for Age UK's help."

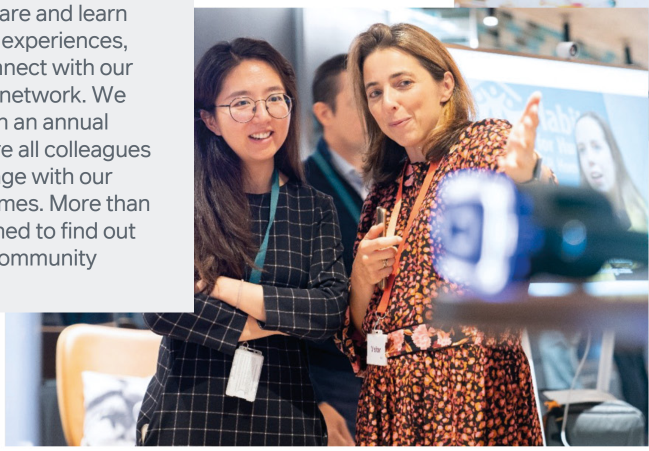
The Age UK Advice Line also referred Terry to the Age UK Telephone Friendship Service. Regular calls with his telephone friend Jade have brought light and hope back during lonely times. "Loneliness is hard to explain," he says. "Some nights I get quite depressed. I've always worked with people - I'm a people person - so it's lovely to be able to speak to somebody. I look forward to our call all week."

Social impact continued

Making a difference

M&G in the Community

Every year we run a series of roadshows and take M&G in the Community on the road to meet with our colleagues. We showcase how our flagship 'Breaking barriers, building futures' programme is making a difference in our communities; and share and learn from our colleagues' experiences, enabling them to connect with our charity partners and network. We complement this with an annual virtual show to ensure all colleagues can access and engage with our community programmes. More than 2,000 colleagues joined to find out more about M&G's community support in 2023.



Colleague engagement

In 2023, 1,517 M&G colleagues dedicated 12,012 hours to supporting charities with activities from skills-based volunteering such as mentoring, to tree planting, beach cleaning and refurbishment of housing for vulnerable groups. Working together with community champions across our offices, we direct funding and volunteering through our local community grants, giving our colleagues ownership and the ability to choose where to focus their support.

M&G in the Community Fund

Our M&G in the Community Fund is an annual grant programme that supports local charities and projects with small donations. The Fund Committee includes 39 colleagues across M&G locations and, since its launch in September 2019, the Fund has awarded 348 charitable grants globally.

Disaster and emergency response

We feel it is our responsibility to respond to emergencies and make a meaningful contribution in the most appropriate and prompt way, and we work with national and international charity partners to direct a targeted, humanitarian response.

Supporting communities in times of crisis

Morocco and Libya response

In response to the earthquake in Morocco and the flooding in Libya, we made emergency corporate donations to support the relief efforts of the British Red Cross, our established long-term charity partner. M&G's support helped to provide basic relief items, including blankets, sleeping bags, heaters, tents and beds, and emergency food supplies.

Israel and Palestine

As the crisis unfolded in Israel and Palestine, we worked with the British Red Cross to deliver humanitarian aid to those affected by the conflict. We made an emergency corporate donation towards medical supplies, supported by volunteers from Magen David Adom (the national Red Cross Society of the State of Israel) and the Palestine Red Crescent Society.

Charitable donations

We calculate our community investment spend using the Business for Societal Impact standard (B4SI), which includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions.

Our total community investment spend in 2023 was £4.7 million, of which £3.2 million was cash. The balance included in-kind donations prepared in accordance with B4SI guidelines. Furthermore, £220,438 was donated by our employees through our payroll giving scheme.

£4.7m [A]

Total community investment spend in 2023

12,012

Total volunteering hours in 2023

A PwC has provided independent limited assurance over the total community investment spend in 2023 (as indicated by A) in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.

Risk management

Protecting our business

Our careful approach to risk management allows us to make effective business decisions today, while understanding the challenges that face us tomorrow

One of the key objectives of the Risk and Compliance function is to help the business make informed decisions.

The environment of economic and geopolitical uncertainty in 2023 continued to highlight the importance of risk management to enable effective decision-making. We have supported the business through this uncertainty and in managing new or emerging risks, including new technology adoption.

2023 also saw the business model evolving into three distinct yet complementary businesses across Asset Management, Life and Wealth, which are overseen by the Risk and Compliance function to deliver diversified exposure for growth within our risk appetite.

In 2023, we have made good progress in simplifying and embedding our risk and control frameworks, enhancing our risk culture and driving a mature three lines of defence model. We will continue to work with the business in 2024 to support key decision-making and the successful execution of our business strategy.

Louise Gelling
Interim Chief Risk and Compliance Officer

Risk management framework

As part of our business, we take on risk on behalf of our clients and shareholders. We selectively take risks if they are adequately rewarded, and can be appropriately quantified and managed. In this way, we safeguard our ability to meet client commitments, comply with regulations and protect our reputation.

Our comprehensive approach to risk includes identifying, measuring, managing, monitoring and reporting current and emerging risks - the Risk Management Cycle - supported by our risk culture and strong risk governance.

Our Risk Management Framework is designed to manage risk within agreed appetite levels, aligned to delivering our strategy and creating long-term value for clients and shareholders.

Risk culture

The Board is responsible for instilling an appropriate risk culture. Working together with senior management, the Board oversees and promotes risk management by emphasising and embedding the importance of balancing risk with profitability and growth in decision-making.

It also oversees internal control processes and ensures compliance with regulatory requirements.

Our approach to risk culture is centred around our Group-wide 'I Am Managing Risk' programme, which requires colleagues to take personal responsibility for identifying, assessing, managing and reporting risk. Our colleagues are expected to work together to do the right thing for our clients, wider stakeholders and our business. All colleagues have risk management accountabilities as part of their core objectives.

Governance

The Risk Committee is responsible for assisting the Board in overseeing risk.

The Audit Committee assists the Board in meeting its responsibilities for the integrity of our financial reporting, including the effectiveness of our Risk Management Framework and internal control systems.

The Remuneration Committee ensures that our compensation structures place appropriate weight on colleagues adopting our behaviours and risk culture to align with our long-term success.

Our risk framework and 'three lines of defence' model

Board

Risk Committee

First line of defence (Business and Support functions)	Second line of defence (Risk and Compliance)	Third line of defence (Internal audit)
Risk identification and management	**Oversight, advice and challenge**	**Independent assurance**
– Identify, own, manage and report risks – Own specific risk and compliance policies – Execute Business Plan and strategy – Establish and maintain controls – Instil conduct requirements and individual monitoring – Stress and scenario modelling – Operate within systems and controls – Ongoing self-assessment of control environment effectiveness	– Own risk and compliance framework – Stress and scenario setting, responsible for oversight – Give proactive and reactive advice and guidance – Monitor risk and compliance and assurance activities – Report on risk and compliance – Strategy and approach for regulatory engagement	– Independent assurance of first and second lines of defence – Independent thematic reviews – Risk and controls assessment

Risk management continued

Our Risk Management Framework and internal control systems support our Risk, Remuneration and Audit Committees and are based on the 'three lines of defence' model.

First line business and support functions identify and manage risks and are overseen by the second line Risk and Compliance function. The second line is structurally independent of the first line, and provides oversight, advice and challenge. The third line Internal Audit function is empowered by the Audit Committee to audit the design and operating effectiveness of our system of internal controls, including governance, risk management and control processes.

Risk appetite and limits

Risk appetite is the level and type of risk we are willing to accept in pursuing our business objectives. Our risk appetite statements and limits specify our risk appetite and tolerance to take on risk. The statements and thresholds are aligned to our business model and strategy and cover significant financial and non-financial risks. We have established aggregate risk appetite statements and limits for capital, liquidity and dividend volatility. Our capital risk appetite is supported by a solvency intervention ladder, which sets out management actions to consider or implement at different levels of regulatory solvency.

We assess our ability to stay within our risk appetite during the annual business planning process, and monitor and manage our actual position regularly throughout the year.

We also set the individual appetite statements and limits so we operate in line with aggregate approved risk appetite statements, even when the individual limits are fully used.

Risk and Compliance oversight

Our Risk and Compliance function performs second line oversight to support growing product offerings in a changing business environment. In managing the risks arising from our re-entry to the Bulk Purchase Annuity (BPA) market, our Risk and Compliance function performed reviews of strategic and deal-specific activities with a focus on delivery against business plans and alignment with regulatory requirements and agreed appetite for risk exposures.

Colleagues from across the first and second line were included in cross-functional committees and working groups to enhance our risk identification, monitoring and decision-making capability.

We advised on specific financial and non-financial risks, including the pricing framework, proposition design, model risk, operational risk, reputational risk, and delivery and execution risks.

Final business recommendations to the Prudential Assurance Company Limited Board on the two specific BPA deals made in 2023 were supported by an independent Risk and Compliance opinion, which included consideration of the risks being taken under a variety of scenarios and the position against risk appetite.

Prescribed indicators inform us whether a risk may move out of appetite and, together with limit utilisation, this is a core element of our risk reporting to our Board and Executive Risk Committees with appropriate management actions.

Risk and capital management

Our Group Own Risk and Solvency Assessment (ORSA) is built around risk management, strategy and business planning and capital management. It covers our processes and procedures to identify, measure, manage, monitor and report short-term and long-term risks and assess the adequacy of our solvency position. The Group ORSA process is supported by subsidiary ORSA processes for our Solvency II entities and Internal Capital Adequacy and Risk Assessment (ICARA) processes for our investment firm entities.

> "We design and then oversee a controlled approach to risk management, with clear ownership, in line with our risk appetite."
>
> **Louise Gelling**
> Interim Chief Risk and Compliance Officer

Risk management and internal control effectiveness

The Risk and Audit Committees have considered the outcome of the annual assessment of risk management and internal control effectiveness for 2023. The assessment is performed for each business area by the first line, with an independent second line opinion. It is driven by Risk and Control Self Assessments (RCSAs) conducted over the year, along with consideration of issues; notifiable events; compliance with policy requirements; risk appetite assessment; and regulatory feedback.

The business area assessments are aggregated to provide a material subsidiary and an overall M&G plc group-wide assessment. Internal Audit also provide an independent assessment of the overall control environment.

The assessment identified that positive progress has been made across M&G plc during 2023 in building on the risk and control framework foundations previously put in place, but also acknowledges that implementation work continues into 2024 to reach target maturity. Management attention is therefore still required to fully embed the framework, including some targeted enhancements to elements of the framework and embedding of group-wide Key Control Assessments across the business.

The Risk and Audit Committees at M&G plc Group and subsidiary level collectively monitor the timeliness with which outstanding actions and embedding plans are completed.

Risk management continued

Principal risks and uncertainties

1 Business environment and market forces

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Changing client preferences, together with economic and political conditions, could adversely impact our performance against our strategy. Economic factors may impact product demand and our ability to generate an appropriate return. Increased geopolitical risks and conflicts, and policy uncertainty, may impact our products, investments and operating model. Our reliance on PruFund for our inflows and our intermediated channel for sales in our Wealth business segment heighten our exposure to changing economic conditions and client preferences.	Our annual strategic planning is overseen by Risk and Compliance function and the Board. The process of strategy approval considers the potential impact of the wider business environment and economy. Throughout the year, we monitor and report on progress in delivering our Business Plan. During 2023, we have realigned our leadership structure to our three businesses: Asset Management, Life and Wealth. This mitigates risk by aligning accountability with our business model and strategy which are overseen by our Risk and Compliance function. We are making good progress to transform M&G to continue delivering diversified risk exposures.	Our risk exposure to business environment and market forces is expected to increase as we build scale in selected markets, while managing risks arising from uncertain economic outlook, geopolitical conflicts, legislative changes and negative economic trends. The evolving asset management market places competitive pressure on fees, requiring continued focus on delivering good customer outcomes and assessing target markets. Within the UK market, legislative risks include potential changes in legislation resulting from the UK Government's consultation on: "Modern leasehold: restricting residential ground rent for existing leases", which could adversely impact our senior and junior notes backed by residential ground rents.		Increased

Key

Maintain our financial strength | Simplify our business | Deliver profitable growth

Risk management continued

2 Sustainability and ESG

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
A failure to address and embed sustainability considerations within our strategy, products, operating model, and communication approach could adversely impact on our financial performance, reputation and future growth. We consider and act upon a broad range of issues including those concerning greenwashing, climate impact, diversity and inclusion, and corporate governance. We consider ESG Risk in terms of sustainability, or by how our business impacts on the planet and society, the impact of ESG factors on our organisation, and our ability to meet a range of key stakeholder expectations on sustainability and ESG issues.	We have an ESG Risk Management Framework in place to provide a structured approach for our identification, assessment and management of ESG risks, based on the three lines of defence model. The framework is supported by the ESG Risk Policy, which sets out key business requirements. We consider ESG risks in our key strategic decisions, regular risk reporting and Board risk assessment papers. We integrate climate change risk into our scenario analysis process, with both top down and bottom up considerations, over a range of time horizons.	The importance of ESG factors to the organisation is expected to increase as the physical impacts of climate change continue to accelerate, nature risks become more prominent and new risks emerge. Regular review of the ESG Risk Management Framework will be required to identify any enhancements necessary to allow the business to manage these risks appropriately.		Neutral

Risk management continued

3 Investment

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
A failure to deliver against fund mandate or client investment objectives (including sustained underperformance of funds), to maintain risk profiles that are consistent with our clients' expectations, or to ensure that fund liquidity profiles are appropriate may all lead to poor client outcomes and result in fund outflows. If these risks materialise for our funds or a range of funds, it may impact our profitability, reputation and growth plans.	Our fund managers are accountable for the performance of the funds they manage, and management of the risks within the funds. Independent Investment Risk and Performance teams oversee fund performance, fund liquidity and investment risks, reporting to the Chief Risk and Compliance Officer. Such activities feed into established oversight and escalation forums to identify, measure and oversee investment performance, investment risk and fund liquidity risks.	Our investment risk exposure is expected to increase as markets have priced in a soft economic landing alongside central banks cutting interesting rates, this is coinciding with significant elections globally. Economic uncertainty increases investment risk which is driven by market targets with investment performance measured against benchmarks and peers. Any unforeseen economic downturns or surprise election outcomes would result in repricing of markets.		Increased

4 Credit

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
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. Our primary exposure to solvency is from the change in the value of invested assets arising from credit spread widening, or credit rating downgrades. We also have exposure to credit risk through while for trading, banking or reinsurance activities which this relates to the risk that the counterparty fails to meet their obligations.	Our Credit Risk Policy sets standards for assessing, measuring and managing credit risk, monitored by a dedicated, independent team. We set and regularly review limits for individual counterparties and by issuers, sectors and aggregate credit quality, and monitor exposures against these limits. Our policy is to undertake transactions with counterparties and invest in instruments of high quality. Where appropriate, we seek to collateralise transactions to mitigate credit risk including derivatives, secured lending, reverse repurchase agreements and reinsurance transactions. We also manage and control reinsurance treaties to enable effective risk transfer.	Our credit risk is impacted by our re-entry to the BPA market and ongoing economic uncertainty that may trigger volatile markets. Negative market developments, or industry events impacting invested sectors could negatively impact our invested credit positions.		Neutral

Key

Maintain our financial strength | Simplify our business | Deliver profitable growth

Risk management continued

5 Market

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Our profitability and solvency are sensitive to market fluctuations in the level or volatility of equities, properties, alternative investments, interest rates, currencies and inflation. Significant market fluctuations could have material adverse effects on our revenues and returns. Material falls in interest rates may increase the amount we need to set aside to meet our future obligations. Exchange rate movements could impact fee and investment income denominated in foreign currencies. Material increases in inflation may increase our cost base and the amount we need to set aside to meet future obligations, negatively impacting profitability.	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. Where appropriate, and subject to risk limits and procedures, we use derivatives for risk reduction, to hedge equities, interest rates and currency risks, for example. We review regularly our hedging and investment strategies, including asset-liability matching, informed by stress testing. We have procedures to respond to significant market events and disruptions, bringing together colleagues across M&G to provide an enhanced monitoring and decision-making capability.	Our market risk exposure is expected to increase over the Business Plan period driven by expected volumes of PruFund new business and our BPA market re-entry partially offset by run-off of the existing insurance business. Market risk remains uncertain, with upcoming US and UK elections, rising geopolitical risk and negative market sentiments. There are expectations that inflation will stabilise. Our solvency buffers offer significant protection against market risks.		Increased

6 Corporate liquidity

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We are exposed to the risk that we have insufficient cash resources to meet our obligations, such as claims, creditors, and planned dividends, as they fall due. This includes ensuring each part of our business and M&G plc 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 stress tested. 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.	Our corporate liquidity risk exposure is expected to remain stable. M&G plc's liquidity position is managed against risk appetite and is driven by subsidiary dividend payments and intercompany settlement. Liquidity is therefore dependent on the successful delivery of our Business Plan.		Neutral

Risk management continued

7 Insurance

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We are exposed to the risk of loss or of adverse change in the financial situation of our business, or that of our clients, resulting from changes in the level, trend, or volatility of mortality; longevity; morbidity; persistency; expense and margin pricing experience. Unexpected changes in the life expectancy (longevity) of our clients could have a material adverse impact on our future liabilities, which would affect our profitability and solvency. This risk mainly arises from our large annuity book.	We conduct annual reviews of longevity and other assumptions such as persistency and expenses, which are 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 insurance risk exposures. We have undertaken longevity risk transfer transactions, where attractive financial terms are available from suitable market participants.	Our insurance risk exposure is expected to increase at a managed level due to the re-entry into the BPA market as part of our growth strategy. This exposure will be managed within our existing control environment. Our insurance risks are subject to appropriate controls in pricing and reserving processes. BPA transactions require appropriate consideration of longevity risk and are subject to risk oversight.	Maintain our financial strength; Deliver profitable growth	Increased

Key

Maintain our financial strength | Simplify our business | Deliver profitable growth

Risk management continued

8 Operational

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
A material failure or operational disruption in the processes and controls supporting our activities, including that of our third-party suppliers or our technology, could result in poor client outcomes, reputational damage, increased costs and regulatory censure. Our dependence on technology means the 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, or persistent under performance by our third-party suppliers, could impact our client service delivery.	Our Risk Management Framework defines our approach to managing operational risks and associated controls, including IT, data and outsourcing arrangements. We have a Data Policy that sets out the principles and requirements on the use of data across the organisation, which has become more important with the developments in artificial intelligence. We apply business continuity and crisis management requirements using a risk-based approach to identify and manage Important Business Services and Critical Shared Services. Strategies are then designed, implemented, and tested to manage the risk of intolerable harm under 'Severe, but plausible' scenarios. We have an Information Technology Risk Policy in place to manage technology risks. We are enhancing the existing third-party risk management framework for our global operations, including in the selection, on-boarding, management and termination of third parties.	Our operational risk exposure is expected to remain neutral throughout 2024, supported by continued progress of our transformation programme, data management, and implementation of an enhanced third-party management framework. We continue to improve our operational resilience of important business services under 'severe, but plausible' scenarios, targeting the March 2025 regulatory requirement on operational resilience issued jointly by the PRA, Bank of England and FCA. Efforts to enhance the control environment, and our deployment consideration of new technology, including artificial intelligence, are ongoing.		Neutral

Risk management continued

9 Change

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Failure to deliver on our significant change programmes within cost and capacity constraints may impact our business model and ability to deliver against our Business Plan and strategy.	Our Group Executive Committee advises the Group CEO on prioritisation decisions. The objective is to prioritise the activities which help to achieve our Business Plan and comply with new regulations. Change Delivery is overseen by the Change Delivery Board which is chaired by a Group Executive Committee Member. This committee monitors and reports on a suite of metrics measuring the delivery progress, costs and benefits of our transformation programmes. In addition there is a project Standard in place which all functions must follow and attest compliance with. This includes reporting and escalation of risks to management and the Board.	We expect the nature of our change risk to remain stable over 2024 as we look to deliver on our strategic priorities including our transformation programme announced in 2023. We expect our change risk profile to decrease and return to a more normal level once we achieve those ambitions.		Neutral

10 People

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
The success of our operations is highly dependent on our ability to attract, retain and develop highly qualified people with the right mix of skills and behaviours, to support our positive culture and growth. As we continue to implement our strategy, our people risk is heightened in areas including our pay practices, workloads and morale, the conduct of colleagues or groups of colleagues, and industrial relations.	Our HR framework is designed to align colleague objectives and remuneration to our business strategy and culture. It includes policies and standards for diversity and inclusion, employee relations, remuneration, talent, resourcing, performance and learning. Our management and Board receive regular reporting on key issues and developments, including succession planning, industrial relations, pay, culture and diversity. We conduct colleague surveys to better understand their views and use the survey findings to improve their experience.	We expect the nature of our people risk to remain stable in 2024, following successful delivery of the voluntary redundancy programme in 2023 and with key people metrics remaining stable. The impacts on colleagues of our transformation programme and our changes to hybrid working are being monitored and managed.		Neutral

Key

Maintain our financial strength | Simplify our business | Deliver profitable growth

Risk management continued

11 Regulatory

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We are exposed to the risk from potential failure to meet regulatory requirements or to adequately consider regulatory expectations, standards or principles. We operate in a highly regulated environment, interact with regulators globally, and are subject to a number of regulatory initiatives. There are wide-ranging consequences of regulatory non-compliance, including client detriment, reputational damage, fines and restrictions on operations or products.	Accountability for compliance with regulatory and legal requirements sits with our senior management. Our Risk and Compliance function supports our businesses by providing guidance to, and oversight of, the business in relation to regulatory compliance matters, and carries out assurance activities to assess the adequacy of systems and controls designed to comply with regulations and legislation. We monitor regulatory developments and consultations and engage with government policy teams, industry bodies and regulators.	Aligned to our strategy, international expansion can create additional regulatory complexity as our business processes and colleagues must adapt to meet the expectations of the relevant regulators globally. In addition, there continues to be a high quantum of regulatory change across the financial services industry with ESG, consumer protection and operational resilience being the key themes globally. Within the UK, Consumer Duty, including the addition of 'closed book' products, will continue to be a key focus.		Neutral

12 Reputational

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Our reputation is the sum of our stakeholders' perceptions, which are shaped by the nature of their expectations and our ability to meet them. There is a risk that through our activities, behaviours or communications, we fail to meet stakeholder expectations and adversely impact trust and reputation in M&G or our brands. Failure to effectively manage reputational risk could result in poor stakeholder outcomes and impact our revenues and cost base, our ability to attract and retain the best staff and potential regulatory intervention or action.	Our Reputational Risk Management framework and dedicated Reputational Risk team monitor and report on reputational risks, using a suite of metrics to monitor stakeholder groups. We have embedded Reputational Risk Champions throughout our business. They perform an active role in identifying and monitoring key reputational risks and drivers.	Key to managing evolving stakeholder expectations will be to continue to address the material aspects of sustainability and ESG risk, as well as other reputational risks. Such risks may include strategic commitments, continuity of servicing, and evolving regulatory expectations.		Neutral

Risk management continued

13 Conduct

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
There is a risk that through the acts or omissions of individuals within M&G, we deliver poor outcomes for clients, colleagues, or other stakeholders, or that we affect market integrity.	Observing the proper standards of conduct in all its forms is essential at M&G. Due to the broad nature of conduct risk, management is pervasive and reflected in policy and processes including but not limited to: our Code of Conduct and our Conflict of Interest, Market Abuse and Investment Communications Recording policies. Our Asset Management business has a Conduct Management Framework to provide a consistent process for conduct management and our Life and Wealth businesses have a mature suite of customer outcome management information in place in support of Consumer Duty.	Conduct continues to be a key theme from our regulators, with firm failures often cited as part of enforcement actions notably from the FCA. We have taken positive steps to design and implement processes to oversee, measure and report on conduct risk during 2023 and these will be embedded during 2024.		Neutral

Emerging risks

Emerging risks are potentially significant newly developing or evolving risks, generally characterised by a high degree of uncertainty - making them difficult to quantify.

An annual assessment process identifies our emerging risks, and assesses those that will be subject to management and monitoring. The assessment collates input from subject matter experts across our first and second lines of defence, as well as external perspectives.

We review the development of emerging risks during the year to update our assessment. We also review our preparedness should a risk emerge, incorporating any material developments since the annual assessment.

Examples of emerging risks reviewed by the Executive Risk Committee and the Risk Committee during the year include:

- Artificial intelligence;
- Geopolitical conflicts; and
- Macroeconomic trends and outlook, including the interest rate environment and stagflation.

Climate-related disclosures

Our climate disclosures (including TCFD)

We are committed to taking action on climate change and operating our business more sustainably, as we progress on our net zero journey

Our climate-related disclosures set out in this section of the report are consistent with the four pillars and 11 recommended disclosures of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), and take into account both the all-sector guidance and the supplementary guidance for asset owners and asset managers.

Disclosure of our Scope 3 emission metrics are presented where availability of source data allows. In particular, we continue to gather data for our supply chain emissions, and improve coverage and quality of data for our financed emissions. For our supply chain we aim to formally report on emissions related to purchased goods and services in the near future.

For emissions relating to our investment portfolio (financed emissions), we have increased coverage in the year, and expect further improvements as availability of data improves, and industry guidance extends to a broader range of asset classes such as asset-backed securities and derivatives.

As climate is a consideration across a number of areas of the business, the table below provides details of where relevant disclosures can be found for each of the TCFD recommendations.

TCFD pillars	Further information	CA 414CB (2A)
Governance		
Board's oversight of climate-related risks and opportunities	Sustainability governance – page 38	(a)
Management's role in assessing and managing risks and opportunities	Sustainability governance – page 39 Our approach to climate change – pages 70-71 Climate risks and opportunities – pages 72-74	(a)
Strategy		
Climate-related risks and opportunities the organisation has identified	Climate risks and opportunities – pages 72-74	(d)
The impact on the organisation's businesses, strategy and financial planning	Our approach to climate change – pages 70-71 Climate risks and opportunities – pages 72-74 Our strategy – pages 15-17	(e)
Resilience of the organisation's strategy, based on different climate-related scenarios	Climate risks and opportunities – pages 72-74 Scenario analysis – pages 85-88 Financial statements – from page 184 (Notes 1, 15, 17, 31, 37)	(f)
Risk management		
Processes for identifying and assessing climate-related risks	Climate risks and opportunities – pages 72-74	(b)
Processes for managing climate-related risks	Climate risks and opportunities – pages 72-74 Risk management (Sustainability and ESG) – page 61	(b)
Integration of climate risks into the organisation's overall risk management	Risk management (Sustainability and ESG) – page 61	(c)
Metrics and targets		
Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Operational emission metrics – page 77 Investment emission metrics – pages 82-84	(h)
Greenhouse Gas (GHG) emissions	Greenhouse Gas Emissions Statement – page 77 Investment emission metrics – pages 82-84	(h)
Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Our approach to climate change – page 71 Climate change and our operations – page 75 Investments (Implementation strategy) – page 79	(g)

Climate-related disclosures continued

Our approach to climate change

By strengthening our frameworks and tools to align M&G and our clients' investments with the climate transition, we are preparing ourselves for a low-carbon world

Strategy

As a large investor in both public and private assets, our strategy is focused on positive real-world change, using the levers we have to support the climate transition and help our clients manage the risks and opportunities brought by climate change. This means taking action to align our investments so that they contribute to and thrive in a low-carbon world.

From an investment perspective, we can influence decarbonisation through three key channels:

- Investment strategies: Making changes to our investment portfolios
- Stewardship: Engaging issuers to implement ambitious transition plans
- Advocacy: Engaging with industry and policy makers

Alongside portfolio decarbonisation, we can play an important role in helping to finance and enable climate solutions, to accelerate the transition. At M&G, we consider this a structural growth opportunity we are well placed to support, both in developed and emerging markets.

Our stewardship approach is based on our belief that divestment does not have a direct impact on real-world emissions reductions. Our priority as an active, long-term investor is to encourage change through engagement and voting.

At the same time, governments need to create the right conditions for accelerated climate action. Here we can also play a role through advocacy and collective effort, to promote greater economy-wide ambition. We do this through collaboration with peers and by supporting ambitious public climate policy and appropriate regulation.

Further details on our engagement and implementation strategy for investments, as both an asset owner and asset manager, are on pages 78-81.

While our operational climate impact is smaller than our financed emissions, our own direct actions also matter – just as the companies we invest in, we need to decarbonise our operations, including our value-chain emissions, and consider environmental impacts and dependencies which we are tackling as an integral part of our journey to net zero. We aim to drive down direct and indirect emissions on a Paris-aligned timeline. Further details on our operational impact and activity to support our net zero journey are on pages 75-77.

We recognise that holistic action on climate requires us to consider nature-related issues, to address the systemic risks associated with the interconnected issues of climate change and nature loss (see page 37).

Taking action in 2023

- Submitted a target update to the Net Zero Asset Managers Initiative (NZAMi), including a 2030 decarbonisation goal for real estate.
- Adopted an improved asset manager net zero investment framework to support investment decisions and stewardship efforts.
- Introduced a new climate solutions investment framework to better categorise and measure exposure to climate solutions.
- Used the net zero investment framework in the development of the newly launched Sustainable Alpha Opportunities Fund.
- Continued to implement our asset manager Thermal Coal Policy, focusing on issuers in OECD/EU countries, and prepared for further review of non-OECD/EU companies in 2024.
- Progressed engagement with the top 40 emitters in our asset owner portfolios, in line with our Net-Zero Asset Owner Alliance (NZAOA) commitment, to encourage net zero alignment.
- Joined the newly formed Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative and Nature Action 100.
- Participated in climate and nature-related best-practice work through the Climate Financial Risk Forum.

Net zero transition

Key transition levers

Investment strategies	Stewardship	Advocacy	Operations
Product design	Investee and investment manager engagement	Policy, industry and client engagement	Energy, travel and waste
Financing climate solutions	Voting	Transparency and disclosure	Supply chain engagement

Real-world change – transition alignment

Climate-related disclosures continued

Climate commitments

Net zero by 2050 across our operations and investment portfolios

Supported by the following interim targets:

Operations	Asset Manager	Asset Owner
46% reduction in Scope 1 and 2 emissions by 2030*.	50% reduction in emissions intensity (tCO_2e/$m invested) for in-scope public equity and corporate debt by 2030*†.	50% reduction in emissions intensity (tCO_2e/$m invested) for in-scope public equity and corporate debt by 2030*†.
46% reduction in Scope 3 business travel emissions by 2030*.	36% reduction in emissions intensity ($kgCO_2/m^2$) for in-scope real estate assets by 2030*†.	36% reduction in emissions intensity ($kgCO_2/m^2$) in our directly owned real estate portfolio by 2030*†.
Engaging with suppliers to encourage them to set ambitious carbon reduction targets aligned with climate science, covering at least 67% of our operational supply chain emissions by 2030*.	Issuers representing 70% of financed emissions (Scope 1 and 2, public equity and corporate debt) either assessed to have credible transition plans, or engaged to help ensure those companies are Paris aligned.	Engage with 40 largest emitters and reduce sectoral emissions by 2030*: Utilities (60%); Oil, Gas and Coal (50%); Materials and steel (40%); Transport, road (50%); Transport, aviation (25%); and Transport, shipping (25%).

* Target against 2019 baseline.
† The interim decarbonisation targets for public assets and real estate cover Scope 1 and 2 financed emissions.

Targets

We have committed to reach net zero emissions by 2050 at the latest, across our investments and operations. We recognise that Paris-aligned action is path-dependent, and have set interim decarbonisation targets for in-scope investments as well as our operations. Our operational emissions form part of the non-financial remuneration metrics used for our Executive Directors.

We are conscious of the difference between 'paper' emissions reductions and decarbonisation in the real world, and hence the need for clear attribution. We also realise the importance of a just transition, where the costs and benefits are shared fairly between generations, communities and regions.

Priorities for 2024

- Implement our evolved net zero investment framework, including our new climate solutions investment framework.
- Progress our climate and nature-related stewardship activities, individually and collaboratively.
- Continue engagement with existing and prospective clients, to increase assets in scope of our interim targets.
- Engage with our supply chain to encourage ambitious transition plans and reduce our indirect operational emissions.
- Enhance our climate strategy across asset classes.

Governance

Governance over climate risks and opportunities follows our overall sustainability governance model. Further details of how the Board and sub committees discharge their responsibilities in relation to sustainability (including climate) are set out in the sustainability governance section of the strategic report.

Key developments in the year include the appointment of a Chief Sustainability Officer and new Head of Sustainability for the asset manager.

Find out more on sustainability governance on pages 38-39

Business planning

The Board is responsible for approving the Business Plan annually. Where we have a reasonable estimate of the income or expenditure related to our climate actions, and these are expected to materialise over the plan period (three years), we capture it in our business planning process. For example, change programme spend and anticipated growth in sustainability-focused fund propositions are captured in the plan.

Reporting

We value the importance of clear and decision-useful climate disclosures, to enable all stakeholders to assess our strategy and progress. In 2023, we have expanded our climate-related disclosures to cover in-scope entities and products as required by the FCA. We have also widened our independent limited assurance to cover selected financed emissions metrics for the first time, including data on public assets and sovereign debt.

The Audit Committee is responsible for oversight and development of assurance around sustainability reporting, including climate disclosures.

Climate-related disclosures continued

Climate risks and opportunities

Climate risk

The identification, assessment and management of climate-related risks, along with other ESG-related risks, is integrated into our ESG Risk Management Framework. Climate change falls under sustainability and ESG, a principal risk for M&G, and is therefore a key area of oversight for our Risk and Compliance teams.

Consideration of sustainability risk is built into our decision-making, with sustainability themes and risk factors being incorporated into our general investment and risk management processes.

Climate risk identification

As part of our Own Risk and Solvency Assessment (ORSA) we have used our in-house climate modelling expertise to explore the potential financial impacts of physical and transition risks on our balance sheet through four different climate scenarios (Orderly Net Zero 2050, Disorderly Divergent Net Zero, Disorderly Delayed Transition and Hot House World Nationally Determined Contributions). The scenarios use the Network for Greening the Financial System (NGFS) phase 3 scenarios as a basis, with additional inputs taken from the 2015 Burke et al. study on the effects of temperature on economic production, the Emergency Events Database, and the Notre Dame Global Adaptation Index to support the modelling of physical risk.

The results of our 2023 modelling indicates that a Hot House scenario continues to have the most significant impact on our balance sheet, while disorderly scenarios are more adverse than an orderly transition. The likelihood of an orderly transition appears to be falling, due to the gap between global action and Paris-aligned pathways.

As a result we have strengthened our focus on disorderly outcomes. In 2023, we explored the impacts of an additional disorderly scenario, Divergent Net Zero, which assumes that the transition diverges across countries and sectors. The modelling undertaken this year is a progression of the work carried out for the 2022 ORSA.

In addition to this overall balance sheet modelling, we also continue to undertake more granular, asset-by-asset modelling to support integration across our investment teams. The climate model we use for public assets – Aladdin Climate – was updated in 2023 to better reflect the latest scientific developments, as well as new data sets, including issuer net zero target information (eg Science Based Targets initiative and CDP data).

Find out more on this scenario analysis on pages 85-88

Scenario analysis acts as a useful tool for interrogating and understanding how climate-related developments could impact the assets we manage and administer. We will continue to develop our in-house climate scenario capability, both quantitatively and qualitatively, recognising modelling limitations and the importance of continual evaluation of assumptions.

Navigating uncertainty

We recognise that climate change presents a range of complex and interconnected transition and physical risks that are hard to capture in long-term quantitative scenario modelling. This includes non-linear change and second-order impacts (see examples in the diagram below), which could affect the issuers and assets we invest in as well as whole economies.

As an example, physical risk model outputs could change materially should so-called tipping points be incorporated. Tipping points represent potentially irreversible changes to the climate system that could accelerate the pace and impacts of acute and chronic physical climate events. These effects are practically challenging to include in model parameters, meaning physical risk impacts may be underestimated in models that do not include them.

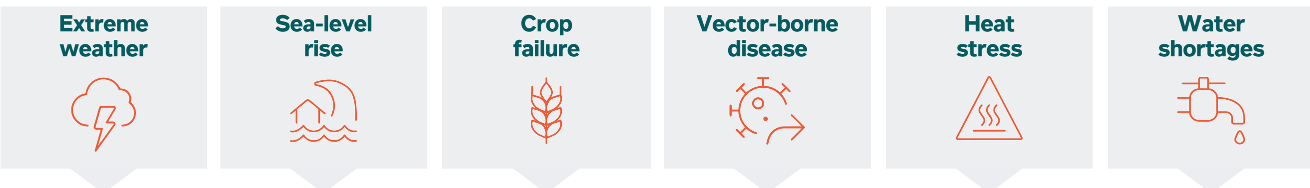
In view of these limitations, and acknowledging growing awareness of the need for more qualitative approaches, we are exploring short-term scenarios that can accommodate more complexity, higher uncertainty, and that are more representative of the real world. To date this has been through industry forums such as the Institute and Faculty of Actuaries and the Climate Financial Risk Forum.

Climate risk as a business

We are exposed to transition and physical risks in our operations and through our supply chain, both of which could have an impact on our business continuity, costs and assets. Our Workplace Solutions team monitor and manage our operational emissions footprint, including engagement with our suppliers. More details on this can be found on page 75.

We are also aware of reputational climate risk to our business, such as not meeting our targets or overstating our work. In 2023, we have carried out structured activity to assess the effectiveness of greenwashing risk mitigation controls and strengthen these where appropriate. This has included the rollout of mandatory greenwashing training across the business.

Climate change is a risk multiplier



Potential impacts include asset destruction, supply-chain disruption, inflation, insurance losses, political instability and involuntary migration. These risks could interact and compound, affecting issuers, economies and our business.

Transition and physical impacts

We take a holistic view of climate risks across a range of timeframes (short term: <3 years (consistent with our business planning cycle); medium term: 3-10 years; long term: 10+ years).

Both transition and physical risks have the potential to impact the value of the assets we manage on our clients' behalf (find out more about our investment scenario analysis on pages 85-88), which directly influences our revenue and the value of assets held on our balance sheet. The main categories of these risks are illustrated in the table below and are applicable across our different legal entities and business areas.

We understand that climate-related risks can overlap and interact, creating compound and cascading impacts, and that the precise timing and sequence is hard to predict. Given this uncertainty, the transition and physical risks outlined below have potential to arise over a range of timeframes. We believe that both transition and physical risks may start to materialise over the short term, with the likelihood and potential impact of the risks rising, and continuing to increase over time.

Climate risks

	Risks					
	Transition				Physical	
	Policy and legal	Technology	Market	Reputation	Acute physical	Chronic physical
Description	Carbon pricing, climate regulation and restrictions on carbon-intensive activities. Increased climate litigation (eg due to greenwashing or failure to meet commitments)	Renewable energy, cleaner transport and other low-emission products and services replacing carbon-intensive technologies, causing obsolescence and potential stranding of assets	Changes in consumer and investor preferences (eg avoidance of carbon-intensive products and assets) and related pressure on input/ raw material prices	Damage to company's standing among clients, investors and other stakeholders (eg from greenwashing, or failure to meet climate commitments or regulatory requirements)	Increased frequency and severity of extreme weather (eg storms, wild fires and heatwaves)	Longer-term shifts in climate patterns (eg sea level rise and changes in precipitation patterns) and associated impacts on food and water security, human health and geopolitical risk
Investment impacts	Impact of net client flows and asset values on AUMA					
Corporate impacts	Revenue, expenses, balance sheet, business continuity, and ability to attract and retain employees					

Monitoring and management

De-risking involves pulling our levers – investment strategy, stewardship, advocacy and operational change – to ensure that the portfolios we manage, and our operations, are aligned with the transition, and resilient to physical impacts. Our first-line risk management approach is embedded in our thermal coal policies and asset manager net zero investment framework, which in turn inform our climate stewardship, including escalation actions and any potential divestment where we do not see sufficient progress.

We are willing to accept some time-bound transition risk exposure, as long as we can build confidence that investees are on sufficiently ambitious decarbonisation trajectories. Some physical hazards are more prominent for asset classes such as real estate and infrastructure, and involve location-specific assessments of existing and new assets (see our private asset scenario analysis on page 88).

Our asset manager investment teams have access to a range of proprietary tools to help them identify, assess and monitor climate risks for different types of assets, drawing on our ESG database. These include our ESG scorecard, which incorporates climate-related analysis, and the portfolio analytics tool (PAT), which helps our investment teams monitor climate data and track progress against relevant benchmarks.

Operationally, we are managing both direct and indirect transition risks, for example through our renewable energy procurement and active engagement with our supply chain. Effective management of these risks is important to ensure that we maintain and strengthen our competitive position.

Climate-related disclosures continued

Climate opportunities

The climate transition presents major long-term investment opportunities across asset classes and markets, both from a mitigation and adaptation perspective.

Many drivers are now converging to accelerate the shift away from fossil fuels, including technological progress, falling costs of renewable energy and storage, and government policy.

We cannot predict the exact pace of change, but climate action is a structural opportunity aligned with our purpose and strategy.

Whether clients are looking for climate-focused strategies, including energy transition opportunities, or increased exposure to sustainability and impact-oriented funds, we offer a wide range of capabilities.

We are also driving action in our operations, by reducing our direct and indirect impacts, and educating our employees.

Climate strategies and solutions

As a large investor in both public and private assets we are strongly placed to finance and enable climate solutions, both in developed and emerging markets. We can back early-stage innovation through our impact and private equity offering, and have significant capabilities in infrastructure and real estate.

Through responsAbility, our emerging markets impact manager, we also support the deployment of solutions in the developing world, including use of blended finance, which is when public sources of finance are combined with private capital to de-risk and mobilise greater investment in emerging and frontier markets.

In terms of public assets, as part of our Planet+ range of funds, we offer targeted strategies that provide our clients with exposure to solutions providers and Paris-aligned benchmarks. Our wider product offering is also evolving: the share of strategies in our SICAV fund range compliant with SFDR Articles 8 (where a financial product promotes environmental or social characteristics) and 9 (where a financial product has sustainable investment as its objective) has risen to 79% at the end of 2023, up from 54% at the end of 2022.

Our asset manager is improving the frameworks it uses to assess transition and net zero alignment, including the classification of climate solutions and critical 'transition enablers'. This is feeding into strategy development – for example, our newly launched Sustainable Alpha Opportunities fund (SAOF) uses our evolved net zero investment framework categories as part of its monitoring criteria.

As an asset owner, propositional development and climate solutions exposure is important too. Since we launched PruFund Planet in 2021, clients have been given the opportunity to access solutions which have positive environmental and societal objectives, as well as the same smoothing mechanism and risk profile as PruFund.

The PruFund Planet proposition is a family of five funds differentiated by risk level, with an investment strategy and manager selection that prioritises sustainability and positive impact.

Over the year, our asset owner has seeded and made allocations to investment strategies managed by responsAbility, taking advantage of new expertise and capabilities within the Group. We believe these allocations are both diversifying to the current life fund investment strategy and represent positive sustainability outcomes.

M&G's Catalyst investment strategy, backed by our With-Profits Fund, invests in assets that contribute to a sustainable economy. This is achieved by investing in companies that act to avoid harm, benefit stakeholders and contribute to solutions.

Across our business, we continue to identify attractive climate-related investments in many markets, and we expect the opportunity set of climate solutions to continue to expand as the transition builds momentum.

Making a difference

Climate impact in emerging markets

In 2023, our emerging markets impact manager, responsAbility, launched a new climate-focused strategy, the Asia Climate Fund (ACF). It also achieved the final closing of the Climate Smart Agriculture & Food Systems Fund (CSAFSF), which launched in 2021. Both use blended finance structures, where public and private sector capital is combined to drive impact.

The ACF received a prestigious award during COP28, linked to the USAID Climate Finance for Development Accelerator. The strategy is focused on the Asian region and targets decarbonisation in the commercial and industrial sectors, by promoting mitigation technologies, including distributed energy generation and storage, electric mobility, and energy efficiency.

The CSAFSF's objective is to mobilise private capital for the implementation of climate-smart initiatives relating to global food systems, targeting small and medium-sized enterprises (SMEs) in parts of Asia, Latin America and Africa.

Climate-related disclosures continued

Climate change and our operations

Operational targets

We have set an emissions target for our corporate operations aligned with a Paris-aligned 1.5°C pathway, using 2019 as our baseline. Our near-term operational carbon reduction targets are:

- Reducing Scope 1 and 2 (market-based) carbon emissions (tCO_2e) from our buildings by 46% by 2030 from a 2019 baseline
- Reduce business travel carbon emissions (tCO_2e) by 46% by 2030 from a 2019 baseline
- Engage with suppliers to encourage them to set carbon reduction targets aligned with climate science, with an aim to cover a minimum of 67% of our Scope 3 supply-chain emissions by 2030 (excluding investments)

We have also committed to purchasing 100% renewable electricity across our operational estate by the end of 2025.

Building environmental management

By the end of 2023, we operated an environmental management system (EMS) certified to the internationally recognised ISO 14001 standard for five out of our six UK offices. This includes our new Stirling office, which was brought into scope during the year. We continue to roll out and develop guidance and processes to support efficient operation of our offices. This includes the integration of applicable environmental considerations within our office selection process, and guidance on opportunities to include green clauses in our leases.

To support continual improvement in office operations, we issue an annual sustainability assessment to offices to identify opportunities for improvement and lessons learned.

In 2023, we also maintained our zero-waste-to-landfill commitment for our UK offices where we have operational control of the property, and promote this as best practice for all other office locations. In line with this commitment, we have donated over 1,300 items of furniture to five charities in 2023, which arose from changes at our offices in both London and Reading.

Making a difference

Cutting our buildings' footprint

Throughout 2023 we have implemented a number of changes across our operational estate to reduce our carbon footprint internationally. One example of this is our main office in Poland, where we have implemented a programme of energy-efficient lighting upgrades.

In our larger UK offices we are also rolling out smart building technology. This provides real-time buildings data to improve operational performance by reacting to changes in demand based on occupancy.

Supply chain engagement

The goods and services we procure are a significant source of our corporate Scope 3 emissions. In 2019, our suppliers accounted for around 90% of our baseline emissions (c.182,000 tCO_2e) and we are aiming to report formally on these emissions in the near future.

To address this source of emissions we have an engagement target of 67% of our supply chain emissions (against a 2019 baseline) to be covered by targets aligned with climate science and the Paris agreement by 2030. This target excludes emissions from our investment portfolios.

In 2023, we built on the success of our 2022 supplier engagement campaign, contacting more than 330 of our suppliers to gather more information on their emissions and target ambitions.

Through a targeted email campaign, a live supplier webinar and one-to-one follow ups, we have gained a greater understanding of our suppliers' sustainability ambitions and carbon emissions performance. By assessing suppliers' actual data, we were able to more accurately determine emissions for the campaign supply base, compared to relying on a spend-based emissions methodology.

For year-end 2022, 58% of our supply chain emissions are reported to be covered by science-based targets, an increase over data assessed for 2021 (20% covered by science-based targets).

Renewable energy

As part of our ongoing global corporate RE100 commitment to reduce Scope 2 emissions, we source renewable electricity across our operational estate. In the UK, we purchase high-quality REGO-backed (Renewable Energy Guarantees of Origin) renewable energy across our UK estate, where we have ownership of utilities contracts.

Across our remaining offices, we obtain energy from certified renewable energy contracts, on-site renewables, and purchase of renewable energy attribute certificates (EACs), where direct renewable energy is not available.

In 2023 98.4% of our electricity use was provided by renewable energy (0.6% on-site generation, 88.7% via procurement and 9.1% via EACs).

Enforcement actions

No fines or regulatory actions have occurred during the year for environmental incidents.

Climate-related disclosures continued

Our progress against targets

87%
Buildings Scope 1 and 2 reduction from baseline

31%
Scope 1, 2, and 3 business travel reduction from baseline

58%
Supply chain emissions from suppliers with validated or committed SBTs

Progress against targets

For our corporate operations carbon reduction targets we measure progress against our Scope 1 and 2 building emissions, and across our business travel emissions. We use 2019 as the baseline as it was the year the Group demerged from Prudential plc.

Following the acquisition of responsAbility in May 2022, its seven offices met the criteria of our 'operational control' approach during the year, and hence are now included in our disclosures for 2023. In accordance with our Environmental Metrics Basis of Reporting, we have also restated our 2019 baseline for this change, resulting in a 7% increase in market-based emissions, and a 6% rise in location-based emissions.

While the inclusion of this additional source of emissions increases the absolute carbon reduction required to meet our near-term target of a 46% reduction by 2030, we remain on track to achieve this target.

At the end of 2023:

- Scope 1 and 2 market-based emissions from our buildings have reduced by 87% from baseline.
- Scope 1, 2 and 3 emissions relating to travel, including business travel by air, rail and car, transport fuels and other emissions have decreased by 31% from our baseline as we have continued to utilise virtual collaboration and more sustainable modes of travel where possible. However we acknowledge that these emissions have increased from 2022, largely due to business travel restrictions being lifted.
- 58% of supply chain emissions, which we have not previously reported on, are covered by suppliers with either validated or committed science-based targets (SBTs).

Performance in the year

When measuring our year on year performance we have compared 2023 with the restated results for 2022 as detailed in our GHG Emissions Statement on page 77.

In 2023, our total Scope 1 and 2 market-based GHG emissions were 703 tCO_2e[A], which is a 55% reduction from 2022 (restated: 1,565 tCO_2e). This decrease is largely attributed to a 60% reduction in Scope 1 emissions due to the move to our new office in Stirling in 2022, removing natural gas from our operations in Scotland.

In 2023, we also reduced our total energy consumption by 39% compared to 2022 (restated). Savings have been achieved through actions such as continued rationalisation of occupied space and improvement works eg daylight harvesting, and increasing the set temperature points in our IT equipment rooms, reducing the energy demand from cooling.

Emissions from waste generated increased from 20 tCO_2e in 2022 (restated) to 53 tCO_2e in 2023, from 280 tonnes[A] of waste. The changes in reported waste emissions are attributed to colleagues returning to offices and an increase in offices reporting waste to 16 (2022: 12), covering 69% of our total floorspace. In 2023 our UK operational recycling rate was 67% which is consistent with 2022 (67%).

Similarly, due to colleagues returning to offices, emissions from water consumption increased in 2023 to 7 tCO_2e from 4 tCO_2e in 2022 (restated). This equated to 37,592m^3[A] of water used in 2023, covering data from 30 offices, 73% of our total floorspace. We continue to work with our offices internationally to improve the data availability.

Due to an increase in colleague journeys, reported emissions from land and air travel have increased to 7,139 tCO_2e in 2023 from 2,916 tCO_2e in 2022 (restated). Of this increase, 731 tCO_2e related to the addition of responsAbility.

We continue our transition to a fully electric fleet across our UK operations by restricting the selection of company cars to electric or ultra-low emissions vehicles. The proportion of electric vehicles rose from 13% of 148 vehicles in 2022 to 19% of 115 vehicles in 2023. In the UK, cars available through our colleague salary-sacrifice scheme are also limited to ultra-low emissions vehicles.

Approach to carbon credits

We prioritise absolute emissions reduction, recognising that the use of carbon credits to offset residual emissions should be the last resort. In line with current industry guidance, we do not anticipate using carbon credits to offset over 10% of our residual emissions to reach net zero.

This year we have purchased carbon credits in a nature-based project. The project has been assessed against our offsetting principles, which align to the Oxford Principles for Net Zero Aligned Carbon Offsetting. We continue to assess the voluntary carbon market and emerging guidance when purchasing carbon credits.

Metrics indicated by [A] have been subject to external independent limited assurance by PricewaterhouseCoopers LLP (PwC).

Climate-related disclosures continued

Greenhouse Gas Emissions Statement

We have compiled our global greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 & 2, and selected Scope 3 reporting as best practice. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity (including use of company electrical vehicles), heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint currently includes business travel (category 6) booked through our travel providers, car travel in colleague-owned cars (category 6), water consumption (category 1) and waste generation (category 5) from occupied properties (where data is available). Due to an increase in floorspace sub-let in our London office, for the first time this year we have also included emissions from leased property (category 13), where data is available. The financed emissions (category 15) from our investment portfolios are reported separately on pages 82-84.

Please refer to our Environmental Metrics Basis of Reporting 2023 (Basis of Reporting) for further detail on our methodology. Data is presented gross of any carbon credits. Selected metrics reported for 2023 (as indicated by [A]) have been subject to external independent limited assurance by PricewaterhouseCoopers LLP (PwC). For the results of that limited assurance, see PwC's independent limited assurance report and our Basis of Reporting available on our website.

		2023		2022 (restated)		2019 baseline (restated)	
		UK	**Total**	UK	Total	UK	Total
Scope 1 (tCO_2e)	Natural gas, oil (generators), vehicle fleet, refrigerants	**446**	**595**[A]	1,309	1,472	1,936	2,187
Scope 2 (tCO_2e) Location-based	Electricity, purchased heat and steam	**1,592**	**3,023**[A]	2,075	4,087	4,213	5,948
Scope 2 (tCO_2e) Market-based	Electricity, purchased heat and steam	**25**	**108**[A]	11	93	105	1,976
Scope 1&2 (tCO_2e)	Total using market-based emissions	**471**	**703**[A]	1,320	1,565	2,041	4,163
Energy	EAC volumes (MWh)	**—**	**1,073**	204	3,677	—	—
	Energy use (MWh)	**9,850**	**13,017**[A]	16,792	21,428	25,745	29,490
	tCO_2e per FTE (Scope 1 & 2)		**0.10**[A]		0.25		0.74

		2023	2022 (restated)	2019 (restated)
Selected Scope 3 (tCO_2e)	Air travel (booked through travel providers)	**7,018**	2,840	9,764
	Land travel (booked through travel providers)	**121**	76	128
	Water (global where available data)	**7**	4	11
	Waste (global where available data)	**53**	20	19
	Emissions from leased property (market-based)	**94**	—	—
	Total selected Scope 3	**7,293**[A]	2,940	9,922
Global Scope 1, 2 and selected Scope 3 (tCO_2e)		**7,996**[A]	4,505	14,085

Reporting period:	1 January 2023 to 31 December 2023
Baseline year:	2019 (restated to include responsAbility)
Consolidation boundary:	Operational control as defined by the Greenhouse Gas Protocol is where the Group has authority to introduce and implement its operating policies at the operations.
Accounting methodology:	Our GHG emissions are prepared in line with The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. Further details on our calculation methodology, including emission factors used can be found in our Basis of Reporting which is available on our website.
Data restatements:	**Waste:** Our 2022 reported Scope 1 & 2, and selected Scope 3 emissions have reduced by 8% to 4,505 tCO_2e (previously 4,880 tCO_2e) attributed to the removal of the materials use emissions factor originally applied to our Scope 3 waste emissions. The removal of the materials use emissions factor has also reduced our 2019 baseline emissions for waste from 370 tCO_2e to 19 tCO_2e. **responsAbility:** The 2019 baseline has been updated to include responsAbility (rA) – further details on rA can be found on page 76. Total Scope 1 & 2, and selected Scope 3 baseline emissions increased by 980 tCO_2e from the addition, largely reflecting business travel emissions. **Company car energy data:** We have also restated our 2019 baseline figure for total energy consumption to 29,490 MWh (previously 26,205 MWh) to reflect the inclusion of data for company cars which was previously unavailable. No update to emissions was required.

Climate-related disclosures continued

Investments – implementation strategy

Climate transition alignment

Top-down analysis helps monitor and manage exposures and portfolio decarbonisation, but to address climate-related risks and opportunities properly, each issuer and asset needs to be assessed on an individual basis. And, importantly, the ability to influence real-world change is different between public and private markets.

Our evolving frameworks and tools allow us to build a clearer picture of issuers' climate profiles, including the identification of critical 'transition enablers' who are helping the world mitigate and adapt. They also support our stewardship efforts, by highlighting areas of misalignment and therefore priorities for engagement.

Net zero investment actions

We believe supporting an orderly transition to net zero will reduce risk at the system level and for the issuers and assets we invest in on behalf of our clients. It will also present opportunities that we are well positioned to access as an active manager across public and private markets. We have committed to support the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C, by working with our clients.

Our approach to aligning investments with climate goals is built upon three key actions, through which we can support decarbonisation and real-world transformation.

- Growing our allocations to companies and assets critical to the transition that are already aligned, to help them prosper and displace higher emitting activities. We aim to do this by providing our investment teams with high-quality research on companies and assets core to the transition and developing products that support the net zero transition.
- Aligning issuers and assets with a net zero pathway through active ownership to reduce emissions in the real economy. We aim to do this by engaging with issuers and assets directly to set net zero targets and plans but also by engaging with policymakers and industry bodies to create the conditions for success.
- Reallocating away from risky high GHG emitting issuers or assets that aren't able or willing to transition. Our first priority will be to grow our investments in solutions providers and to engage. If our engagement is unsuccessful and companies have significant exposures to climate risks, as a last resort we can reallocate the capital to lower emissions assets or solutions providers.

Coal policy implementation

Our approach to thermal coal provides a foundation for dealing with other high-carbon investments. Coal is a priority because of its global emissions impact and the risk of stranded assets as the transition gathers pace.

Our asset owner has developed a thermal coal approach, aligned with the Group thermal coal position, which covers public assets. Since 2021, this has resulted in coal-related exclusions across our shareholder annuity and with-profits businesses.

Our position, as set out in March 2021, is that thermal coal needs to be phased out by 2030 in OECD and EU countries, and by 2040 in the rest of the world – a forward-looking approach to enable positive real-world change in line with the Paris Agreement.

The asset manager Thermal Coal Investment Policy, which came into effect in April 2022, applies to all listed equities and public fixed income investments actively managed on behalf of M&G Investment's clients (excluding those managed by M&G Investments Southern Africa), unless a client has requested to opt out. At the end of 2023, the policy covered 32% of our asset manager's AUMA.

Over 2023, we have focused on implementing the OECD/EU list of exceptions and exclusions. This has resulted in further divestments where we have deemed issuers unwilling or unable to align with our phase-out timeline. We have also been identifying and assessing non-OECD/EU issuers in line with the timeframes of the policy.

More details on in-scope assets and policy thresholds can be found in the Thermal Coal Investment Policy on our website. Our Wealth advice business is not covered by these policies.

Asset Manager

Our asset manager Net Zero Investment Framework has evolved over 2023, in line with guidance from the Institutional Investors Group on Climate Change (IIGCC), to better track and manage two key pillars of our investment transition approach: decarbonising the assets we manage and increasing investments in climate solutions. Our new net zero investment framework provides a clearer differentiation of issuers' net zero commitments and maturity, helping our engagement efforts, and giving us a more accurate view of the transition alignment of the portfolios we manage. Issuers will be placed in one of six categories, which include 'net zero aligned', 'net zero aligning' and 'not aligned'.

Our asset manager has also introduced a separate and complementary climate solutions investment framework, aligned with existing and emerging taxonomies. The framework will provide consistency in measurement and allow us to better categorise and monitor issuers' exposure to the structural growth themes of climate mitigation and adaptation.

Together these frameworks will provide a more holistic and decision-useful transition 'dashboard' for our investment teams. We are applying these frameworks to public equities and debt in the first instance, with private credit also covered by the net zero investment framework, with plans to extend them to asset classes such as sovereign bonds and other unlisted assets.

The net zero investment framework has already played a part in investment strategy development, notably our newly launched Sustainable Alpha Opportunities Fund. This diversified fixed income strategy will allocate to 'net zero aligned' or 'aligning' assets, including companies with net zero targets, and expects this allocation to increase over time.

Climate-related disclosures continued

Asset manager interim emissions targets

As a member of NZAMi, our asset manager business made an initial commitment in 2021 to halve the carbon footprint of in scope investments managed on behalf of our asset owner business by 2030. Real estate assets were added in 2023, with a commitment to reduce the carbon footprint by 36% by 2030. The total commitment represented 30.4% (£92 billion) of asset manager AUMA as at 31 December 2022 (the reference point for our last update). We plan to provide a progress update in 2024.

	Updated 2019 baseline	Coverage	YE 2022	Coverage
Public corporate debt Carbon footprint Scope 1 & 2 (tCO_2e/\$m invested)	**73.7**	45%	**55.8**	46%
Listed equity Carbon footprint Scope 1 & 2 (tCO_2e/\$m invested)	**102.7**	91%	**83.8**	98%
Real estate Emissions intensity ($kgCO_2/m^2$)	**38.0**	100%	**33.5**	100%

Note: NZAMi metrics are reported in USD. Coverage is the proportion of assets included in the target with available emissions data.

Private assets and real estate

Our private assets business invests across a range of private markets, including leveraged finance, unlisted real estate equity, unlisted infrastructure equity, real estate finance, private asset-backed securities and books of consumer loans and mortgages.

Over 2023, our real estate equity business continued desk-based decarbonisation modelling for direct real estate investments, using the Carbon Risk Real Estate Monitor (CRREM) as our primary tool. Over half of our real estate funds have either completed or are in the final stages of detailed studies to understand their own net-zero carbon pathway. Implementation of the UK and Europe Sustainable Development and Refurbishment Framework has also progressed, enhancing our standards on operational and embodied carbon in new developments and refurbishments. We have continued to deploy solutions to collect occupier energy data across our largest portfolios, and completed further asset-level net zero carbon audits, enabling integration of decarbonisation costs within asset plans.

Climate impact continues to be a strategic priority for Infracapital, our private infrastructure arm. The focus on climate change and the need to accelerate the transition to a low-carbon economy has created a number of investment opportunities for Infracapital's strategies, from thermal battery solutions and electric vehicle charging infrastructure, to the decarbonisation of the logistics sector. Additionally, Infracapital works actively across its broader portfolio to understand climate risks and opportunities, and establish decarbonisation initiatives.

In 2023, Infracapital demonstrated its commitment to decarbonisation through securing sustainability-linked financing for Infracapital Partners IV, its latest investment strategy. This fund will help bridge the investment gap, by investing in essential infrastructure across Europe, benefiting from transitions in sustainability, energy, digitalisation and transport.

Our emerging markets private impact manager, responsAbility, continues to develop innovative climate-focused investment strategies, with its newly launched Asia Climate Fund winning an award at COP28. It is also integrating a proprietary carbon emissions monitoring and reporting tool called CO2rA, building on the successful implementation of a similar in-house tool related to the Global Climate Partnership Fund (GCPF), a public-private strategy that responsAbility manages.

Asset owner

In 2021, M&G joined NZAOA, a group of 86 global institutional investors committed to transitioning their investment portfolios to help limit global heating to 1.5°C. In line with the NZAOA's Target Setting Protocol, we have set interim decarbonisation targets for public equity and corporate debt, direct real estate and carbon-intensive sectors, and plan to provide a progress update in 2024. We are also evolving our approach to climate strategy and decarbonisation in line with changing best practice, and may, as a result, review the actions we take to align with the climate transition.

Asset manager selection

From a sustainability perspective, we consider the purpose of manager selection to be to identify an investment manager that has the people, processes and expertise in place to meet the requirements specified in the investment mandate. To achieve this, we ensure our selection process includes a comprehensive assessment against sustainability-specific criteria, to enable an appropriate review of the managers' alignment with our purpose, values and priorities, including climate change.

We perform investment due diligence to assess managers' ability to deliver the expected investment performance or outcome for a fund over the long term. This is informed by our bespoke Request for Proposal (RfP) process, which includes detailed ESG investment-led questions. In turn, this is supported by the RfP ESG due diligence questionnaire, which aims to assess managers' stance on key sustainability issues. This questionnaire includes a specific section on climate change, aiming to assess the robustness and alignment of the manager's net zero ambitions against our own.

Once an investment manager has been selected and onboarded, the Manager Oversight team conducts ongoing due diligence reviews. This includes regular meetings and site visits. Sustainability is a standing agenda item at quarterly meetings. Ahead of these meetings, managers are expected to complete an ESG due diligence questionnaire, which aims to assess any changes to the managers' sustainability activities or priorities.

In 2023, our asset owner worked on the identification of specific companies and sectors where we expect managers to explain their investment rationales and engagement efforts. This has been done by screening our portfolios for companies of interest (currently those that are exposed to modern slavery risk as well as those that have high carbon emissions) and asking our managers to carry out engagement.

Climate-related disclosures continued

Investments – engagement strategy

Asset manager

Stewardship is one of the key levers we have to drive real-world climate action. By requesting that those representing the highest Financed Carbon Emissions (FCE) in M&G Investment's listed equity and fixed income portfolios adopt credible targets and transition plans, we can support the acceleration of decarbonisation and reduce our investment-related emissions.

In 2023, we undertook a review of the first three years of M&G Investments' Hot 100 Engagement Programme, which covers the 100 companies that account for a majority of our asset manager's financed emissions in listed equity and corporate fixed income (excluding M&G Investments Southern Africa – MGSA).

By the end of the year, we had either engaged with, or assessed, 70 of the Hot 100 companies identified in January 2023 – representing 85% of the financed carbon emissions of the asset manager's holdings in this target group.

We also have a public asset engagement programme specifically targeting investee companies with exposure to thermal coal, to determine if they are compliant with our Asset Manager Thermal Coal Investment Policy. Over 2023, we engaged with 10 coal-related investees.

Of the 10 engagements undertaken in 2023, four were successful, resulting in those companies being compliant with the coal policy and eligible for investment. Five of the engagements were unsuccessful, resulting in those investees being added to the coal exclusions list and divested. The remaining engagement was inconclusive, but we divested for other reasons.

For our private investments, engagement is important too. We are focused on encouraging improved climate-related disclosures, to help us track decarbonisation efforts and better understand risk exposure.

Collaborative engagement

We have been an active member of Climate Action 100+ (CA100+) since 2017. CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

We represent over 700 members of CA100+ as co-leads on three specific engagements, targeting investee companies in the mining (Rio Tinto), chemical (BASF) and cement (Holcim) sectors. We also sit on the CA100+ Corporate Programme Advisory Group and Net Zero Stewardship Working Group, and are active members of six additional company-specific working groups.

In 2023, we joined a broader initiative, the IIGCC Net Zero Engagement Initiative, to ratchet up engagement with some of the highest emitters we own that do not feature on the CA100+ list. Here we are co-leads on four companies in the forestry (UPM), cement (Buzzi) and chemical (Linde and Yara) sectors.

We also became members of Nature Action 100 (NA100), which is modelled on CA100+, but targets companies with high exposure to biodiversity and nature loss.

We are co-leads on five NA100 companies; three complementing our climate work (Rio Tinto, UPM and BASF), and the other two in the pharmaceutical sector (AstraZeneca and Novo Nordisk). We have also been working with the Investor Forum and ShareAction on a variety of collective engagements.

17%
of Hot 100 financed emissions assessed to have credible transition plans*

68%
of remaining Hot 100 financed emissions engaged to date*

* Based on the top 100 sources of financed carbon emissions in our asset manager portfolios (Scope 1 and 2, public equity and fixed income, excluding MGSA) as at January 2023. Includes engagements that have taken place throughout 2023.

Asset owner

As an asset owner, we rely on the asset managers we appoint to exercise direct climate engagement in line with our policies and objectives.

During 2023 we have been developing our engagement strategy and monitoring, focused on the 40 largest carbon emitters in our portfolios. We have also looked at high-emitting companies in sectors where we have set targets, some of which fall outside of the top 40 list.

External managers

Although engagements are executed by our asset managers, we hold them accountable for the interactions they have with investee companies, and engage with them to deliver our desired results. Having a robust approach and process in place to engage with asset managers is key to ensure the best outcomes for our policyholders and clients.

Overall, we expect engagement processes and actions to be aligned with the PAC ESG Investment Policy, Shareholder Engagement Policy and Voting Standard, as well as the agreed-upon mandate. Should we feel that there is persistent misalignment, we will escalate our engagement.

The Treasury & Investment Office team follow a structured approach to engagement, defined by the following actions:

- Annual letter of priorities: we share an Annual Letter of ESG Priorities with all our asset managers, outlining our key areas of focus, which will form the basis of requests and dialogue throughout that year.
- Engagement and voting analysis: all asset managers will be requested to submit regular sustainability engagement and voting templates to provide an update on their stewardship activities. This will be reviewed and assessed on an ongoing basis.
- Ad hoc engagement: where specific engagement activities require further due diligence/escalation, or where specific changes have occurred within the managers' sustainability activities or priorities that are a cause for concern, the ESG & Regulatory team will aim to organise ad hoc engagement meetings with the asset managers.

In the case of climate change, as detailed within our Asset Owner ESG Investment Policy, we rely on our investment managers to engage with investee companies to change behaviour, improve disclosure, reduce emissions, and, where in line with our investment mandates, to allocate capital towards low-emission sectors of the economy, including climate solutions. Our asset managers provide periodic reporting of their engagements, covering objectives and progress. We monitor these engagements in select cases, with a view to informing strategies and positions. We may work with our investment managers to tilt our portfolios away from investee companies that are not on sufficiently ambitious reduction paths.

We view the exclusion of any company on the basis of their carbon emissions as an action of last resort that should only be taken if we are certain that engagement will not lead to meaningful strategic and operational change.

Public policy and industry engagement

We recognise that the climate transition will not reach the necessary pace and scale without the right public policy frameworks, and remain committed to advocacy and industry collaboration, to create a more supportive environment for ambitious climate action.

Public policy advocacy

M&G continues to engage constructively with UK and EU policymakers on a wide range of sustainability public policy topics. We do this individually and through a variety of membership bodies. Over 2023, our climate advocacy involved contributing to the UK Government's updated Green Finance strategy, the work of the Transition Plan Taskforce to set out a best-in-class template for corporate disclosure on the transition, the FCA's Sustainability Disclosure Regime and the European Commission's proposals to review SFDR. M&G also co-chaired the FCA-convened Working Group to develop a Code of Conduct for ESG data and ratings providers.

We have called for a comprehensive policy framework that sets out a reliable pathway for investors and market participants. Such a framework would contain, among other things: ambitious and mandatory decision-useful disclosure requirements from both public and private companies, creating long-term clarity for investors' decision-making; proper incentivisation of climate solutions (ensuring critical technologies reach scale and competitive commercialisation quicker); support for credible transition activities; meaningful prudential regulation reform and broader policy action to capture nature and biodiversity loss.

In 2023, we have also responded to reporting-related consultations from the Department for Business and Trade, Financial Reporting Council and the International Sustainability Standards Board (ISSB).

We recognise that closing the climate financing gap requires direct deployment of capital towards solutions, and have worked with UK policymakers on ways to increase institutional investors' allocation to private assets. M&G was a co-founding member of the government's Mansion House Compact, putting patient capital to work to the benefit of both innovative businesses and individual savers.

Industry advocacy

As part of our ongoing active memberships of the Investment Association, Principles for Responsible Investment, the Investor Forum, IIGCC and Association of British Insurers, among others, we continue to participate in a range of discussions, including ones focused on climate.

M&G plc is part of a coalition of governments, businesses and organisations in the Powering Past Coal Alliance (PPCA). We have engaged on the PPCA's Declaration, which reflects the latest scientific consensus and confirms that coal power must be phased out by 2030 and 2040 in OECD and non-OECD economies, respectively. During 2023, we have also provided detailed feedback as part of the PPCA's Finance Principles refresh, to reflect the evolving science as well as the financial service sector's ambition on coal phase-out.

M&G is also leading the nature work stream of the Climate Financial Risk Forum's Financial Resilience working group, providing industry guidance on how to incorporate nature into financial services risk management.

Climate-related disclosures continued

Investments - Climate metrics

Across our investment portfolios we produce a range of metrics to identify and assess climate-related risks and opportunities. This includes absolute emissions metrics as well as intensity-based indicators that enable comparison across different issuers and portfolios. In addition to backward-looking data, which indicate the current emissions profile of an asset or portfolio, we also use forward-looking metrics to assess transition alignment and potential impacts on asset values over time. For climate metrics relating to our corporate operations see our GHG Emissions Statement on page 77.

The key metrics used across our internal and external reporting are financed carbon emissions (FCE), carbon footprint, and weighted average carbon intensity (WACI). For example, we assess FCE change at portfolio level to monitor our overall portfolio emissions exposure, while we monitor carbon footprint (a measure of economic emissions intensity) to assess progress against our asset manager and asset owner interim targets. WACI is used to understand our portfolio exposure to carbon-intensive issuers. We currently rely on Scope 1 & 2 GHG emissions to inform investment decisions. While we monitor Scope 3 emissions as a proxy for risk exposure to inform targeted actions, such as engaging companies on transition plans, disclosure of this emissions category remains poor, which makes it less reliable for decision-making.

Our emissions metrics have been calculated based on the Partnership for Carbon Accounting Financials (PCAF) principles. This year we have included a data quality score – covering public assets (equities and corporate debt) and sovereign debt emissions – for the first time. The score is based on PCAF methodology and ranges from one to five, where one represents the highest data quality and five is the lowest. Details on definitions of metrics reported and limitations of data used can be found on pages 89-90, with more information provided in our Environmental Metrics Basis of Reporting available on our website.

In our analysis, 'coverage' refers to the proportion of in-scope AUMA for which we have sufficient environmental, financial, or other data required in the calculation of a given metric. Asset classes such as cash, derivatives and asset-backed securities (ABS) are not included, reflecting a lack of either climate accounting standards or mature data sources for these types of assets. Externally managed mandates in which the asset owner is invested are also not included. Metrics reported in this section are calculated for M&G plc, subject to asset classes included and coverage within these groups.

Our Environmental Metrics Basis of Reporting 2023, available on our website, sets out our policy on restatements. We have restated public asset and sovereign debt metrics for the year ended 31 December 2022, primarily as a result of developing our calculation methodologies. Further details on the restatements and the impact on the previously presented metrics are set out in the relevant section below. All figures presented reflect the annual emissions calculated with reference to in-scope AUMA of each asset class as at 31 December for each year.

Selected metrics reported for 2023 (as indicated by [A]) have been subject to external independent limited assurance by PricewaterhouseCoopers LLP (PwC). PwC's independent limited assurance report is available on our website.

Public assets (equities and corporate debt)

The table below presents emissions metrics relating to public equities and corporate debt managed by our asset manager, including on behalf of our asset owner.

	2023	**2023 Coverage**	2022 Restated	2022 Restated Coverage	2022 (previously presented)	2022 Coverage (previously presented)
AUMA in-scope for metrics presented (£bn)	**178.7**[A]	**N/A**	175.0[i]	N/A	175.3[i]	N/A
Financed carbon emissions (FCE) – Scope 1 & 2 ($ktCO_2e$)	**15,758**[A]	**87%**	18,190	84%	12,995	70%
Data quality score – Scope 1 & 2	**2.2**[A]	**N/A**	1.8	N/A	N/A	N/A
Financed carbon emissions (FCE) – Scope 3 ($ktCO_2e$)	**83,490**	**84%**	96,229	81%	80,683	70%
Data quality score – Scope 3	**2.2**	**N/A**	1.8	N/A	N/A	N/A
Carbon footprint – Scope 1 & 2 (tCO_2e/£m invested)	**101**[A]	**87%**	123	84%	106	70%
Carbon footprint – Scope 3 (tCO_2e/£m invested)	**558**	**84%**	681	81%	660	70%
WACI – Scope 1 & 2 (tCO_2e/£m sales)	**187**[A]	**83%**	230	81%	230	81%
WACI – Scope 3 (tCO_2e/£m sales)	**1,088**	**83%**	1,151	79%	1,233	79%

i Reclassification of bonds from corporate debt to sovereign debt resulted in a change of in-scope AUMA for this asset class.

Analysis of 2023 compared with restated 2022 metrics

For 2023, despite an increase in coverage we have seen a reduction in FCE and carbon footprint due to the reduction of holdings in a high-emission intensity issuer in our M&G Investments Southern Africa (MGSA) portfolio and shifts in market value (which do not reflect real-world decarbonisation), both offset by an underlying increase in real-world emissions of investee companies that remain in the portfolio. The fall in Scope 3 FCE was driven largely by a reduction of holdings in a small number of high-emission intensity issuers in our MGSA portfolio.

Similar to 2022, the portfolios managed by our MGSA business make up a significant proportion of our FCE at 3,073 $ktCO_2e$ (2022 restated: 5,365 $ktCO_2e$) for Scope 1 & 2 and 10,310 $ktCO_2e$ (2022 restated: 15,901 $ktCO_2e$) for Scope 3.

Climate-related disclosures continued

Restatement of 2022 metrics previously presented

To increase coverage in 2023, we have expanded the sources of third-party emissions data for public equity and corporate debt to include Bloomberg as an additional provider. Further details of our data hierarchy are set out in our Environmental Metrics Basis of Reporting, available on our website. As a result of this change, we have restated the 2022 metrics previously presented to include the additional source. The increase in coverage has resulted in a rise in reported absolute emissions for public assets in the restated figures.

The increase in absolute emissions for the restated 2022 figures is larger than the relative increase in coverage, reflecting a number of high-emission intensity issuers being captured within the additional coverage. This can also be seen through the restated carbon footprint of the portfolio.

Over the year, we have also made a refinement to our methodology for the green bonds emissions data, to base this on the estimated emissions of the project funded by the bond rather than the emissions of the issuer, where the data is available. Green bonds account for 2.6% of the in-scope portfolio and therefore this revision has had minimal impact on the restated metrics.

Sovereign debt

In the table below, we have included financed domestic production and consumption emissions, and their respective weighted average intensities. The presentation has been updated this year to show metrics both as including and excluding Land Use, Land Use Change and Forestry (LULUCF).

	2023			2022 Restated			2022 (previously presented)		
	incl. LULUCF	**excl. LULUCF**	**Coverage**	incl. LULUCF	excl. LULUCF	Coverage	incl. LULUCF	excl. LULUCF	Coverage
AUMA in-scope for metrics presented (£bn)	**40.1**[A]	**40.1**[A]	**N/A**	25.0[i]	25.0[i]	N/A	24.7[i]	24.7[i]	N/A
Financed sovereign production emissions - Scope 1 ($ktCO_2e$)	**11,123**[A]	**10,705**[A]	**99.6%**	7,363	7,300	99.5%	8,927	8,803	99.7%
Data quality score – Scope 1	**1.9**[A]	**1.9**[A]	**N/A**	1.7	1.7	N/A	N/A	N/A	N/A
Financed sovereign consumption emissions - Scope 1,2,3 ($ktCO_2e$) [ii]	**10,601**[A]	**10,390**[A]	**95.2%**	6,980	7,046	95.4%	17,625	17,643	95.7%
Data quality score – Scope 2 and 3 [iii]	**4.0**[A]	**4.0**[A]	**N/A**	4.0	4.0	N/A	N/A	N/A	N/A
Weighted average sovereign production intensity - Scope 1 ($ktCO_2e$/PPP-adj. GDP (USDm))	**0.2**[A]	**0.2**[A]	**99.6%**	0.2	0.2	99.5%	0.4	0.4	99.7%
Weighted average sovereign consumption intensity - Scope 1,2,3 (tCO^2e/ Capita) [ii]	**9.8**[A]	**10.1**[A]	**95.2%**	10.3	10.8	95.4%	21.6	22.0	95.7%

i Reclassification of bonds from corporate debt to sovereign debt resulted in a change of in-scope AUMA for this asset class.

ii 2023 and 2022 (restated) exclude exported emissions whereas 2022 (previously presented) includes exported emissions. See below for further details.

iii The data quality score for Scope 2 and 3 metrics are based on economic-activity based emissions from the OECD.

Analysis of 2023 compared with restated 2022 metrics

In 2023, sovereign emissions increased in line with the increase of in-scope AUMA. The increase in in-scope AUMA is largely driven by larger allocations to gilts and treasuries, through new bond funds being brought into scope of our reporting, and also partly from market movements – with bond values having a strong end to 2023.

Similar to public equities and corporate debt, our M&G Southern Africa portfolios make up a significant proportion of our sovereign FCE at 2,199 $ktCO_2e$ (2022 restated: 2,410 $ktCO_2e$) for production emissions and 1,656 $ktCO_2e$ (2022 restated: 1,826 $ktCO_2e$) for consumption emissions (both including LULUCF).

Restatement of 2022 metrics previously presented

We have reviewed our methodology for sovereign debt emissions against PCAF's Financed Emissions Standard, and as a result have restated the 2022 sovereign debt emissions for the following methodology changes:

i The calculation of sovereign production emissions relies on the determination of an attribution factor, using data on the sovereign's gross domestic product (GDP) adjusted for the purchasing power parity (PPP) rates in international $. Previously this was converted using the World Bank's PPP conversion factor for the UK and used along with the investment holding in GBP to determine the attribution factor. We have updated our methodology to determine the attribution factor using PPP-adjusted GDP (international $) and the sovereign bond market value (USD). The change in production emissions following restatement is primarily as a result of this change. Financed sovereign production emissions have also been recalculated using an additional data source where available for the assets in-scope, as outlined in our Basis of Reporting.

ii In addition to the changes above, financed sovereign consumption emissions are now reported excluding exported emissions. Previously no adjustment was made for exported emissions, which is the main driver for the change in restated consumption emissions. There has also been a change in the OECD data used for imported emissions which are included in the overall calculation.

Climate-related disclosures continued

The restatements set out above in relation to the absolute values of emissions have resulted in the restatement of weighted average intensity metrics for production and consumption metrics. There has been no separate changes to methodology to produce these weighted average intensity metrics.

Private assets (M&G Real Estate and Infracapital)

For private assets, we currently present emission metrics for our commercial real estate assets managed by M&G Real Estate, and assets held within our private infrastructure investment business, Infracapital.

	2023	**2023 Coverage**	2022 Restated	Coverage Restated	2022 (previously presented)	2022 Coverage (previously presented)
Real Estate – AUMA in-scope for metrics presented (£bn)	**31.7**	**N/A**	36.0	N/A	36.0	N/A
Real Estate – FCE Scope 1 & 2 ($ktCO_2e$)	**93**	**85%**	107	85%	124	85%
Real Estate – FCE Scope 3 ($ktCO_2e$)	**584**	**85%**	555	85%	601	85%
Real Estate – Carbon footprint Scope 1 & 2 (tCO_2e/£m)	**3.5**	**85%**	3.5	85%	4.0	85%
Infracapital – AUMA in-scope for metrics presented (£bn)	**4.4**	**N/A**	3.8	N/A	3.8	N/A
Infracapital – FCE Scope 1 & 2 ($ktCO_2e$)	**652**	**92%**	691	87%	691	87%
Infracapital – FCE Scope 3 ($ktCO_2e$)	**14**	**72%**	8	89%	8	89%
Infracapital – Carbon footprint Scope 1 & 2 (tCO_2e/£m)	**161.6**	**92%**	210.5	87%	210.5	87%

Our real estate assets recorded a decrease in absolute emissions over the year (13% for Scope 1 & 2), primarily due to reduced in-scope AUMA as some assets were sold in the year combined with lower market values. Scope 3 emissions have increased due a higher energy consumption across the assets occupied and run by tenants as activity has continued to pick up post COVID. Real estate emissions have been restated in the year to reflect that some emissions for certain assets were included twice in 2022.

Infracapital emissions data is based on numbers reported directly from the underlying investee companies, which have not been externally verified. The decrease in Scope 1 & 2 emissions is partially due to improved data as well as ongoing emissions reduction initiatives across the portfolio, such as the purchase of certified renewable electricity at the asset level, resulting in a drop in Scope 2 emissions. Scope 3 emissions have increased as investee company reporting becomes more mature, with additional data across the supply chain and other Scope 3 categories being added, a trend which we expect to continue as the completeness of investee company reporting on this emissions category improves.

Metrics not based on emissions

In addition to emissions-related data, we track metrics that indicate public asset exposure to climate transition risks and opportunities, including fossil fuel and EU Taxonomy-aligned exposures.

The fossil fuel exposure data is also relevant from an engagement and voting perspective, as it captures many of the target companies in our climate stewardship programme. The fossil fuel exposure metric covering revenue from fossil fuel generation is particularly relevant given our approach to thermal coal.

Fossil fuel and EU Taxonomy-aligned/Green bond exposure

The table below covers fossil fuel and green exposures of our public equities and corporate debt portfolios, presenting the absolute exposure to each category based on holdings as at 31 December 2023, as well as the proportion of in-scope assets this represents.

	2023	2022
Fossil fuel exposure (excl. revenue from power generation – £m)	**8,522**	8,780
Fossil fuel exposure (excl. revenue from power generation – %)	**4.8**	5
Fossil fuel exposure (revenue from power generation – £m)	**1,056**	1,157
Fossil fuel exposure (revenue from power generation – %)	**0.6**	0.7
EU Taxonomy-aligned (£m)	**7,154**	6,585
EU Taxonomy-aligned (%)	**4.0**	3.8
Green bonds – Corporate (£m)	**4,602**	2,795
Green bonds – Corporate (%)	**2.6**	1.6
Green bonds – Non-corporate (£m)	**470**	259

Metrics in the table above are based on the same £179 billion of in-scope assets used for the public equities and corporate debt metrics presented on page 82. Exposure to fossil fuels has decreased in absolute and relative terms across both metrics presented in the table. On top of changes initiated by our investee companies, market movements and portfolio changes, our fossil fuel exposure can also change due to increased data coverage from our data providers. Green Exposure has increased from last year, partly due to bond markets performing well over 2023.

Climate-related disclosures continued

Scenario analysis

Methodology and limitations

Scenario analysis is a type of forward-looking assessment used to assess the resilience of our equities, corporate and sovereign debt, real estate and infrastructure portfolios to different future climate scenarios. We use climate models that have sufficient coverage across key funds and our largest issuers. Asset classes such as cash, derivatives and asset-backed securities are not included.

In our analysis, the scope of assets included for public and private asset portfolios are the same as those in our backward-looking metrics unless otherwise stated.

We rely on data modelling partners to provide us with portfolio, sector, and asset-level output data, including:

- future GHG emissions
- emissions intensity
- physical climate damages
- energy flows and demand
- technological capabilities

This data is provided at an issuer, sector, and portfolio level. The data points are aggregated to calculate climate-adjusted valuation metrics and temperature-alignment metrics.

The scenario model we use for public assets – Aladdin Climate – has been updated in 2023, across all three modules ('transition', 'physical' and 'temperature alignment'), to better reflect the latest science and incorporate new datasets.

As with any model, the results are heavily influenced by the assumptions made, which significantly influence the outputs.

We recognise that the climate models are based on stylised scenarios, and attempt to capture the possible future interplay between physical climate impacts, policy and regulation, and consumer behaviour at a global scale.

The scenarios are not predictive, but rather help us explore a range of potential outcomes. This analysis acts as a useful tool for interrogating and understanding how climate-related developments could impact the assets we manage and administer.

Another key observation is that the data underpinning climate-scenario modelling is reported by companies at a lag relative to financial data. We have used up-to-date information where available. However, for a subset of our analysis, the GHG emissions used in the scenario modelling represents data from prior years.

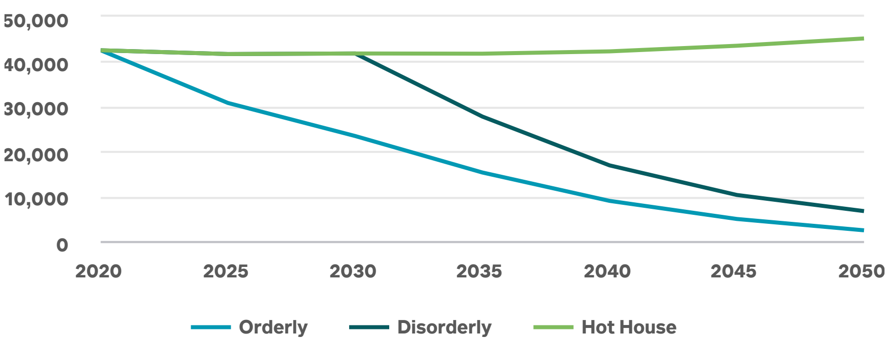
Public assets

For public listed equities, corporate debt securities and sovereign debt, we assess the financial impact of climate change based on three Network for Greening the Financial System (NGFS) scenarios:

- An orderly scenario, predicting a temperature rise below 2°C by 2100 as a result of immediate climate action.
- A disorderly scenario, in which climate action is delayed until 2030, and the temperature rise is kept below 2°C.
- A hot house scenario, which predicts an average temperature change of over 3°C by 2100, assuming only current policies are implemented.

The underlying NGFS scenarios used to produce the climate-adjusted values do not include all relevant factors that may impact outcomes, for example so-called climate tipping points and nature-related impacts, which could significantly impact the results presented.

Scenario global emission trajectories
Million tons of CO_2e/year



Source: Network for Greening the Financial System (NGFS) - Phase 2

The outputs should not be treated as forecasts but as an iterative process and exploration of possible futures. They are best viewed in conjunction with other data and qualitative information. These scenarios are subject to a number of limitations, as described on pages 89 -90.

Private assets

For the real estate and infrastructure asset modelling, our output is limited to Representative Concentration Pathway (RCP) 2.6 and 8.5 only, as produced by the IPCC. These broadly align to the public asset orderly and hot house scenarios. The output of this model is limited to the identification of risk level, and reinstatement value at risk.

This is partly due to the fact that the model assesses only direct climate risk and partly due to the nature of the investments.

Find out more on the methodology and limitations of the scenario analysis performed on our investment portfolios on pages 89-90.

Forward-looking metrics

The key forward-looking metrics that we report across public assets are:

- Implied temperature rise: this metric allows a user to quickly gauge if a portfolio and issuer's GHG emissions' trajectory is aligned with the Paris Agreement through sub-industry and regional benchmark comparisons.
- Climate-adjusted value: this metric is equivalent to value at risk (VaR), but is calculated on a bottom-up basis, by assessing the impact of different climate scenarios on a company's financial position. The adjusted value is calculated separately for physical and transition risks as part of the scenario model that we use across our public portfolios (Aladdin Climate).
- Binary science-based targets: this data shows the proportion of issuers who have committed to setting science-based targets, or had their targets validated by the Science Based Targets initiative (SBTi).

For private investments, we report physical climate risk impacts across fixed assets, such as our real estate and infrastructure. Here we primarily monitor the relative risk score against a range of climate-related natural disasters, such as storms, flooding and wildfires.

Climate-related disclosures continued

Portfolio alignment

Portfolio alignment indicators help us assess which portfolio companies have committed to, or are in the process of, aligning to the Paris Agreement temperature goals. While companies are not net zero today, this reflects target setting and plans for emissions reductions and is therefore a gauge of the transition alignment of our investment strategies going into the future. The binary net zero alignment data below is based on public commitments from companies to set science-based targets and have these validated by the Science Based Targets Initiative (SBTi). SBTi is a widely used framework for independently validated science-based targets. The metrics presented exclude companies that may have established climate targets, but have not committed to, or had targets validated by the SBTi.

Science-based targets (public assets)

The table below shows the proportion of our asset manager AUMA that have either committed to or set SBTi targets, together representing £61.7 billion, or a total of 1,325 issuers. The number of issuers with SBTi commitments has dropped partly due to SBTi tightening its criteria in 2023 and removing companies that have not submitted their targets for validation within 24 months.

	2023	2022
SBTi target committed (%)[i]	**8.9**	12.4
SBTi target validated (%)[ii]	**25.7**	23.7

i Company has committed to setting a science-based target via the SBTi, but has not yet had the target validated.

ii Company has had its target validated by the SBTi.

Implied temperature rise

As part of our modelling, we have calculated the implied temperature rise (ITR) for each individual issuer where data is available (covering 88% of in-scope public equities and corporate debt as at 31 December 2023). ITRs are a fairly intuitive way to assess transition alignment at a point in time, by estimating an issuer's relative share of the remaining global carbon budget consistent with the Paris Agreement. In simple terms, it shows what the global temperature rise would be if the whole economy followed the same emissions pathway as the portfolio analysed. This allows us to assess the transition profile of the companies we invest in and their progress toward driving down greenhouse gas emissions, while also measuring the effect of any changes we make to our portfolios during the year.

Due to their simplicity, ITRs are inherently limited and we recognise the following:

- There is no commonly accepted approach to temperature alignment calculations, which makes comparisons across different model outputs problematic.
- The methodology we have used allocates a carbon budget to each company, and compares that company's progress and expected future emissions against that budget.
- The calculation is sensitive to sector and geographical emission assumptions.
- It is based on carbon intensity (emissions per unit of revenue for each investee), and on projections of future GHG emissions which are subject to significant uncertainties.
- The portfolio ITR is calculated as the weighted average of individual company ITRs.
- ITR by its nature is a point in time metric and therefore does not account for changes to our portfolios in the future.

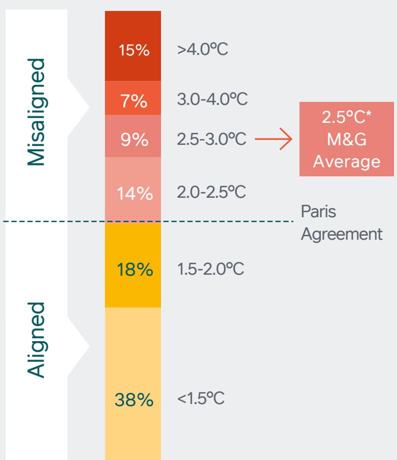
We do not use ITR in isolation, due to the limitations mentioned, but believe it provides useful indications of alignment when viewed in conjunction with other information.

The chart shows our relative ITR exposure, based on portfolio weightings to a range of temperature levels. It shows that issuers remain aligned to a broad range of temperature outcomes. While the proportion aligned to below 1.5°C has increased to 38% (2022: 28%), 44% of modelled assets still exceed 2°C based on the underlying issuers' transition pathways.

The weighted average warming potential across modelled issuers (public equities and corporate debt) is 2.5°C, which represents a reduction from our average temperature alignment in 2022 (2.6°C).

While the average across our modelled assets is higher than the Paris Agreement goals, this is consistent with the broader economy and therefore not surprising at this stage in the climate transition. We would expect the figure to improve as we work to meet our 2030 targets for in-scope assets and continue to carry out climate engagements with investees as part of our stewardship.

Implied temperature rise (public equities and corporate debt)



* The weighted average warming potential across investees modelled is 2.5°C (2022: 2.6°C)

Public assets (scenario modelling results)

As part of our forward-looking analysis we model our public asset portfolios (public equities, corporate debt, and sovereign debt) against three scenarios to help us quantify the relative financial impacts of climate change across different outcomes. This assessment is based on a bottom-up approach, and provides estimates of the financial impact on all issuers modelled, as well as the impact on asset valuations.

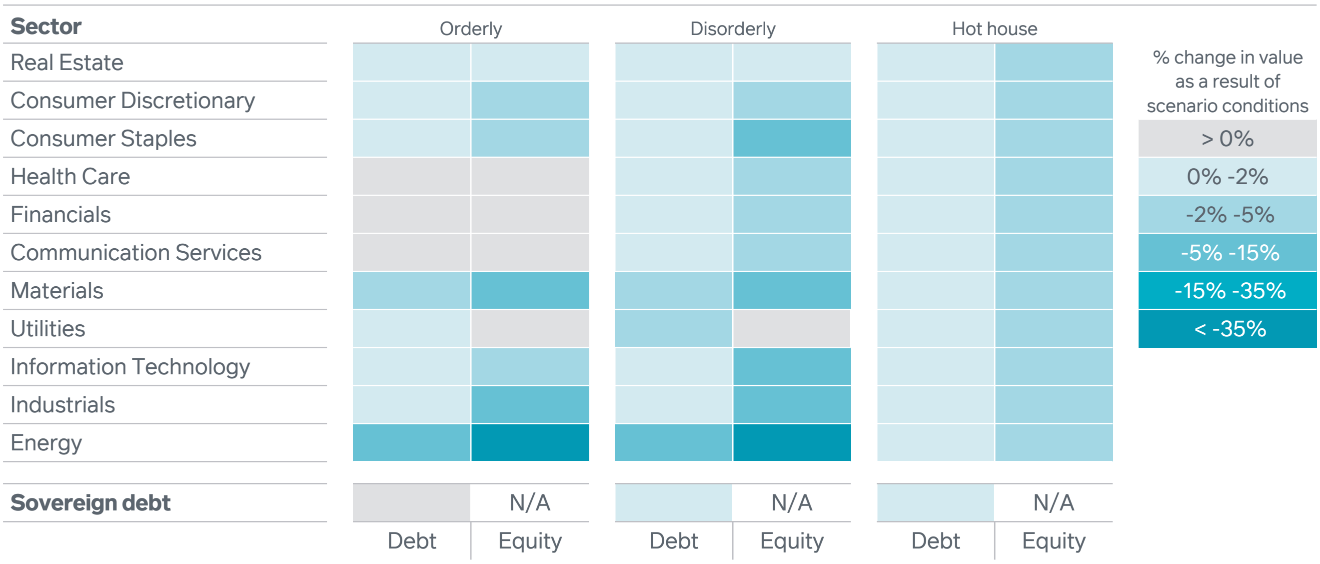
From an asset value perspective, we can take the following findings from our scenario modelling in 2023:

- Overall, the results continue to indicate that the negative impacts on asset values will be felt more broadly across all sectors in the hot house scenario, driven by the increasing physical risk and second-order macroeconomic impacts towards the end of the scenario horizon.
- Looking at the sectoral breakdown of public listed equities and public corporate debt, it is clear that the orderly and disorderly scenario impacts are most pronounced in the energy, industrials and materials sectors (where significant change is required to decarbonise and align with the transition). By contrast, under the hot house scenario (looking at physical impacts only) asset valuations are impacted fairly evenly across all sectors.

As noted on page 86, we recognise that the outputs from this analysis are subject to limitations, and the results should be interpreted with these in mind.

Further details on limitations of the modelling can be found on page 89-90.

Climate adjusted value impact by sector (current to 2050)*



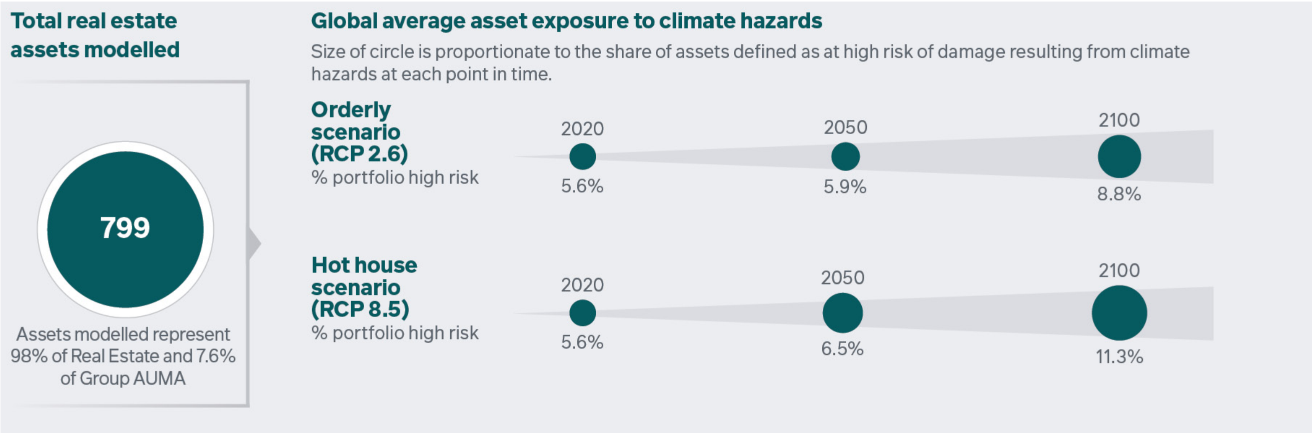
* The orderly and disorderly scenarios presented in this heatmap reflect transition risk impacts only with a coverage of 87%, and the hot house scenario reflects physical risk impacts only having a coverage of 88%. Further details on methodology and limitations can be found on pages 89-90.

Climate-related disclosures continued

Private asset results

We continue to use the global insurance broker and risk adviser Marsh to assess our real estate and infrastructure exposure to physical climate risk. Marsh uses XDI which quantifies the cost of extreme weather and climate change impacts to physical assets, taking into account asset-specific information – how different types of assets in a specific location will perform in different physical conditions. The scenarios used in this model are based on Representative Concentration Pathway (RCP) 2.6 and 8.5, as produced by the IPCC. These broadly align to the orderly and hot house scenarios. Importantly, the modelling does not consider second-order and transition impacts which could affect asset values. Further details on limitations can be found on page 89-90.

Real estate



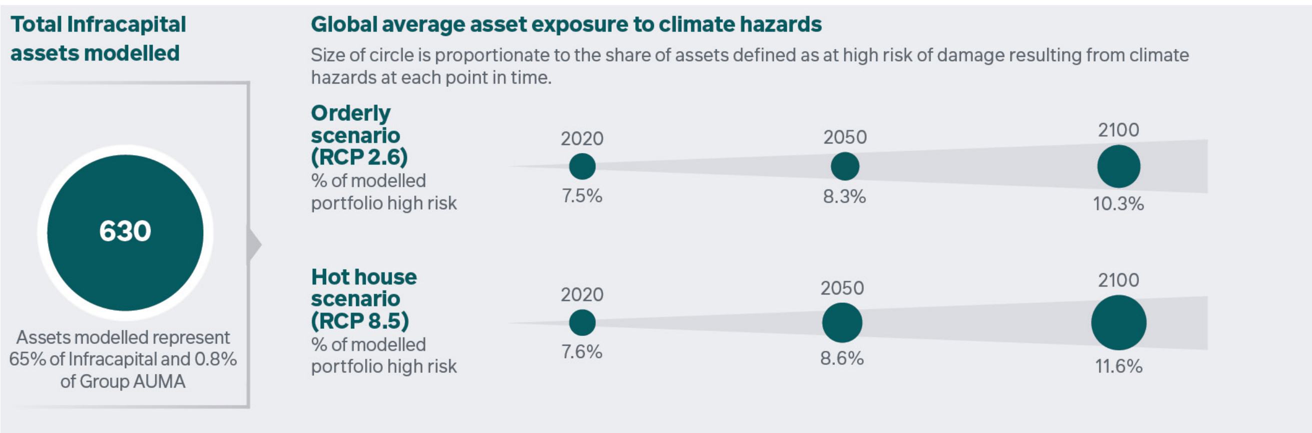
For our directly owned real estate equity portfolio, the physical climate risk has remained similar to last year's levels, identifying only a relatively small proportion of assets that are at high risk from future climate conditions. Under each scenario, assets were rated low, medium or high risk (high risk meaning at least 1% of an asset's value being at risk of damage per year).
The key conclusions of our real estate analysis are that:

- under an orderly scenario (RCP 2.6) between 5.9% and 8.8% of assets will be rated high risk by 2050 and 2100 respectively; and
- under a hot house scenario (RCP 8.5) these percentages increase to 6.5% and 11.3%.

For real estate assets, the physical risk is driven by exposure to hydro-meteorological hazards such as floods (eg as a result of their proximity to the coast). While future change to climatic conditions will exacerbate financial impacts, exposure to acute physical risks can be mitigated through measures such as insurance or localised flood defences.

The output of this model is limited to the identification of risk level and reinstatement value at risk partly due to the fact that the model assesses only direct climate risk and partly due to the nature of the investments.

Infracapital



Model results were analysed for asset locations that were identified as medium or high risk. The results suggest that from the assets modelled, only a relatively small proportion of assets are at high risk from future climatic conditions.

As with the real estate model, assets were rated low, medium or high risk under each scenario. The key conclusions from our Infracapital assessment are that:

- under an orderly scenario (RCP 2.6) between 8.3% and 10.3% of assets will be rated high risk by 2050 and 2100 respectively; and
- under a hot house scenario (RCP 8.5) these percentages increase to 8.6% and 11.6%.

Climate-related disclosures continued

Supplementary climate metric and modelling information

Metric definitions

Financed Carbon Emissions (FCE) represent the absolute greenhouse gas emissions associated with a portfolio of investments where there is available reported data or estimates. Financed emissions are influenced by change in financial factors such as market movements and portfolio values, which are separate to real world emissions.

Carbon footprint refers to FCE normalised by the market value of a portfolio (GHG emissions per million pounds of investment). This indicator is particularly useful for comparative purposes, but similar to FCE is sensitive to financial factors that do not relate to decarbonisation. Carbon footprint is used to monitor progress against our net zero interim targets.

Weighted Average Carbon Intensity (WACI) provides a single metric summing the individual emissions intensities of issuers in a portfolio based on their weightings, indicating our portfolio exposure to carbon-intensive issuers.

For both carbon footprint and WACI the current portfolio value is based on market value and is limited to assets for which all data necessary for the calculation of financed carbon emissions is available. For private assets, the emissions-related metrics reported are FCE and carbon footprint only.

We use data sourced from third-party data providers (eg MSCI and Bloomberg) to calculate the above emissions metrics. While we perform high-level checks on the data received, we are reliant upon the accuracy of source data received from these third-party vendors.

Details on the calculation methodology, data sources and limitations of each metric produced is available in our Environmental Metrics Basis of Reporting 2023 available on our website.

In addition to backward-looking metrics that are focused on emissions, we monitor a range of indicators that provide information on whether an asset, or portfolio, is exposed to higher climate-related transition risks or opportunities.

These include:

- **Exposure to fossil fuels:** these metrics show the value of our exposure to issuers with revenues derived from the whole value chain of oil, gas and coal, with a separate metric for issuers that generate revenue from fossil fuel-based power generation. These metrics indicate transition risk, given the necessity of phasing out fossil fuels to meet the Paris Agreement.
- **EU Taxonomy alignment and Green bonds:** this is the value of our exposure to issuers that are generating revenues from green activities, as defined by the EU Taxonomy (including climate mitigation and adaptation) or debt classified as Green bonds (CBI aligned or CBI certified green bond).
- **Climate commitment of issuers:** We monitor net zero alignment across 'committed' and 'targets validated' SBTi categories and green exposure. These metrics, calculated for public listed equities and corporate debt portfolios, are helpful in monitoring our overall position at portfolio level.

High level methodology

We have licensed two different climate models from third-party providers to undertake scenario analysis at the asset/issuer level: Aladdin Climate for financial assets (the 'equities and bonds model' covering public listed equities, corporate and sovereign public debt); and Marsh for assessing the private portfolio's real estate and infrastructure exposure to physical climate risk. Physical climate risk of the private portfolio is modelled by Marsh using XDI which quantifies the cost of extreme weather and climate change impacts to physical assets, taking into account asset-specific information – how different types of assets in a specific location will perform in different physical conditions.

Both models are leveraging the extensive expertise and experience from third-party providers with strong capabilities in climate scenario modelling, and were selected following extensive proof-of-concept exercises. However, climate change scenario modelling is an inherently complex area and so the results presented on pages 85-88 are influenced by assumptions, judgements and limitations.

These include the nature of scenario modelling itself, data limitations and specific model limitations from our modelling counterparties. The results should be interpreted with this in mind.

The models provides outputs based on the following scenarios:

- **An orderly scenario,** which is aligned with Representative Concentration Pathway (RCP) 2.6 and predicts a temperature rise below 2°C by the end of the century, aligned with the Paris Agreement. Important context for this scenario is that the world currently remains significantly off target in restricting the temperature rise to below 2°C, yet the industry often refers to this as a 'best case' and it provides a valuable reference point against other scenarios.
- **A disorderly scenario,** which is aligned with RCP 2.6 and predicts a temperature rise lower than 2°C by the end of century. However, climate action to achieve this is not taken until 2030, which delays transition impacts and makes them more drastic. This scenario is limited in that it assumes coordinated policy action at a global level by 2030. This scenario is useful to explore transition risk dynamics, and is only applicable to the equities and bonds model.
- **A hot house scenario,** which is aligned with RCP 8.5 and predicts an average temperature change above 3°C by the end of the century, assuming no global response to climate change beyond what has already been committed to. There are concerns about the credibility of this scenario. However, it is widely used in industry to represent a 'worst-case' outcome and provides a valuable comparison with the RCP 2.6 scenario as an unlikely high-risk future.

Key assumptions: transition risk

As countries around the world increase energy demand and transition to greener energy sources, a key assumption is the energy requirements and mix in each region under each of the three scenarios. Projections include both energy reduction and change in the energy mix, and show the high-level requirement of a complete phase-out of coal in the transition assumptions, as well as significant reductions in gas, replaced primarily by renewables such as wind, solar and hydro energy.

These impacts – notably emissions trajectories, energy demand and supply mix, carbon prices and electrification assumptions – drive major model results.

Climate-related disclosures continued

Key assumptions: physical risk

For the equities and bonds model, macro-level assumptions about how physical risks will impact GDP pathways are applied across all sectors, essentially allowing for implicit estimation of second-order impacts (eg supply chain impact). By contrast, for the real estate and infrastructure model, physical risk data from Marsh, using XDI, calculate direct impacts at specific location, meaning that outputs of the model represent the projected impact due to direct physical damage to each asset, and do not take into account second-order financial impacts (eg business interruption).

Data limitations of scenario analysis

There are a number of limitations impacting our scenario analysis, reflecting the current industry-wide challenges of climate modelling.

The scenarios adopted are largely sourced from IPCC and do not account for non-linear change and the possible crossing of climate system tipping points. As a result, there are financial impacts, including at a regional level, that are not fully captured, leading to a potential underestimation of risk.

An important aspect is the input data, since for most assets modelled we have used company-specific data sourced from third parties such as Aladdin, Evora or Bloomberg. Many publicly-listed companies are measuring and reporting their emissions, which is a required data point for the calculation of climate-related metrics. However, among smaller and privately owned companies, this data is not commonly reported.

Another area of data limitation relates to lack of high-quality, comprehensive and reliable data upon which the model assumptions are based. Models are developed using proxies where data gaps are present, to ensure we obtain the widest coverage possible.

Another aspect of data limitations relates to the lack of historical data points to calibrate and validate the model outputs. In particular, the lack of historical data on the relationship between climate risks and financial outcomes makes it difficult to interpret modelled outcomes far into the scenario horizon with confidence.

Despite these limitations, scenario analysis provides us with useful information that can inform investment decision-making.

Limitations of the public assets climate change model

At the counterparty and portfolio level, the model assumes no change to the composition of investment portfolios. While such assumptions are necessary for model feasibility, they do impact on the reliability of the results. One of the other limitations of the equities and debt model is the timeline. The scenario analysis provides outputs up to 30 years in the future, and while this helps to provide an estimate of the adjustment in valuation by 2050, there are aspects of the scenario interplay beyond 2050 that are not explored. Importantly, the current version of the equities and bonds model provides separate assessments of physical and transition risks, which reduces our ability to assess the interdependencies across those climate risk transmission mechanisms.

This transition module in particular only takes into account Scope 1 & 2 GHG emissions. There are some industries, such as automotive, that are known to be significant climate contributors owing to high Scope 3 emissions, yet these impacts are not explicitly explored. Measurement and reporting of Scope 3 emissions is expected to improve and will be incorporated into the analysis in future as scenario analysis matures.

When assessing physical risk, the geographic distribution of a company's financial activity and dependencies is crucial. In the absence of such information, the model follows a top-down approach in determining climate shocks at sectoral level through macroeconomic pathways.

As a result of these limitations, the model results need to be interpreted taking the following caveats into consideration:

- Being a static asset portfolio, we have not modelled likely investment or asset allocation actions to mitigate against climate-related impacts. For example, in a disorderly scenario we would likely have to carry out significant reallocation across both asset classes and geographies to align with rapidly changing policies.
- We recognise the transmission pathway interdependencies across physical and transition risks, so the model results need to be interpreted taking this limitation into consideration.

Limitations of the private assets climate change model

The real estate and infrastructure model uses climate peril data to model the direct impact of physical climate impacts globally. In some geographies there is limited data, and the model uses a range of underlying source data at various resolutions to provide the necessary coverage for the projected perils. Similar to the equities and debt securities climate change model, the outputs provided by the real estate and infrastructure modelling assumes a number of key factors remain constant, in particular the current level of regional physical defence actions is assumed to remain unchanged. Although national defences may be upgraded in the future this is not considered within the physical climate risk projections.

Importantly, the scenario analysis for private assets only assesses direct physical risk and does not capture other potential climate-related impacts for those assets. It is important to bear this in mind when interpreting the results and also consider possible second-order impacts of physical risk (eg business disruption) as well as the impacts from transition modelling (eg asset valuation change due to a deterioration in economic conditions).

Viability statement

In accordance with Section 31 of the UK Corporate Governance Code, the Board has undertaken a comprehensive and robust assessment of the prospects and viability of the Group.

Process for assessing long-term prospects

The Group's long-term prospects are primarily assessed through the strategic and financial planning process.

Due to the long dated nature of our products, the Board considers the sustainability and resilience of the strategy and business model, as detailed on pages 15-17 and page 8, over a longer time horizon. This includes the consideration of longer term themes such as technology, digitalisation, growing need of savings products and climate change which are pertinent to the Group.

The Board have also considered the output of the financial planning process reflected in the Business Plan which covers the period to December 2026. The Business Plan was approved by the Board in December 2023, following a robust review and challenge process.

The Business Plan contains detailed financial forecasts, including the related risks and mitigating actions over the planning period. The forecasts have been prepared based on the business model that management is deploying to deliver our key strategic priorities, as explained on page 15-17. The Business Plan covers all the key measures that underpin our Financial Management Framework, which includes metrics on capital, liquidity, debt and earnings.

The Business Plan considers the implications of current and emerging risks and the resulting uncertainties that these present to the achievement of the Business Plan, including the principal risks and uncertainties to which the Group is exposed, as discussed on pages 60-68. We assess these risks and uncertainties through stress and scenario testing as discussed below.

Progress against the Business Plan will be monitored regularly by the Board.

The Board also considered and reviewed the results of the annual Own Risk and Solvency Assessment (ORSA), which is an integral part of our risk management process. The process helped the Board to assess the resilience of the Group's solvency position to various risk and stress scenarios. The Board confirms that it has carried out a robust assessment of the company's emerging and principal risks.

Period for assessing viability

The Board considers that the three-year period to December 2026 is appropriate for assessing viability. This aligns with the business planning horizon and so, reflects the period over which key strategic initiatives will be delivered, principal risks will be managed and results will be monitored.

Assessment of viability

The Board assessed the financial and operational impact of the Group's principal risks on the ability to deliver the Business Plan. The Board reviews the principal risks to ensure that they reflect current market conditions and any changes to the Group risk profile.

As part of the strategic and financial planning process, we considered the resilience of our financial position to various combined risk scenarios.

The combined scenarios are developed by the Risk and Resilience team, with input from the Investment Office and Finance. The process is overseen by the Group Risk Committee.

The Business Plan was subjected to the following combined risk scenarios based on plausible pathways for the global economy in the context of the current high inflation environment and geopolitical uncertainty, and the resultant impact on investment performance and consumer behaviour:

- Optimistic – Inflation peaks and falls steadily, led by headline components and an improvement in supply dynamics. Central Banks are able to ease policy rates at a faster pace than current pricing as inflation dynamics improve.
- Pessimistic – Growth dynamics deteriorate further and developed economies enter recession. Inflation begins to fall as activity falters and a negative output gap opens up. Rates reprice to factor in a reversal of rate hikes as slowdown in activity accelerates.
- Stagflation – Inflation remains high and broad based, despite recessionary conditions, constraining room for manoeuvre by Central Banks and forcing them to remain restrictive in policy setting. Elevated nature of inflation leads to demand destruction in the real economy and a pickup in credit delinquencies and default leading to a recession.

The stated scenarios were translated into impacts on various macroeconomic indicators to determine how delivery of the Business Plan is affected.

In addition, as part of its ORSA, the Group undertook reverse stress testing to determine scenarios that would result in the shareholder solvency coverage ratio falling below 100%. This included a scenario where both market and longevity risks were stressed.

The derived scenarios indicated that the Group had the ability to withstand severe events while still meeting its capital requirements and maintaining sufficient headroom to maintain viability over the projection period.

Climate risk is considered by the Board as part of its strategic oversight. It features in the assumptions and modelling done for our Business Plan and is also assessed as part of our ORSA.

We continue to refine our climate-related scenario testing approach and to assess appropriate management actions that could mitigate the impacts of climate-related risks.

For the purpose of the ORSA, the following scenarios were assessed:

- Net zero 2050 (orderly transition) – Global warming limited to 1.5°C by the end of the century through stringent climate policies and innovation, reaching global net zero CO_2 emissions around 2050.
- Delayed Transition (disorderly transition) – Annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C by the end of the century. CO_2 removal is limited.
- Divergent (disorderly transition) - Global warming limited to 1.4°C with net zero CO_2 emissions by around 2050. A failure to coordinate policy stringency across sectors leads to higher transition costs.
- Current Policies (Hot-house world) - Only currently implemented policies are preserved, leading to high physical risks. Warming exceeds 2.6°C by the end of the century.

The results of the stress and scenario testing demonstrated that due to the robust risk management process in place and the broad range of mitigating actions available, such as access to immediate liquidity funding and the ability to reduce dividends, the Group is able to withstand the impact in each case with regards to meeting all liabilities as they fall due.

Statement of viability

Based on the results of the procedures outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2026.

Basis of preparation

The Strategic Report presented in our Annual Report and Accounts for the year ended 31 December 2023 has been prepared in accordance with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. In accordance with Section 414C of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business, including key performance indicators to the extent necessary, and a description of the principal risks and uncertainties facing the Group.

The risk management section of the Strategic Report describes the principal risks and uncertainties on pages 60-68.

In preparing this Strategic Report we have considered the Guidance on the Strategic Report as issued by the Financial Reporting Council in June 2022.

In addition the Board has also considered the guidelines with respect to alternative performance measures (APMs) as issued by the European Securities and Markets Authority (ESMA) in October 2015 and the guidance on APMs included in the thematic review published by the Financial Reporting Council titled IFRS 17 'Insurance Contracts' Interim Disclosures in the First Year of Application in November 2023.

Our Board believes that the APMs identified within the Strategic Report are useful for management and investors in assessing the performance of the business during the year, in conjunction with the relevant IFRS results included within the Group's consolidated financial statements.

Approved by the Board of Directors and signed on their behalf by

Andrea Rossi
Group Chief Executive Officer
21 March 2024

Governance

Chair's introduction to governance

Governance that supports our business

The Board is responsible for our long-term sustainable success, generating stakeholder value and contributing to wider society

I have set out the key areas of governance on which the Board has focused over 2023. We have complied with the UK Corporate Governance Code throughout the financial year. The table on the next page sets out examples of how the Board has done this for each Principle and signposts to where you can find more information.

Governance and strategy

The Board is responsible for M&G's long-term sustainable success, generating value for shareholders and contributing to wider society.

A critical element of the Board's activity in early 2023 was approval of our refocused strategy, which builds on our financial strengths, drives simplification and efficiencies that benefit our clients, and delivers growth. The Board continues to oversee the delivery of the strategy.

Culture

Having the right culture at M&G is a vital underpin to our strategy and the Board is committed to ensuring that our colleagues are engaged in creating the right work environment and a positive culture.

During 2023, the Board approved the new purpose, together with values and behaviours aligned to our strategy and business plan. I believe that our approach will set M&G up to achieve our strategic goals, delivering for our customers. Key to our success is maintaining our strong culture. The Board strongly believes in the value of culture and demonstrating the right tone from the top in everything that we do.

The Board monitors this in a number of ways and receives regular updates on people and culture, as well as insights from regular colleague surveys. We also draw on regular formal and informal sessions with colleagues to gain deeper insights into our culture.

The purpose of those sessions is for Board members to have the opportunity to directly engage with, and listen to, colleagues from different cross sections of the business and to ensure we are reflecting feedback into planning and decision-making.

Stakeholders

The Board takes active steps to understand the interests, needs and concerns of other key stakeholders. Ongoing engagement and active listening are vital to ensuring that stakeholder views are properly understood and appropriately represented. In particular, the Board regularly discusses and advocates for a client-focused mindset and consideration of clients in everything we do. The Board strategy offsite included a client panel discussion, covering client expectations and how M&G can best serve them.

Ensuring that management is spending time to understand our clients has been a Board priority this year. As part of developing the new purpose, management held meetings with clients to discuss M&G's products, service and wider proposition.

Board evaluation review

The Board reflects on its performance and effectiveness annually. This year, our evaluation was facilitated externally by Boardroom Review Limited. The evaluation process was comprehensive and rigorous. It involved initial briefing meetings with a range of key stakeholders, followed by in-depth structured one-to-one interviews with members of the Board and a workshop during October 2023.

Key themes emerging from the sessions and review were used to develop an action plan, which was reviewed and endorsed by the Board in December 2023. The Board will continue to track the actions through 2024 and progress will be reviewed regularly at Board meetings through the year.

More information about the Board evaluation and action plan is on pages 106-107.

Board composition and succession planning

Board composition and succession planning was a key area of focus for the Nomination and Governance Committee during 2023, helping us ensure we have the appropriate balance of the desired skills, experience, independence and knowledge.

The Board also played a key role in the changes at executive management level. As Chair, I consider each Director's individual contribution to the Board, together with feedback and insights from the 2023 Board effectiveness review, to confirm that all Directors are discharging their roles effectively. The Nomination and Governance Committee keeps the skills required by the Board under review as part of succession planning.

Fiona Clutterbuck stepped down from the Board and her role as Senior Independent Director (SID) at the 2023 AGM. I would like to thank her for her significant contribution to the Board and her years of service to M&G. I am grateful to Clare Thompson, Chair of the Audit Committee, who has acted as interim Senior Independent Director since then.

Diversity

The Board is fully committed to leveraging the benefits of diversity of thought and life experience in our discussions. We have committed to achieving the gender and ethnic diversity targets contained in Listing Rule 9.8.6(9). I am pleased that 50% of our senior Board positions (Chair, Group CEO, SID, and CFO) are held by a woman and we have met the target to have at least one director from an ethnic minority background. Whilst the percentage of women on the Board began the year at 44%, the departure of Fiona Clutterbuck after the AGM in May 2023 has meant that the Company did not meet the 40% gender diversity target. As at 31 December 2023 gender diversity on the Board was 37.5% However, the Board remains committed to achieving the gender targets for the Board contained in the Listing Rules as soon as reasonably practicable.

AGM

The Board would like to thank our shareholders who participated in our AGM in 2023. The Board continues to view the AGM as a key point in our governance calendar. It is an opportunity to listen to views from our shareholders and for shareholders to meet and ask questions of our Board members, including Committee Chairs. We look forward to welcoming you again in 2024.

Finally, I would like to thank our colleagues for all of their hard work during 2023 and the commitment they have shown to deliver for our stakeholders.

Edward Braham
Chair

UK Corporate Governance Code

The Company has complied with the principles of the Code throughout the financial year ended 31 December 2023 and to the date of this report, and complied with all provisions of the Code.

The table below sets out examples of how the Board has done this for each principle, enabling our shareholders to evaluate our Code compliance. We have also signposted to different parts of the Annual Report where you can find more information.

The UK Corporate Governance Code can be found on the FRC website

Code Principle	Read More
Board leadership and company purpose	
Long-term value and sustainability	Page 99
Culture	Page 99
Shareholder engagement	Page 99
Other stakeholder engagement	Pages 99 -100
Conflicts of interest	Page 110
Role of the Chair	Page 101
Division of responsibilities	
Non-Executive Directors	Page 101
Independence	Page 103
Composition, succession and evaluation	
Appointments and succession planning	Page 103
Skills, experience and knowledge	Pages 96-98
Length of service	Pages 96-98
Evaluation	Pages 106-107
Diversity	Page 103
Audit, risk and internal control	
Audit Committee	Pages 111-117
Integrity of Financial Statements	Pages 111-117
Fair, balanced and understandable	Page 112
Internal controls and risk management	Page 115
External auditor	Page 116
Principal and emerging risks	Pages 60-68
Remuneration	
Policies and processes	Pages 151-158
Alignment with purpose, values and long-term strategy	Pages 120-124
Independent judgement and discretion	Pages 151-158

Board of Directors

Experienced leadership

We have a diverse Board, with a balance of skills, experience and specific strengths, to contribute to our long-term, sustainable success

Edward Braham
Chair

N – Chair

Appointment: 14 March 2022

Relevant skills and expertise

Edward Braham joined as Chair in March 2022. Edward was previously Senior Partner of Freshfields Bruckhaus Deringer LLP, the global law firm, and before that, Global Head of its Corporate practice. While Senior Partner, he headed the firm's strategic growth in the US, including establishing a new office in Silicon Valley. Edward also led on culture, diversity and ESG. Edward is a leading international lawyer in mergers and acquisitions, with experience in many industries, including financial services.

Other appointments

- TheCityUK (Non-Executive Director and Chair of international Trade and Investment Group)
- HM Treasury (Non-Executive Member of the Board)
- Modern Slavery and Human Trafficking Commission (Commissioner)

Strengths

- Experienced leader of an international people business.
- Broad sector experience from advising public companies, private equity investors, infrastructure investors and financial institutions and from public affairs work for the financial and related professional services sectors, and the professional and business services sectors.
- Regulatory experience.

Clare Thompson
Interim Senior Independent Director

A – Chair R R N

Appointment: 7 May 2019

Relevant skills and experience

Clare Thompson is an experienced Non-Executive Director with a deep understanding of the insurance sector and extensive financial services and audit experience. Clare spent 23 years as lead audit partner in major financial services groups at PwC, predominantly in the insurance and investment sectors. Since stepping down from her executive career, Clare has held several non-executive directorships. Her previous non-executive director roles include Direct Line Group and The British United Provident Association Limited (Bupa). Clare is Chair of Investment Funds Direct Limited, the main M&G Wealth Platform operating entity. Clare is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other appointments

- Financial Reporting Council (Non-Executive Director / Senior Independent Director)

Strengths

- Executive background as accountant and audit partner.
- Significant advisory and professional services work, specifically for life insurance and investment clients.

Andrea Rossi
Group Chief Executive Officer

Appointment: 10 October 2022

Relevant skills and experience

Andrea Rossi was appointed Group Chief Executive Officer in October 2022. He has more than 25 years of experience in financial services, in particular in the global asset management and insurance sectors. He was CEO of AXA Investment Managers and a member of the AXA Group Executive Committee for six years. Before that Andrea was CEO of AXA's Italian Insurance business, a position he held for five years. He also held a number of senior roles across AXA's insurance businesses in France, the Mediterranean and Middle East regions. Andrea began his career with GE before moving to AXA in 2001.

Before joining M&G, Andrea was a Senior Adviser to the Boston Consulting Group on Insurance and Asset Management within the firm's Financial Institutions practice. He is also a Non-Executive Director of REsustain, a firm he co-founded in April 2021, which has developed a platform that reduces carbon intensity in commercial real estate.

Andrea graduated from INSEAD with an MBA in 1994, and holds a MsC in Economics and Commerce from the University of Rome, 'La Sapienza'.

Other appointments

- REsustain (Non-Executive Director)
- ARRM Capital Limited (Director)

Strengths

- Strong management and leadership skills.
- Extensive experience of global insurance and asset management of scale, developed and emerging markets, restructuring, growth and transformation.
- Strong track record of delivering profitable growth and outstanding client outcomes.

Kathryn McLeland
Chief Financial Officer

Appointment: 3 May 2022

Relevant skills and expertise

Kathryn McLeland was appointed as Chief Financial Officer in May 2022.

Kathryn joined M&G from Barclays PLC, where she was Group Treasurer from 2018. She held several senior roles there since joining Barclays Capital in 2001. Previously, Kathryn held investment banking roles at Merrill Lynch and Salomon Brothers International.

Other appointments

- Listing Authority Advisory Panel (Panel member)

Strengths

- Strategic, commercial finance leader with significant global international investment banking and capital markets experience.
- Capital management and strategy, funding and liquidity, stress testing, principal equity investments (including sustainable impact and fin tech) and investor relations.
- Champion of sustainability, diversity and inclusion.

Board of Directors continued

Clive Adamson
Independent
Non-Executive Director

R – Chair A N

Appointment: 22 March 2019

Relevant skills and experience

Clive Adamson has considerable experience of UK and global economic, banking and regulatory matters gained from an extensive career in banking and financial services regulation, including senior executive and advisory positions with the FCA and its predecessor, the Financial Services Authority. As well as his Board role, Clive is also a Non-Executive Director and Chair of the PAC Risk Committee. He is Chair at Ashmore Group and holds a number of Board positions within the J.P. Morgan Chase Group, including Chair of J.P. Morgan Europe, which houses the Chase UK digital bank, Chair of Nutmeg Savings & Investments and Non-Executive Director and Chair of the Audit Committee at J.P. Morgan Securities. He was previously a Non-Executive Director and Chair of the Risk Committee at Virgin Money (formerly CYBG) and a Senior Adviser at McKinsey & Co.

Other appointments

- Ashmore Group plc (Chair)
- J.P. Morgan Europe Limited (Chair & Audit Chair)
- Nutmeg Savings and Investment Limited (Chair)
- J.P. Morgan Securities Plc (Non-Executive Director & Audit Chair)

Strengths

- Executive background as banker and regulator.
- Deep life insurance and with-profits experience.
- Emerging markets investment experience.
- Professional services.

Clare Chapman
Independent
Non-Executive Director

R – Chair N

Appointment: 15 March 2021

Relevant skills and experience

Clare Chapman is Chair of ACAS, the Advisory, Conciliation and Arbitration Service for Great Britain, and co-Chair of The Purposeful Company, which focuses on transforming UK business with purposeful companies that create long-term value by serving the needs of society. Her executive career includes HR leadership roles at BT Group, the UK Department of Health and Social Care and Tesco, as well as international roles at Pepsi-Cola International, covering West and Central Europe, and Quaker Oats in Chicago and London. She also has experience in the Asian market. Clare's previous non-executive experience includes chairing the remuneration committees at Kingfisher, G4S and Heidrick & Struggles International. She was also a Trustee at Reconciliation Leaders Network.

Other appointments

- ACAS (Chair)
- The Purposeful Company (Co-Chair and Steering Group Member)

Strengths

- Executive background in HR.
- Telecoms, retail and the public sector.
- Large scale transformation.
- Corporate governance.

Dev Sanyal
Independent
Non-Executive Director

A R

Appointment: 16 May 2022

Relevant skills and expertise

Dev is the Chief Executive Officer of VARO Energy Group, a Swiss-based diversified energy company. He has been in this position since 1 January 2022. Until 31 December 2021, Dev was a member of bp's Group Executive committee for over a decade. His 32-year career at bp included heading the Gas and Low Carbon Energy business globally; Chief Executive, Alternative Energy; as well as being responsible for bp's Europe and Asia regions. Prior to that, he was Group Treasurer and Chairman, bp Investment Management; Chief Executive Air bp International and Chief Executive, bp Eastern Mediterranean. Dev was also an independent Non-Executive Director of Man Group between 2013 and 2022.

Other appointments

- VARO Energy Group (Chief Executive Officer)
- Centre for European Reform (Member of Advisory Board)
- Tufts University, The Fletcher School of Law and Diplomacy (Member of Advisory Board)

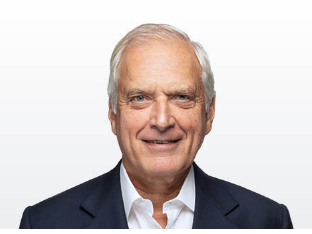
Strengths

- Global experience in building and managing integrated low-carbon energy businesses.
- Deep knowledge of capital markets and trading.
- Extensive track record in management of complex operations.

Key

- R Risk Committee
- A Audit Committee
- R Remuneration Committee
- N Nomination Committee

Board of Directors continued



Massimo Tosato

Independent
Non-Executive Director

R

Appointment: 1 April 2020

Relevant skills and experience

Massimo Tosato is an Independent Non-Executive Director at M&G, and is also Non-Executive Chair of M&G Group Limited, MAGAIM and MAGIM. Massimo has 40 years' experience as an investment banking and international asset management entrepreneur and senior manager. Massimo's career has included 21 years at Schroders, where he was Chief Executive of Schroder Investment Management Limited and Executive Vice Chairman of Schroders plc. He has also held non-executive Board positions at Pictet Asset Management Holding (Geneva) until March 2020, Nutmeg, Banca Nazionale del Lavoro, and served as Vice President of the European Fund and Asset Management Association. He was on the Board of Overseers of Columbia Business School in New York until June 2022. Massimo served as an Advisory Board member of Trilantic Europe Capital Partners LLP until January 2022.

Massimo is Non-Executive Chair of Banca Investis.

Other appointments

- Banca Investis SpA (Non-Executive Chair)
- Axylon AI (Member of Advisory Committee)
- Antler Funds (Adviser)
- TheCityUK (Co-Chair of the Anglo-Italian Financial Services Dialogue)
- Trinity investments (Adviser)
- Delbycrest Limited (Non-Executive Director)
- Montpelier Investimenti srl (Sole Director)
- Tenuta Villa Pinciana società agricola simplice (Co-Managing Partner)

Strengths

- Deep asset management experience in executive career.
- CEO experience.
- PLC Board experience.
- Regulatory experience.
- International perspective.

Charlotte Heiss

General Counsel and
Company Secretary

Appointment: 5 June 2023

Relevant skills and experience

Charlotte has 20 years experience advising a number of blue-chip companies across a range of sectors on legal and governance matters. She joined from The Very Group, where she was Group General Counsel and Company Secretary, responsible for the oversight of corporate governance and ESG, as well as legal, risk and compliance. Prior to that, she spent 11 years at RSA Insurance Group, including five years as Group General Counsel and Company Secretary leading a global legal and company secretarial team. She started her career at Linklaters.

Other appointments

- Trustee, Family Action

Key

- R Risk Committee
- A Audit Committee
- R Remuneration Committee
- N Nomination Committee

Corporate Governance Report

Board leadership and company purpose

Board responsibilities

The M&G Board is collectively responsible for our long-term, sustainable success, the delivery of sustainable value to our stakeholders, and contributing to wider society.

The responsibilities of the Board include:

- providing leadership, setting the strategy and maintaining high standards of governance
- leading the development of our culture, values and behaviours
- providing oversight of the execution of our strategy and holding management to account for financial and business performance
- ensuring the necessary resources are in place for the Group to be able to meet its objectives and measure performance against these
- being responsible for ensuring there is a framework of prudent and effective controls, which enable risk to be assessed and managed
- ensuring that its responsibilities to shareholders and stakeholders are met, including through effective engagement and dialogue with key stakeholders, particularly shareholders, customers, colleagues and the regulators.

Culture, values and behaviours

The Board understands the importance of culture and setting the tone of the organisation from the top and embedding it throughout M&G. During the year, the Board approved a new purpose statement, together with a set of behaviours. Our purpose is aligned with our culture and strategy, and positions us to achieve our strategic priorities: profitable growth, simplification, and financial strength targets.

The Board has approved the approach to culture measurement, which includes consideration of a culture insights report at least twice a year, and a culture dashboard as a primary method for monitoring culture.

Additionally, the Board assesses culture when reviewing and discussing the outputs and themes from regular colleague surveys. The culture dashboard includes colleague and culture insights on a range of matters including: safe; respectful; inclusive; client-centric, accountable; and one team.

In 2023, the Board considered and endorsed the actions proposed by management to further improve culture, which included:

- additional actions to embed constructive challenge and sharing a broader range of perspectives across M&G
- a top-down focus on addressing complexity and obstacles to drive improvements in accountability and remove barriers to execution
- events to drive conversations across M&G, creating behavioural change and driving commitment to our new purpose.

Stakeholder engagement

The Board seeks to understand the interests, needs and concerns of shareholders and other key stakeholders (including customers, colleagues, and regulators) to enable M&G to pursue long-term sustainable success.

For more information on how we engage with our stakeholders as well as how the Board has discharged its duties under Section 172 of the Companies Act, see pages 40-45 of the Strategic Report.

Shareholder engagement

We believe that regular, ongoing engagement with key stakeholders and, in particular, our shareholders is central to good corporate governance. Our Investor Relations (IR) team, reporting to our Chief Financial Officer, is responsible for managing shareholder engagement and ensuring it is effective and comprehensive.

Throughout 2023, management regularly met and engaged with shareholders as part of results roadshows, at investor conferences and at sell-side analyst events.

We held a mix of in-person and virtual meetings to maximise investor engagement, encourage the participation of overseas investors and manage time efficiently. Across 2023, we held over 170 engagements with institutional equity and debt investors, primarily from the UK. We achieved broad coverage of our existing register, meeting with over 50.3% of our active shareholder base.

The Chair, Senior Independent Director and Chairs of each Board Committee are always available to engage with major investors, typically to discuss corporate governance matters.

In 2023, the Chair engaged with shareholders on matters including sustainability, remuneration and Board composition, as well as performance against the Company's strategy. The Chair of the Remuneration Committee consulted with major shareholders and proxy voting agencies to understand their views on the proposed approach for our Remuneration Policy and key executive remuneration decisions. Further details and the outcome of this engagement are included within the Directors' Remuneration Report from page 120.

Board leadership and company purpose continued

The Board receives a report on investor relations matters at least quarterly, including feedback from investors, market expectations of financial performance and updates on share register composition. Our Corporate Brokers also provide the Board with advice on market sentiment, input on market communications and share register analysis.

In addition to information on strategic, financial, and operational performance, the Group engages with shareholders and relevant shareholder advisory agencies on sustainability matters. The Group produces regular sustainability reporting detailing our approach. This can be found on our website.

Our AGM provides the opportunity for all shareholders to meet and to put questions to the Board. We were delighted to host a hybrid AGM in 2023. We encourage shareholders to use virtual meeting technology to ask questions 'live' and to pre-register questions in advance. The virtual meeting technology enables shareholders to vote on AGM resolutions 'live' in the meeting.

The investors section of the Group's website is our primary source of regularly updated information about the Group. All financial reports and statements, regulatory news service announcements and disclosures, presentations and other relevant documents are available on the website, together with a summary of financial analysts' forecasts of performance. Recognising that joining our full year and half year results conference calls is not always possible, we ensure that recordings of these presentations are accessible to all shareholders via our website. We provide additional dedicated services to our retail shareholders via the Group Secretariat team and our registrar, Equiniti.

As part of the Group CEO induction, Andrea Rossi met with a number of our major shareholders between November 2022 and January 2023. The 10 investors he met with jointly accounted for 34% of the register as of December 2022. This corresponds to c.42% of the 'addressable' register, ie removing passive holdings and shares held by the employee trust.

Investors' areas of focus were capital management, strategy, and growth.

Workforce engagement

The Board believes that having a diverse team of colleagues makes us more dynamic, fosters innovation and boosts performance. The Board continues to support senior leadership goals for ethnic and gender diversity. The Board regularly tracks progress against these through diversity and inclusion (D&I) reporting. Information on D&I can be found in Colleagues section on pages 51-53.

To comply with the provision of the Code relating to workforce engagement, the Board has determined it would have collective responsibility for employee engagement. The Board believes that Non-Executive Directors' regular meetings with colleagues across different geographies and seniority, supplemented by colleague surveys and culture insight reporting, are effective. These methods facilitate meaningful, two-way dialogue between the Board and colleagues to gain insights into culture, and to understand colleague views and interests. It also inputs into the Board's decision-making process by ensuring meaningful engagement on how feedback is considered and acted upon.

Engagement during 2023 included seven sessions between Non-Executive Directors and colleagues, together with various sessions with colleagues as part of the Board's site visit to Milan in October 2023. The engagement sessions in Milan between the Board and colleagues included: a corporate responsibility roadshow; discussion groups between Non-Executive Directors and colleagues; a session on diversity and inclusion; and a Townhall with colleagues hosted by the Chair and Group CEO.

Feedback on themes from direct engagement sessions between the Board and colleagues are documented and shared with the Non-Executive Directors and the Chief People Officer, to ensure appropriate follow-up and action as applicable. Management regularly reports to the Board on a range of people matters, topics and themes, which the Board takes into account when making decisions.

Further information on colleague engagement is in the stakeholder engagement section on page 43.

Corporate Governance Report

Division of responsibilities

Our governance structure is designed to support delivery of our strategy. The Board has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of M&G, and is responsible to shareholders for creating and delivering sustainable shareholder value.

Board

The Board is specifically responsible for a range of matters, which include:

- approving M&G's strategic aims and objectives
- setting our purpose, standards, and culture
- approving the annual Group financial budgets
- approval of effective risk management and internal control processes
- taking strategic decisions
- the approval of specific matters.

The matters that require Board approval are contained in a Schedule of Matters Reserved for the Board.

Chair, Group CEO and Non-Executive Directors

In discharging its responsibilities, the Board is supported by management and ensures a clear division of responsibilities between the Chair, the Group Chief Executive Officer, the Senior Independent Director, and the Non-Executive Directors.

Day-to-day management of M&G is delegated to the Group Chief Executive Officer. There is a document that sets out the division of responsibilities between the roles of the Chair and Chief Executive Officer in accordance with the principles and provisions of the Code, and the responsibilities of the Senior Independent Director.

The role of the Non-Executive Directors includes providing constructive challenge, strategic guidance, offering specialist advice, and holding management to account.

During the year, the Chair of the Board engaged with Directors between Board meetings to discuss business and strategic issues. The Chair and the Non-Executive Directors met regularly during the year without the Executive Directors being present.

The Board spent significant time getting to know the new members of the executive management team. Comprehensive Board and Committee papers, comprising an agenda and formal reports and briefing papers are sent to Directors in advance of each meeting.

Board Committees

The Board delegates specific responsibilities to Board Committees, which operate within clearly defined terms of reference approved by the Board. In compliance with the Code, the Board has established an Audit Committee, a Nomination and Governance Committee and a Remuneration Committee. We have also established a separate Risk Committee.

The Terms of Reference for each Board Committee are reviewed and approved annually by the Board and are available to view on our website.

The Committee Chairs are responsible for reporting to the Board on the Committees' activities and do so following each Committee meeting.

Chairs' Forum

The Chairs' Forum is composed of the Chairs of M&G Group Limited (MGG), The Prudential Assurance Company Limited (PAC) and the Group Chair, with the Group CEO being invited to meetings as needed. This provides an opportunity to engage on common themes, matters of escalation, and other topics of interest. During the year, this included: strategic matters; Board effectiveness and succession planning; customer outcomes; people and culture; regulatory matters; sustainability; and financial performance and business plan.

Subsidiaries

Independent Non-Executive Directors are appointed to the Boards of MGG and PAC relating to the Asset Management and Life businesses respectively.

MGG and PAC both have a Board of Directors led by an independent Chair, and Audit and Risk Committees, comprised entirely of independent Non-Executive Directors. During the year, the Board of the Company and the Boards of the material subsidiaries had a full day meeting discussing strategic topics and priorities.

The Life business also has a With-Profits Committee, which is comprised of independent non-executives, and an Independent Governance Committee, which is comprised of a majority of independent non-executives.

The legal entity structure of the Wealth business and the composition of the boards of the subsidiaries in the Wealth business is being reviewed in conjunction with strategy work.

The Nomination and Governance Committee provides oversight of the governance arrangements for the material subsidiaries.

Executive governance

There is an executive governance framework, which includes details of how the members of the Group Executive Committee discharge their duties and regulatory responsibilities, make decisions in adherence with the Delegated Authority framework, and how the management committees in their business or function support their decision-making and governance processes.

The members of the Group Executive Committee are:

- Group Chief Executive Officer
- Chief Financial Officer
- M&G Asset Management Chief Executive Officer
- M&G Wealth Chief Executive Officer
- M&G Life Chief Executive Officer
- Director of Corporate Affairs
- Chief Risk and Compliance Officer
- Chief Strategy and Transformation Officer
- General Counsel and Company Secretary
- Chief People Officer

The Chief Auditor is an invitee to all Executive Committee meetings.

Division of responsibilities continued

Group governance framework

M&G plc Board

The Board sets the purpose, strategic direction, and risk appetite for the Group and is the ultimate decision-making body for matters of Group-wide strategic, financial, regulatory or reputational significance. The matters that are reserved for the Board's decision include business strategy and culture, financial reporting and controls, Board and Committee appointments, capital expenditure and any major acquisitions, mergers or disposals, communications with shareholders and other stakeholders, risk management and internal control matters, and the appointment and removal of the Company Secretary. The Matters Reserved for the Board can be found on our website.

The Board has established the following committees to assist in fulfilling its oversight responsibilities:

Audit Committee

- Financial reporting: monitoring the integrity of the consolidated financial statements, related announcements and other financial information provided to shareholders and other stakeholders.
- Reviewing the framework of internal control and risk management systems.
- Reviewing and approving the internal and external audit processes.
- Approving the Whistleblowing procedures and policy.
- Sustainability reporting oversight and the development of assurance in relation to this reporting.

Risk Committee

- Advising the Board on M&G's overall risk appetite, risk tolerances and risk strategy.
- Reviewing the Risk Management framework and advising the Board on its overall effectiveness.
- Providing input to the Audit Committee's review of effectiveness of the Integrated Control framework.
- Reviewing the Group Own Risk and Solvency Assessment (ORSA) and overseeing the Internal Capital Adequacy Assessment Process (ICAAP) and ORSA processes in our subsidiaries.
- In conjunction with the Audit Committee, ensuring compliance with regulatory requirements and advising the Remuneration Committee on risk and control issues that may impact remuneration.

Remuneration Committee

- Deciding the framework of the remuneration policies: establishing, approving, and maintaining the principles and framework of the remuneration policies and arrangements for the Group.
- Determining the design, implementation, and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, Group Executive Committee and identified staff for all remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

Nomination and Governance Committee

- Monitoring the balance of skills, knowledge, experience, and diversity of the Board.
- Making recommendations of new appointments to the Board.
- Overseeing Board and Executive succession planning.
- When considering Board composition and succession planning, reviewing the gender and ethnic diversity on the Board.
- Reviewing the governance framework for the Group including approving any policies on internal governance.

Delegated authorities

The Board has delegated the day-to-day running of the Group to the Group Chief Executive Officer. The Executive Directors make and implement operational decisions to run the business on a day-to-day basis. To support the Group Chief Executive Officer in discharging his responsibilities, he is supported by the Group Executive Committee.

Group Executive Committee

The Group Executive Committee leads on: the development and implementation of strategy; operational plans, policies, procedures and budgets; prioritisation and allocation of resources; and promotion of our culture and values.

Corporate Governance Report

Composition, succession and evaluation

We have a well-established corporate governance structure to oversee how we run our business

Committee terms of reference
www.mandgplc.com/investors/shareholder-information/corporate-governance

Board composition and diversity

The Board has eight Directors: a Non-Executive Chair, a Senior Independent Non-Executive Director, four Non-Executive Directors, and two Executive Directors (Group Chief Executive Officer and Chief Financial Officer).

The Board considers all its Non-Executive Directors to be independent and that it has complied with the requirements of the Code in relation to the balance of executive and independent Non-Executive Directors on the Board, and the composition of the Company's Board Committees.

Three of the Directors are women, one of the Directors is from a minority ethnic background; and two senior positions are held by women (Senior Independent Director and Group Chief Financial Officer).

The Nomination and Governance Committee regularly reviews the Board's composition to ensure there is a diverse mix of skills, knowledge, and experience. During the year, this Committee also reviewed the board composition, tenure, mix of skills, and diversity on a number of principal subsidiary boards.

You can find further details on diversity and inclusion, including statistical data on gender and ethnic diversity, in our Colleagues section which starts on page 50.

Time commitment

The Nomination and Governance Committee at least annually considers the time commitment required of the Non-Executive Directors to ensure that they have sufficient time to meet their board responsibilities, together with reviewing their external appointments, potential or actual conflicts of interest, and assessing their independence.

Board independence

The Board has evaluated the independence of all the Non-Executive Directors.

In assessing each Director, the Board considers whether there are relationships or circumstances which are likely to affect or could appear to affect a Director's judgement.

The Board has concluded that each of the Non-Executive Directors are independent in character and judgement. The Chair was independent on appointment. In line with the Code, at least half the Board, excluding the Chair, are independent Non-Executive Directors. All Directors are subject to annual re-election at the Company's AGM.

Succession planning

The Nomination and Governance Committee is responsible for succession planning and for making recommendations to the Board regarding Board composition. During the year, this Committee reviewed and discussed Board composition and succession planning, and executive succession planning. You can find further details on succession planning in the Nomination and Governance Committee report which starts on page 109.

Directors are appointed by the Board and then put forward for election or re-election by shareholders at the AGM.

All Non-Executive Directors are appointed for initial terms of three years and the appointment may be terminated by either party upon six months' written notice or by shareholder vote at the AGM.

The Non-Executive Directors do not have any entitlement to compensation if their office is terminated. Find out more about the remuneration of the Non-Executive Directors on page 158.

Directors' inductions, training, and development

All new Board members have a structured induction programme on appointment, which includes an overview of our business areas and functions.

At each Board meeting, we give regular updates on market and industry activities, and legal and regulatory changes relevant to M&G. The Board holds an annual Strategy Offsite.

During 2023, the Board received training and/or undertook deep dives on the following areas: Balance Sheet, Capital and Liquidity; Cyber Resilience; Bulk Purchase Annuities and Capital; and Artificial Intelligence.

The Audit Committee undertook training sessions and/or deep dives on IFRS 17, Financial Controls Framework, and Asset Valuations, and the Risk Committee held sessions on: Third-Party Supplier and Outsourcing risks; Data Privacy risks; Cyber Security risks; and Conflicts of Interest.

All Board members are invited to participate in all sessions, regardless of Committee membership. Where appropriate, we extend invitations to relevant training sessions to Non-Executive Directors on our subsidiary boards.

Information to the Board

Board members receive formal papers in advance of each Board or Committee meeting, which provides them with the opportunity to review and challenge, and facilitates more informed decisions on the issues under consideration. The Chair and Company Secretary oversee an ongoing programme to ensure Board and Committee papers are of high quality and meet internal standards and requirements. In addition to formal Board meetings, the Chair maintains regular contact throughout the year with the Group Chief Executive Officer, Chief Financial Officer, and members of the Group Executive Committee to discuss specific issues. The Company Secretary acts as an adviser to the Board on matters concerning governance and ensures compliance with Board procedures. All Directors had access to the Company Secretary's advice during 2023. Directors may also take independent professional advice at M&G's expense, if required.

Composition, succession and evaluation continued

Board and Committee attendance

The table below shows the number of scheduled Board and Board Committee meetings attended by each individual Director compared to the total number of meetings each Director was eligible to attend.

Total meetings	Board 8	Audit Committee 7	Risk Committee 5	Remuneration Committee 6	Nomination & Governance Committee 2
Clive Adamson	8/8	6/7[i]	5/5	—	2/2
Edward Braham	8/8	—	—	—	2/2
Clare Chapman	8/8	—	5/5	6/6	2/2
Fiona Clutterbuck	3/3	4/4	2/2	4/4	1/1
Kathryn McLeland	8/8	—	—	—	—
Andrea Rossi	8/8	—	—	—	—
Dev Sanyal	8/8	7/7	5/5	—	—
Clare Thompson	8/8	7/7	5/5	6/6	2/2
Massimo Tosato	8/8	—	—	6/6	—

i Clive Adamson was unable to attend the October meeting of the Audit Committee due to illness.

Board

There were eight scheduled Board meetings held during the year, plus two joint meetings with the Audit Committee to consider our full-year and half-year results, and three short ad hoc Board meetings.

Audit Committee

There were seven scheduled Audit Committee meetings held during the year. There were also two joint meetings with the Board, one joint meeting with the Risk Committee, and five short ad hoc meetings.

Risk Committee

There were five scheduled Risk Committee meetings held during the year. There was also a joint meeting held with the Audit Committee, and two short ad hoc meetings.

Remuneration Committee

There were six scheduled Remuneration Committee meetings held during the year, and one short ad hoc meeting.

Nomination and Governance Committee

There were two scheduled Nomination and Governance Committee meetings held during the year, and one short ad hoc meeting.

How the Board spends its time

The Chair and Company Secretary ensure that the Board balances its agenda to cover all statutory and regulatory duties, as well as dedicating sufficient time to consider matters relating to strategy, execution, financial performance and planning, people and culture, key stakeholders, risk management, and governance matters. In 2023, the agenda was weighted between regular items and specific focus areas. Our typical Board agenda allows time for:

Strategy and execution	Finance, investor relations and capital	Business matters and stakeholders	Risk, governance and regulatory
Approval of the strategy and business plan, and oversight of progress against targets, strategic objectives, investment projects and transactions, as well as approvals needed from the Board under M&G's delegated authority framework.	Review and challenge of financial performance and forecasts, together with capital and operational expenditure, capital matters, capital allocation and investment, and investor relations.	Discussion and debate on reports from Group CEO and business CEOs on strategy and execution, and key projects and programmes. Oversight of matters relating to people and culture, customers, shareholders, and regulators.	Approval of Risk Appetite Statements, consideration of matters relating to risk management and internal and control. Approval of Group Governance Framework and Delegated Authority and Approval Limits.

Composition, succession and evaluation continued

The Board's year

At each Board meeting, there is a wide-ranging report from each of the Group Chief Executive Officer and from the Chief Financial Officer on the Group's financial performance, together with reports and/or updates from the Chairs of the material subsidiary boards and from the Committee Chairs.

During the year, the key matters considered by the Board included the following:

Key Board activities and areas of focus throughout the year	
Area of focus	**Key discussions, considerations and activities**
Clients	– Customer matters, including meetings with clients during the Board site visit to Milan and as part of the Board strategy offsite – Consideration of customer outcomes when discussing papers on strategy and business proposals – Regular updates on customer metrics, client servicing, and key customer initiatives – Approval of the Consumer Duty annual report
Strategy, execution and sustainability	– Regular updates on progress against the strategic objectives, capital expenditure and investment projects, and key projects and programmes – Approved the new purpose, together with new behaviours and strategic drivers aligned to the Group strategy and Business Plan – Approved strategic direction for the Asset Management, Life, and Wealth businesses – Approval of the Business Plan, and the Half Year and Full Year Results – Regular updates in relation to achieving the stated targets, customer matters, people and culture, and transformation – Annual Board strategy day at which the Group's strategy was considered and debated – Considered and challenged updates on sustainability matters and the Group's position on sustainability – Review and approval of the annual Sustainability Report, TCFD Report, and the Modern Slavery statement
People and culture	– Received regular updates on employee culture and discussed culture dashboard and insights – Regular updates on diversity and inclusion and gender balance against targets – Discussion on the direct engagement with colleagues across the Group including during the Board site visit to Milan and the conversations between Non-Executive Directors and colleagues – Received and discussed reports on executive talent and succession planning – Discussion on the results of the employee opinion survey 'OneVoice'. The Board endorsed the actions proposed by management in response to the feedback from the workforce
Finance, investor relations and capital	– Reviewed and approved a detailed assessment of the Group's financial performance for the year – Approval of the annual budget and three-year strategic plan, with particular focus on capital allocation and strategic priorities – Updates from the Investor Relations team on views from shareholders on all aspects of the business – Approval of the dividends paid to shareholders during the year
Risk management and internal controls	– Regular updates from the Chief Risk & Compliance Officer on key risk management and internal control matters, and discussion of key risks and, where applicable, risk reduction activities – Review and approval of the Group's Risk Appetite Statements and the Policy Governance Framework, which sets the requirements for all policies within the Group – Updates on technology and operational resilience – Updates at each Board meeting from the Chairs of the Risk and Audit Committees on matters considered by these Committees
Governance and regulatory	– The Company Secretary and Chief Risk & Compliance Officer provide regular regulatory trends, policy guidelines and governance updates – Direct engagement with representatives from the FCA and PRA; both regulators attended a Board meeting during the year to discuss regulatory priorities – Board changes during the year, the resignation of Fiona Clutterbuck, appointment of Clare Thompson as interim SID and the appointment of Charlotte Heiss as Company Secretary – Considered, discussed and agreed action points on the external Board Effectiveness Review report

Composition, succession and evaluation continued

2023 Effectiveness Review

Background

In 2023, the Board commissioned an externally facilitated Board effectiveness review in accordance with the Code and best practice. The Board's last externally facilitated review was performed in 2020. The review was conducted between July 2023 and October 2023 and was led by the Chair with support from the General Counsel and Company Secretary.

Appointment

Following a selection process led by the Chair, with support from the General Counsel and Company Secretary, the Board appointed Dr Tracy Long of Boardroom Review, an experienced external board evaluation specialist to facilitate the review. Neither Dr Long nor Boardroom Review has any other connection with the M&G plc Group. The engagement with Boardroom Review includes a follow-up review to be conducted in 2024.

Process

The methodology for the review included a review of information by Dr Long and built on the insights and findings from the 2022 Board evaluation and assessed progress against the actions that the Board committed to take as a result. The review involved in-depth, structured one-to-one interviews by Dr Long with each Board member, ending with a workshop session for the Board in October 2023. The interviews anchored around the following key themes:

Themes	Topics
Use of time and information	– Executive / Non-Executive Director preparation and priorities – Agenda design and schedule use of time (formal & informal) – Quality of information
Meetings	– Context setting and framing of issues – Case study on coverage of specific Board topics, with a particular focus on the Board's visit to the Milan office in September – Balance of executive presentation vs Board debate – Clarity of conclusions and actions
Culture and dynamics	– Quality of debate and blend of voices – Contribution of critical executives and attendees – Contribution to knowledge and understanding – opportunities and challenges – Board support

Summary of 2023 review findings

The key findings and proposed actions were presented to the Board in December 2023, which prompted an open and constructive debate on the insights and findings, and actions were agreed.

There had been strong progress since the previous evaluation, with an open Board culture that is low ego and respectful, allowing a good blend of voices and perspectives to be represented, and with a good level of openness and transparency with the senior executive team. The Board welcomed the progress that has been made in strengthening relationships with stakeholders, building the Group CEO's relationship with regulators and the positive momentum that has been achieved. Board members have also valued the informal discussions outside meetings and the opportunities to spend time with local teams and customers.

Key themes emerging from the Board discussion were used to develop a number of agreed action points which are summarised on the next page.

Composition, succession and evaluation continued

Themes	Overview of Actions
1. Board and Committee composition and diversity Ensure composition of the Boards and Committees remain appropriate for the business.	– Continue to review Board, Committee and material subsidiary composition to ensure there is the right blend of skills, knowledge experience and diversity. – Protect the blend of voices and ensure there is a blend of skills on the Board and Committees which support the strategy and any potential challenges.
2. Board, Committee and Management responsibilities Validate division of responsibilities to ensure the optimum fora for key topics and potential to reduce unnecessary duplication. Continue to focus on board paper quality and improved planning and phasing of meetings.	– Validate the division of responsibilities between key decision-making boards and committees. – Ensure the executive governance framework best supports effective decision making by accountable individuals. – Improve clarity on key internal governance pathways, reporting, escalation and assurance. – Continue to focus on improving management information through a review of guidance given to those preparing papers.
3. People and Culture Further improve talent development and performance management, which should facilitate attracting a diverse range of people to join M&G and improving internal succession.	– Further enhance the framework to deliver high performance culture and people development. – Ensure people topics are incorporated into strategic topics.

The Board is fully committed to making the improvements identified. The work will continue through 2024 and progress will be updated in the 2025 Annual Report.

2022 Review Progress

In our last Annual Report, we set out feedback from our 2022 evaluation and the actions we planned to take over to 2023 to enhance performance. A summary of the 2022 action points and progress made is set out in the table below.

Themes and summary actions	Progress achieved in 2023
Board Skills and Roles – Review and refresh of Boards Skills Matrix – Review PLC tenure and succession plan – Review of international independent Non-Executive Director community	The Nomination Committee reviewed and refreshed the Skills Map for the Board during 2023. The refresh also included a review of the current Board tenure. During 2023, the Boards of our principal subsidiaries also took part in an assessment to identify their blend of skills, knowledge and experience, to recognise potential areas where they might be enhanced and reflect those in succession plans, where appropriate.
Board Papers and Meetings – Ensure 'real-time' Board paper feedback from Non-Executive Directors – Drive high quality debate and discussion in Board and Committee meetings – Half-year review of Board meeting cadence and Board reporting – Enhancing competitor and market context in Board papers	During 2023, the Board received monthly reports from the executive team to supplement formal Board reporting. In addition, the Executive Directors hold an informal monthly call to discuss the report with the Non-Executive Directors. Board members are invited to feedback any comments on papers at the end of every meeting. Progress here was assessed as a key part of the 2023 Board effectiveness review.
Regulatory Relationships – Establishing the new Group Chief Executive Officer's relationship with regulators	Progress has been made by the Group Chief Executive Officer in establishing effective relationships with both the FCA and PRA.

Corporate Governance Report

Audit, risk and internal controls

The Board is responsible for ensuring the Group's risk management framework and internal control system is maintained and remains effective.

Our internal control systems ensure the quality and integrity of our internal and external financial and sustainability reporting, as well as operational, legal and regulatory compliance. It prescribes the extent of the principal risks we are willing to take as part of our strategy. The internal control systems are designed to facilitate management of the Group and its businesses within the Board's risk appetite, rather than eliminate the risk of failure to achieve our objectives, and can only provide reasonable, but not absolute, assurance against material misstatements.

M&G currently operates the 'three lines of defence' model to govern its approach to risk management. In the three lines of defence model, the first line is responsible for the ownership and day-to-day management of risks and is overseen by the second line Risk and Compliance function. The second line is structurally independent of the first line, and provides oversight, advice and challenge. The third line Internal Audit function is empowered by the Audit Committee to audit the design and operating effectiveness of our system of internal controls, including governance, risk management and control processes.

The Board remains committed to instilling an appropriate risk culture and operating within a strong internal control system, with a view to continuously maturing, embedding, and enhancing risk management throughout the Group. The Board delegates some of its responsibilities to the Audit Committee and Risk Committee.

The Board is responsible for setting the Group's risk appetite and tolerance, following recommendation from the Risk Committee. Detail on our Risk Management Framework, risk appetite and limits, principal risks and uncertainties, and emerging risks are in the Risk Management section on pages 58-68.

The Audit Committee regularly works alongside the Risk Committee to monitor the adequacy and effectiveness of our internal control systems and risk management systems. The Audit Committee reports regularly to the Board on its activities. Details on the Audit Committee's activities in 2023 are on pages 111-117.

The Risk Committee assists the Board in fulfilling its responsibilities by advising on risk strategy and overseeing the development, implementation, and maintenance of the Group's Risk Management Framework (RMF) and the Group Risk Appetite statements. The Risk Committee reports regularly to the Board on its activities. Further details on the activities of the Risk Committee can be found on pages 118-119.

The Remuneration Committee ensures that our compensation structures place appropriate weighting on colleagues adopting our behaviours and risk culture to deliver the Group's strategy and achieve the objectives to deliver long-term, sustainable success for the Group. Further details on the activities of the Remuneration Committee can be found on pages 120-124.

Remuneration

The Board has established a Remuneration Committee comprised of independent Non-Executive Directors. Details of its responsibilities, activities, and areas of focus are set out in the Committee report on pages 120-124. The Remuneration Committee has determined that our Remuneration Policies and practices are designed to support M&G's strategy and promote the Group's long-term sustainable success.

Remuneration for executives is aligned to M&G's purpose and values, and is clearly linked to the successful delivery of M&G's strategy.

Details regarding remuneration policies and practices, together with the procedure for developing policy on executive, senior management, and workforce remuneration is in the Directors' Remuneration Report, which starts on page 120.

Nomination and Governance Committee Report

Nomination and Governance Committee composition

Edward Braham (Chair)

Clive Adamson

Clare Chapman

Clare Thompson

Priorities for 2024

- **Continue to keep Executive Committee succession planning under review**
- **Ensure that the balance of skills, knowledge and experience on the Board is appropriate to lead the Group**
- **Provide oversight of work to meet our diversity and inclusion goals and the targets that we have set to measure progress**

Dear Shareholder

Key matters the Committee discussed during the year included Board and Committee composition, Executive Committee succession planning, diversity and inclusion goals, and oversight of the governance and Board composition of material subsidiaries.

Committee purpose and responsibilities

In December 2023 the Board extended our delegated responsibilities to include overseeing the Group Governance Framework and oversight of subsidiaries governance policies, as well as developing, evaluating, and monitoring the Group's Diversity and Inclusion strategy and initiatives across the Group.

The newly named Nomination and Governance Committee is responsible for monitoring the balance of skills, knowledge and experience, as well as the diversity, of the Board. It is also responsible for making recommendations of new appointments to the Board and overseeing Board and senior management succession planning.

Further details can be found in the Committee's terms of reference, which are reviewed annually and available on our website.

Board composition, succession planning and performance

The Committee's primary responsibilities are to ensure that Board composition is appropriate and to keep succession planning of both Executive and Non-Executive roles under ongoing review.

We refreshed our Skills Map for the Board during 2023, which enables us to objectively identify and track skills required and to plan for emergency and longer-term succession. Board members undertook a self-assessment exercise in November 2023 against the refreshed skills matrix, which included sector experience, strategy, customer, technology, data, and sustainability.

The outputs from the self-assessment, which included that the current blend of skills, knowledge, and experience on the Board as a whole is appropriate in relation to current business priorities and prospective strategic initiatives, were discussed by the Committee in December 2023.

Succession plans for the Non-Executive Directors, Executive Directors, and Group Executive Committee members were reviewed and discussed by the Committee in December 2023.

Executive Directors – skills mapping and succession

We review the skills of the Executive Directors and succession plans for these positions on an ongoing basis. This process helps to ensure that there are potential internal candidates for succession who are suitably qualified and experienced, and that we have a diverse talent pipeline.

Areas of focus in 2023

- Board skills mapping and succession planning.
- Executive committee succession planning.
- Governance, board composition and gender diversity of material subsidiaries.

Executive succession planning was a key focus for us during the year. The change in Group CEO during October 2022 and subsequent senior management changes during 2023 emphasised the importance of ensuring that M&G has the appropriate people in senior roles to build a strong and diverse senior management pipeline for the longer term.

We received updates on the succession planning for the wider senior executive group twice during the year, with a talent and succession deep dive of the Asset Management business during December 2023, and deep dives of the Life and Wealth businesses and the Finance function in February 2024.

During 2024, there will be a continued focus on the internal succession pipeline by enhancing the current talent programme to develop future leaders ready for advancement.

Nomination and Governance Committee Report continued

Appointment process

We have a duty to consider and recommend to the Board the appointment of any new M&G plc Board member.

The appointment of a new Director begins with the identification of a vacancy or skills gap, together with consideration of the gender and ethnic diversity on the Board. We assess any skills required, including the evolving needs of the Board and then work with HR and the Company Secretary to produce a clear role specification to focus recruitment activities.

Using the role specification, an external search firm is selected on the basis of relevant experience for Non-Executive Director roles and internal and external searches are conducted for Executive roles. Long and short lists of candidates are considered, following which interviews are undertaken, at which Committee members (among others) test the candidates' skills and fit with M&G's culture.

These are essential criteria for the selection of Board members, since the Board aims to set the right tone from the top in how we go about our work and how our Directors represent and support M&G's culture.

Induction process

Structured and tailored induction programmes are prepared and, among other matters, cover meeting key members of the executive management team and the external and internal auditors; an overview of the financial and business plan; stakeholder engagement; organisation structure and all relevant policies, procedures and other governance material.

Board independence and conflicts

We take into account the independence criteria set out in the UK Corporate Governance Code as part of the selection process for our Non-Executive Directors. We assess the independence of each Non-Executive Director at least annually, to ensure that they can continue to properly fulfil their roles on the Board and provide independent challenge to the Executive Directors.

In February 2024, we reviewed each Non-Executive Director, taking into account their tenure, external roles and potential conflicts of interest. We determined that all Non-Executive Directors are free from any relationship or circumstances that could affect, or appear to affect, their independent judgement, and therefore all Non-Executives can be recommended for re-election at our 2024 AGM as independent Board members.

In line with the Code, over half of our Board members, excluding the Chair, are independent Non-Executive Directors.

We review potential conflicts for Non-Executive Directors on their appointment, at least annually, and in advance of taking on any additional external appointment, supported by the Risk and Compliance team.

Time commitment

We oversee our Non-Executive Directors' time commitments to ensure that each has sufficient time to dedicate to their role to be able to discharge effectively their responsibilities. At least once a year, we consider the number and nature of the Non-Executive Directors' external commitments, and how this impacts the time required for their Board and Committee responsibilities.

We are satisfied that each Non-Executive Director has sufficient time to undertake their role at M&G.

Board and Committee effectiveness

The process and results of the 2023 Board and Committee effectiveness review are described on page 106. This year's results and agreed areas of focus are described on page 107.

Diversity and inclusion and gender balance

When considering Board composition and succession, we specifically review the Board's gender and ethnic diversity, and the gender and ethnic diversity targets contained in Listing Rule 9.8.6(9). The Board also considers gender diversity on the Boards of its material subsidiaries as well as progress against the Group's diversity commitments at half year and full year.

The Board continues to meet the Listing Rule 9.8.6(9)(a)(iii) requirement for at least one of its members to be from an ethnic minority. Currently 50% of the senior Board positions (Chair, Group CEO, SID and Group CFO) are held by a woman and gender diversity on the Board is 37.5%. Whilst the percentage of women on the Board began the year at 44%, the departure of Fiona Clutterbuck after the AGM in May 2023 has meant that the Company did not meet the 40% target in Listing Rule 9.8.6(9)(a)(i) at 31 December 2023. The size of our current Board means that individual membership changes can have a material impact on the gender ratio. However, the Board remains committed to achieving the gender targets for the Board contained in the Listing Rules as soon as reasonably practicable.

Governance of material subsidiaries

We are responsible for overseeing the governance arrangements of our material subsidiaries MGG and PAC which sit in our Asset Management and Life businesses respectively. During 2023, we reviewed the composition of their Boards and changes to them, ensuring that they continue to comply with regulatory requirements and that succession plans are in place.

The legal entity structure of the Wealth business is being reviewed in conjunction with strategy work and we will provide oversight of the board composition of the Wealth subsidiaries as part of this review.

During 2023, the Boards of our principal subsidiaries took part in a skills assessment to identify the blend of skills, knowledge and experience on the Boards and to recognise potential areas where they might be enhanced.

The analysis concluded that the current blend of skills, knowledge and experience on those Boards is appropriate in relation to our business priorities and prospective strategic initiatives.

Edward Braham
Committee Chair

Role and responsibilities of the Nomination and Governance Committee

The Committee is responsible for the composition of the Board and its Committees, together with succession planning. This ensures that the right skills are in place to support our strategic priorities, long-term success and future viability. The Committee is also responsible for elements of diversity and inclusion leadership.

The Nomination and Governance Committee's terms of reference
www.mandg.com

Membership and meeting attendance
page 104

Audit Committee Report

Audit Committee composition

Clare Thompson (Chair)

Clive Adamson

Dev Sanyal

Priorities for 2024

- **Continued focus on the internal control environment and embedding the Group-wide integrated Control Framework**
- **Consideration and awareness of the impact of the changes to the UK Corporate Governance Code**
- **Oversight of sustainability reporting and assurance requirements in a continually evolving regulatory environment**

Dear Shareholder

I am pleased to present the Audit Committee Report, which outlines the key themes we focused on during the year.

Our 2023 agenda was dominated by financial reporting due to the adoption of the new insurance accounting standard, IFRS 17, and our finance transformation plan, which we continue to monitor alongside our business as usual activities.

In September, we published our half-year 2023 results for the first time on the basis of IFRS 17.

We continue to oversee sustainability reporting and, in light of the changing regulation, revised our approach for 2023 to include a number of enhancements.

We held a number of 'deep-dive' sessions during the year, including the financial close and reporting process changes due to the adoption of IFRS 17, and financial asset fair valuation methodologies and governance processes.

The Committee has continued to focus on the overall control environment and this also encompassed the oversight controls over financial reporting processes performed by the third parties.

On 3 April 2023, we welcomed Rob Lewis as our new Chief Auditor. Rob's contribution has already been notable, particularly in relation to remodelling the internal audit strategy and setting out his vision for the audit team.

We continued to spend time with PwC during its second year of audit, and with whom we worked closely on the adoption of IFRS 17.

The Audit and Risk Committees continue to work closely together, and the cross-membership principles that we follow ensure that members of both committees receive information in the most efficient way.

Finally, I would like to thank Fiona Clutterbuck, who stepped down from the Committee on 24 May 2023, and extend my thanks to the Committee members for their support and dedication over the year.

Clare Thompson
Committee Chair

Areas of focus in 2023

- Monitoring the Finance Change agenda, including oversight of the implementation of IFRS 17.
- Reviewing and recommending to the Board the full-year and half-year 2023 results, and approving the associated key accounting and actuarial assumptions and methodology.
- Reviewing and recommending to the Board the Solvency II Pillar III reporting, and approving the associated balance sheet valuation methods and assumptions.
- Reviewing and approving our Annual Report and Accounts, our 2022/23 Sustainability Report and other sustainability reporting.
- Considering findings reported by the external auditor, reviewing the external audit strategy and plan.
- Considering and challenging the impact of economic uncertainty on key economic assumptions and valuations.
- Oversight of non-financial assurance, including sustainability.
- Monitoring the effectiveness of the Internal Audit function.
- Processes used to value complex and illiquid financial assets.

Composition

The Board considers all Committee members are independent and that Clare Thompson has recent and relevant experience of working with financial reporting and accounting matters.

Find out more about details of Committee members' relevant skills and experience on pages 96 to 98.

2023 Meeting Schedule

In 2023, there were seven regular scheduled Audit Committee meetings and five short ad hoc meetings. In addition, we held one joint meeting with the Risk Committee, and two joint meetings with the Board to consider our full-year and half-year results.

We incorporated training sessions on IFRS 17 within the regular meeting schedule.

In addition, we met individually with the Chief Auditor and the lead audit partners from our external auditors, PwC, without the presence of management. These private sessions are on a rolling programme, with internal and external auditors each holding at least two private sessions a year.

Annual evaluation of Audit Committee performance

The process and results of the 2023 Board and Committee effectiveness review are described on page 106. This year's results and agreed areas of focus are described on page 107.

The Committee also receives:

- Regular reports from The Prudential Assurance Company Limited (PAC) and M&G Group Limited (MGG) Audit Committees
- Updates on regulatory developments in financial and sustainability reporting
- Updates on approval of audit and non-audit work

Financial Reporting 2023

The Audit Committee reviewed the full-year 2023 consolidated and Company financial statements.

The review included:

Fair, balanced and understandable

In assessing whether the 2023 Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess M&G's position, we gave regard to whether:

- Information in the Strategic Report, in particular the Business and Financial Review, represents a fair reflection of M&G's performance during the year.
- Significant issues identified in this report, including key areas of judgement and estimation, as well as any other significant issues disclosed within narrative reporting, are consistent with the financial statements.
- Alternative performance measures (APMs) have been given equal prominence to the statutory measures, there is a clear description of their calculation and an explanation of their use and relevance.
- Clarification and treatment of certain items within the APMs, particularly the allocation of items to adjusted operating profit before tax and operating capital generation, is in line with the defined methodology, and is appropriately disclosed.
- The identified key performance measures reflect those used by management to manage, monitor and assess the results of the business, linking to the strategy.
- Key messages are clear, consistent, and easily understood, without the use of excessive jargon.

Going concern and viability statements

In early 2024, we reviewed the going concern assessment undertaken by management for the purposes of the 2023 consolidated financial statements.

This included assessing M&G plc's solvency, including its sensitivity to various economic stresses and its projections in a reasonable worst case scenario, being the pessimistic scenario (which reflects reduced demand from higher spreads and worsening economic conditions), liquidity projections, including the impact of applying specific liquidity stresses and the ability to access funding sources.

Based on the review, we concluded that the going concern assumption remains appropriate.

In addition, we considered the associated assessment of longer-term viability to support the Viability Statement. This involved consideration of the strategic and financial planning process alongside an assessment of M&G plc's key strategic priorities, business model and forecasting undertaken as part of the business planning process.

The Board challenged the assumptions underpinning the assessments, including the impact of various severe, but plausible stresses and scenarios on the ability to deliver the business plan, and concluded that the positions were both reasonable and supportable. Based on this determination, the Committee concluded that three years was the most appropriate period for longer-term viability in line with the business plan.

IFRS 17

IFRS 17: Insurance Contracts is a new accounting standard, effective from 1 January 2023, which has a significant impact on the financial reporting of our insurance contracts.

M&G plc has had an ongoing project to implement IFRS 17. The Committee have received regular updates on the project's progress, including achievements to date, key milestones during 2023 and upcoming priorities.

Find out more on page 117

Critical estimates and areas of judgement and how they were addressed

We have assessed whether suitable accounting policies have been adopted in the preparation of the consolidated financial statements. We have also considered all critical estimates and key judgements that are material to the preparation of the consolidated financial statements. In this regard, we receive regular updates from management and review and challenge estimates and judgements accordingly. Special consideration was given to critical estimates and judgements arising on the adoption of IFRS 17: Insurance contracts, which were discussed at various meetings over the course of the year as part of the review of IFRS 17 methodology and implementation.

This section outlines the critical estimates and key judgements that have been applied in the preparation of the consolidated financial statements and how each of them have been considered and addressed by the Committee.

Critical estimate/ Key judgement	How the Committee addressed the issue
Valuation of insurance contracts and defined benefit pension liabilities	We reviewed the key assumptions and judgements presented by management in the estimation and valuation of the Group's insurance contracts and defined benefit pension liabilities. The key assumptions reviewed were: – Policyholder mortality, maintenance expenses and valuation rate of interest (including selection of reference portfolio and allowance for credit risk) used in the estimation of insurance contract liabilities for annuities. – Allowance for maintenance expenses, persistency, assumed future investment returns on the backing assets, policyholders' share of historic and future surpluses, and the illiquidity premium in setting the discount rate used in the estimation of insurance contract liabilities for with-profits policies. – Mortality, inflation rates and discount rates used in the estimation of the Group's defined benefit pension liabilities. In addition, we reviewed the following assumptions presented by management for determining the fair value of contracts for which the fair value approach was used on transition to IFRS 17: – the target capital and cost of capital rate; – for with-profits contracts, the assumed future investment returns on the backing assets, the assumptions used in determining the allowance for persistency and maintenance expenses, the level of compensation required to reflect the risk in relation to future shareholder transfers, and the discount rates used; and – for annuity contracts, the assumed rates of policyholder mortality, maintenance expenses, and the discount rates used. We considered the rationale provided by management for the assumptions used and reviewed any benchmarking provided. The Committee also challenged the appropriateness of management's credit assumptions given current market conditions. We were satisfied that the assumptions adopted by management were appropriate. Further information on key assumptions can be found in Notes 24 and 32 of the consolidated financial statements in respect of the insurance contract liabilities and in Note 17 of the consolidated financial statements in respect of the defined benefit pension liabilities.
Valuation of complex and illiquid financial assets	We received information on the carrying value of investments held on the consolidated statement of financial position, and particularly focused on those investments where the determination of their fair value required more subjective estimation (classified as Level 3 under the fair value hierarchy). These assets include investment properties, lifetime mortgages, private credit (which includes securitised notes backed by residential ground rents) and investments in private equity vehicles. Specifically, in relation to the notes backed by residential ground rents, we considered the impact on assumptions of the UK Government consultation which may potentially restrict future income. In addition, we considered the governance arrangements put in place by management to review the valuation of these assets (including those held by the defined benefit pension schemes) to ensure that it remains appropriate. While reviewing the valuation, we also considered the potential impact of the current macroeconomic environment and climate-related risk on relevant asset classes. Given the market uncertainty during the year, we requested a deep dive of the valuation process. Following the deep dive, as well as the wider assessment of the remainder of the Group's assets, we are satisfied that the basis of valuation for these assets was appropriate. Further information on key assumptions can be found in Note 31 of the consolidated financial statements.

Audit Committee Report continued

Critical estimate/ Key judgement	How the Committee addressed the issue
Recoverable amount of goodwill	We reviewed the results of annual impairment testing carried out in respect of goodwill associated with the Group's cash-generating units. This involved reviewing the key inputs used in the assessment, including the discount rate and future cash flow projections used to determine value in use. Appropriate challenge was provided to management, particularly around growth rates, discount rates and terminal profit margins. We considered the results of the work performed and agreed with management's assessment that the responsAbility Investments AG cash-generating unit was impaired by £25m. Further information on key assumptions can be found in Note 13 of the consolidated financial statements.
Specific accounting judgments applied as part of adoption of IFRS 17	Adoption of IFRS 17 required the application of judgement in respect of the following areas: – The judgement with respect to whether contracts issued by M&G plc contain significant insurance risk, unless a specific exemption applies (eg equity release mortgages). – Judgement in respect of certain investment contracts which provide an additional benefit in addition to guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features. – Judgement required at a contract level as to whether they meet the conditions for having direct participation features and consequently require the use of the Variable Fee Approach to measure the CSM. – Judgement required to define underlying items for with-profits contracts that reflect the mutualisation between contracts and how to split underlying items between current and future policyholders. – Judgement required to determine which surplus should be divided between current and future with-profits policyholders as well as with the Group and which surplus is attributable solely to the Group. – Judgement required to assess whether the current amount of surplus attributed to with-profits policyholders should be determined retrospectively or prospectively. – Judgement required in determining the relative weighting for the purposes of deriving coverage units where a contract provides both insurance and investment services. – On transition, judgement was required to assess for which contracts it would be impracticable to apply the Fully Retrospective Approach (FRA). As part of the review of IFRS 17 methodology, we reviewed and challenged the judgements applied by management as part of the adoption of IFRS 17. As part of the review, we considered alternative accounting treatments in light of the guidance provided in the standard. Following our review, we were satisfied that the judgements applied were appropriate. Further information on the accounting treatment can be found in Note 24 of the consolidated financial statements.
Other significant judgements	We reviewed and considered the other significant judgements as disclosed within Note 1.3 of the consolidated financial statements: – Consideration over M&G plc's interest in structured entities and whether control exists which would require their consolidation. – The judgement exercised to determine the extent to which future taxable profits are expected to emerge and the corresponding period over which unused tax credits and unused tax losses will be utilised for recognition of deferred tax asset. Following review of the basis of the above judgements we were satisfied that these were appropriate.

We also considered the following critical estimates and key judgements in respect of the Company financial statements.

Critical estimate/Key judgement	**How the Committee addressed the issue**
Recoverable amount of M&G Group Regulated Entity Holding Company Limited (M&G REH) in the financial statements	Management performed an impairment assessment at the year end in relation to the Company's investment in M&G REH, which in turn is the holding company for M&G plc's main regulated entities, including MGG and PAC. As a result, the recoverable amount of M&G REH has been determined by reference to the recoverable amount of these main operating subsidiaries. We considered management's assessment of the recoverable amounts based on a discounted cash flow assessment, which was derived from management's expectations of profits in respect of MGG and application of a discounted dividend model in respect of PAC. Where possible, management also considered alternative valuation techniques consistent with established valuation principles to determine the recoverable amount. Based on the review, we concluded that impairment of £933 million should be recognised. Further information is disclosed at Note A to the M&G plc Company financial statements.

Audit Committee Report continued

Sustainability reporting

We have a responsibility to review, and challenge as appropriate, any sustainability or climate-related reporting in any material public documents, including but not limited to, climate-related financial disclosures required by the UK Listing Rules.

We received regular updates during 2023 on our planned sustainability reporting, and have challenged, reviewed and approved these accordingly.

In particular, the Task Force on Climate-related Financial Disclosures (TCFD); within the Annual Report and Accounts, the Sustainability Report, published in July 2023; and the Sustainability Accounting Standards Board (SASB) reporting document for publication on our website.

We apply the same level of rigour to the review and challenge of these disclosures as we do to the review of external financial reporting. In relation to the mandatory TCFD reporting included in this Annual Report and Accounts, we have reviewed and approved the Environmental Metrics Basis of Reporting (Basis of Reporting) published on our website which sets out key considerations in respect of materiality, reporting boundary, restatement policy and the methodologies applied in determining carbon emissions metrics. In setting out the published Basis of Reporting, consistency with the requirements of the International Sustainability Standards Board (ISSB) IFRS S1, as far as practicable, has been a key consideration discussed with the Committee.

In relation to TCFD reporting, the Committee also considered the following key judgements in relation to climate metrics:

- Use of 2019 emissions data for sovereign bonds reporting in lieu of 2020 (where this is the most recent data available) given the impact of lockdowns at the peak of the COVID pandemic on global GDP and sovereign activity for that year, therefore deemed not representative of usual activities.
- Scenarios used in climate modelling – our scenario analysis for public assets is based on Network for Greening the Financial Systems scenarios, and for real estate and infrastructure assets based on pathways produced by the Intergovernmental Panel on Climate Change (IPCC). We recognise the limitations with using these scenarios but judge them appropriate for consistent disclosure while thinking in this area develops.
- The data hierarchy for third-party emissions data, including a change in 2023 to include Bloomberg as a data source for public equities and corporate debt emissions data, which has allowed for improvement in coverage for this asset class. Further details on data hierarchies used is available in the Basis of Reporting document on our website.
- Application of the restatement policy and other re-presentations of prior year data where it was judged to be useful to investors.

We recognise that there remains work to do on sustainability reporting as data improves and requirements change, and will continue to work with management as our reporting develops in this area, including increasing coverage across asset classes and ensuring that processes and controls around the reporting are robust and fit for purpose. During the year, the Committee approved the widening of the scope of limited assurance by PwC over non-financial metrics to include selected financed emissions climate metrics. We will continue to review the scope of this work annually as reporting expectations and requirements develop, and the capabilities of assurance providers in this area mature.

The Committee has also reviewed responses to consultations during 2023 in relation to the development of sustainability reporting as it pertains to our business including engagement with the ISSB and the Financial Reporting Council (FRC).

During 2023, the FRC carried out a thematic review of climate-related metrics and targets based on 2022 reporting. The M&G plc 2022 Annual Report and Accounts was included in the sample and highlighted as an example of better practice in a number of areas. On the back of this review, in October 2023, M&G plc received a letter from the FRC setting out some opportunities for improvement in preparation of the 2023 Annual Report and Accounts. The FRC confirmed it did not expect a response to the letter. The Committee have been advised how these areas have been considered within the preparation of the 2023 report.

Audit and Corporate Governance Reform

We have received regular updates during 2023 regarding the audit and corporate governance reforms initially proposed in a government consultation - Restoring Trust in Audit and Corporate Governance - in 2021.

In May, the FRC launched a consultation seeking views on proposed changes to the UK Corporate Governance Code arising from the initial government consultation. Management prepared a response to the consultation with input from the impacted business areas. This was presented to us for review ahead of submission in early September 2023.

An updated version of the UK Corporate Governance Code was published in January 2024, with the main changes relating to internal controls.

The Committee will continue to engage with management on any changes required to our processes and procedures in light of the updates to the UK Corporate Governance Code and any further reforms.

Internal controls

The Committee has a responsibility, in conjunction with the Risk Committee, to review the adequacy and effectiveness of our Risk Management Framework and internal control systems prior to review by the Board.

This approach to risk culture is supported by the Operational Risk Policy, Framework, Standards and associated training, which articulate how the business expects colleagues to positively manage risk. All colleagues have risk management accountabilities as part of their core objectives.

We receive regular reports regarding the status of the control environment, including reviews of the effectiveness of the Risk Management Framework, the status and assessment of any outstanding control deficiencies and results of Key Control Assessments performed by the first Line of Defence and independent second Line of Defence testing of controls over Financial Close and Reporting

Processes. This helps ensure the Group complies with the FRC's guidance on risk management, internal controls and related financial and business reporting. Find out more about the annual assessment of risk management and internal controls on page 59.

Whistleblowing policy and framework

We are committed to a safe and inclusive workplace where all colleagues can speak out and report inappropriate behaviour in complete confidence, without fear of retaliation.

The Whistleblowers' Champion, who is also Chair of the Committee, provides governance and oversight of our Speak Out programme, which supports our Whistleblowing policy.

Reporting to the Committee on the effectiveness of the Whistleblowing policy occurs twice a year. Individual cases are not discussed with the Committee. Regular meetings are also held between management and the Whistleblowers' Champion.

We are satisfied that our whistleblowing policies and procedures remain robust and adequate.

Internal Audit

We are responsible for overseeing the work, effectiveness and independence of the internal audit function. The purpose of Internal Audit is to provide independent assurance to the Board and Executive Management on the adequacy of the design and effectiveness of M&G's systems of internal control, helping them to protect the Group's assets, reputation and sustainability.

During 2023, we welcomed a new Chief Auditor, Rob Lewis, with the Committee overseeing the recruitment process and transitional arrangements. The Chair sets the objectives and reviews the performance of the Chief Auditor, who is directly accountable to the Committee, with unrestricted access to both the Chairs of the Committee and the Board, as well as Executive Management.

We approved the Internal Audit Charter following its annual review, to assess its continued validity in light of internal audit professional standards and regulatory expectations. We also approved the 2024 Internal Audit plan.

This is a risk-based plan of coverage - developed in the context of M&G plc strategy and the Group-wide coordinated assurance plan - based on an assessment of inherent risk, control environment and consideration of external factors such as regulatory requirements, industry themes and emerging risks. The plan will be updated to reflect evolving assurance requirements and priorities as required.

We measured the effectiveness of Internal Audit using several key performance metrics, including appraisal of the ongoing Quality Assurance Improvement Programme. An independent assessment of the function is carried out every five years (2022 – rated Generally Conforms). We receive regular briefings from Internal Audit throughout the year and ask business owners to attend the Committee to explain actions being taken.

External Audit

Oversight and engagement of external auditor

PwC has been M&G's external auditor since 1 January 2022, following a competitive tender process in 2020. The audit is being led for the second year by audit partner Mark Pugh. We provide clear guidance to PwC on our expectations and hold meetings with PwC, without the presence of management, to allow the audit team to raise any concerns and remain independent and objective. We reviewed and approved the external audit plan before the start of the 2023 year-end process.

M&G has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2023.

The Committee have considered the Audit Committees and the External Audit: Minimum Standard published by the FRC in May 2023, and confirm compliance with this Standard.

External auditor effectiveness

Each year, together with senior management, we assess the external auditor's performance, monitor their independence, objectivity, and the effectiveness of the audit process.

We carried out our assessment in April 2023 and considered feedback from key internal and external stakeholders on: quality of resource; overall plan and approach; execution of the audit; quality of communications received; and whether the external auditor had appropriately challenged management's methodology and assumptions, key accounting policy judgements and exercised professional scepticism.

Following the review of external audit performance and effectiveness, a shareholder resolution was recommended to reappoint PwC as external auditors at the Annual General Meeting in May 2023. A further review of effectiveness will be carried out in April 2024, and on an annual basis thereafter.

We welcomed PwC's use of Audit Quality Indicators, which were monitored and reported on during the 2023 year end reporting cycle.

Regulatory inspection of the audit

The FRC's Quality Review team routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related quality processes. PwC was reviewed on the audit of our financial reporting for the 2022 financial year. The Chair of the Committee had discussions with the FRC as part of the process, and also discussed the outcome of the inspection with the Lead Audit Partner and the members of the Committee.

The Committee was pleased with the outcome of the FRC's inspection which reported no areas for improvement of sufficient significance to include in their report, as well as four specific examples of good audit practice.

Auditor independence policy

Our Auditor Independence Policy was reviewed in December 2023 and will continue to be reviewed at least annually. The main purpose of this policy is to ensure that the external auditor is not engaged in any non-audit services that are not permitted, that we comply with all other relevant regulation and ethical guidance relating to relationships with the external auditor, and that we maintain a sufficient choice of appropriately qualified audit firms. Certain services need to be approved by the Committee before any engagement.

Audit Committee Report continued

Fees paid to the auditor

Total fees paid to PwC during the year ended 31 December 2023 amounted to £22.3 million, of which £3.0 million related to non-audit services and £1.7 million related to overruns in completion of the 2022 audit. This compares to £16.7 million paid in 2022, of which £2.5 million related to non-audit services.

The year-on-year increase in fees reflects the additional fees relating to IFRS 17 and inflation. A breakdown of fees paid to PwC is in Note 9 of the consolidated financial statements. In line with the Auditor Independence Policy, all non-audit services were approved by the Committee. We were satisfied that, considering the fees paid and services provided under the policy, the objectivity and independence of PwC was safeguarded.

Role and responsibilities of the Audit Committee

The Committee's responsibilities include, but are not limited to:

- Financial reporting: monitoring the integrity of the consolidated financial statements, related announcements and other financial information provided to shareholders and other stakeholders.
- Framework of internal control and risk management systems: reviewing and monitoring the adequacy and effectiveness of the Risk Management Framework and internal control systems, in conjunction with the Risk Committee.
- Internal and external audit processes: assessing the effectiveness of the internal and external audit process.
- Whistleblowing procedures: overseeing the effectiveness of the whistleblowing programme.
- Sustainability reporting oversight and the development of assurance in relation to this reporting.

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In Focus

Reporting under IFRS 17

IFRS 17 is the new accounting standard for insurance contracts, replacing IFRS 4, with an effective date of 1 January 2023. Our 2023 interim results were the first time we reported on an IFRS 17 basis, and the full year results included in this Annual Report and Accounts have been produced on an IFRS 17 basis.

IFRS 17 is a principles-based accounting standard which includes features that are not present in our financial reporting metrics. This leads to significant differences in the valuation of the liabilities, and hence shareholder equity, compared with IFRS 4.

Monitoring implementation

The Committee received regular updates on progress towards the implementation of IFRS 17. In 2023, the focus was on finalising the methodology and judgements and ensuring that the business was prepared to deliver the requirements of the new standard.

Methodology

Over the past few years, in preparation for the implementation of IFRS 17, the Committee have discussed and approved a number of key methodology decisions.

Moving into 2023, there were a few significant decisions outstanding, including fair value methodology, treatment of the deferred tax liability in the With-Profits Fund, policyholder share of the surplus assets in the With-Profits Fund and treatment of distributions of these surplus assets. These areas were reviewed and approved by the Committee in the first half of 2023. All decisions were also reviewed by PwC as they were finalised.

External Disclosures

In addition to its review of the 2023 half-year and full-year results on an IFRS 17 basis, the Committee also reviewed and approved the IFRS 17 disclosures in the 2022 Annual Report and Accounts.

Although IFRS 17 has an effective date of 1 January 2023, the requirement to restate comparative information meant that the date of transition to IFRS 17 for the Group was 1 January 2022. As such, the 2022 Annual Report included an overview of our approach to the implementation of IFRS 17 and a preliminary quantitative assessment of the impact of IFRS 17 on the Group results.

We also reviewed and approved the IFRS 17 market update which was published in July 2023 to help the market understand our latest position ahead of our half year results announcement in September. The update reflected the latest expectations and assessment of the impact of the IFRS 17 implementation, providing a restatement of M&G's financial results for the year ended 31 December 2022 and the six months ended 30 June 2022 on an unaudited IFRS 17 basis.

Assurance

PwC provided regular updates to the Committee on the status of the IFRS 17 audit, highlighting any areas of concern as appropriate. PwC also carried out an audit of the transition balance sheet (as at 1 January 2022) and the restated 2022 financial statements. This allowed PwC to perform a review of the 2023 half-year accounts and the restated comparatives. All findings were reported to the Committee for consideration.

Insight and Analysis

Following the half year reporting period, the Committee reviewed a presentation summarising the approach taken by our peers when reporting on an IFRS 17 basis. This included analysis from internal and external sources, including an extract from a PwC cross-industry analysis, and helped the Committee to understand the impact of IFRS 17 on competitor's results and see how other companies had presented their results on the new basis.

Find out more about the impact of IFRS 17 on our financial statements in Note 1.2.1 on pages 191-196.

Risk Committee Report

Risk Committee composition

Clive Adamson (Chair)

Dev Sanyal

Clare Thompson

Priorities for 2024

- **Oversight of risks related to the execution of M&G's business strategy including monitoring of the risks of the transformation programme**
- **Monitoring of M&G's operational resilience, including oversight of the risks relating to our third party and outsource providers**
- **Monitoring Consumer Duty outcomes and evolving risks such as sustainability and ESG, and artificial intelligence and how these are embedded in our Risk Management framework**

Dear Shareholder

I am pleased to present the Risk Committee Report, which outlines our activities and work during the year.

The continued economic and geopolitical uncertainty in 2023 required our close attention. In particular, we reviewed a range of stress and scenario testing results through the Group ORSA, which provided insight on potential adverse impacts to the business and management actions available. The output of these tests feed into the Viability Statement on page 91.

The expansion of Artificial Intelligence (AI) introduces significant change to both the technology landscape and business capabilities. We held a deep-dive session to explore its potential risks (including evolving cyber security, access and privacy risks), as well as opportunities it presents.

Managing the risks relating to our use of third parties and outsource providers remains a priority, given our reliance on them to perform core services.

We receive regular updates on our oversight of material third parties and have reviewed progress against tactical and strategic activities to enhance the framework. This will remain an area of focus in 2024.

The M&G transformation programme was launched at the beginning of 2023 and we have taken an active role in overseeing both the execution and operating model impact risks associated with this change.

This has aided our understanding of the impact on the overall risk profile, and we are now closely monitoring how these are managed over the remainder of the programme, with regular updates.

Following the identification that the framework to manage conflicts of interest required further embedding, we oversaw the completion of a plan to deliver this, including consideration of the key conflicts for M&G's three operating segments.

The compliance transformation programme was a regular item on our agenda in 2023 and we will continue to support the function as it completes the programme next year.

We continue to work closely with the Audit and Remuneration Committees. Our cross-membership principles ensure we manage conflicts and all Non-Executive Directors have the right information provided in the most efficient way. My role as Chair of the Risk Committee of PAC allows me a wider oversight of Group risk issues.

I would like to thank Peter Grewal, who served as Group Chief Risk and Compliance Officer since January 2021, and welcome Louise Gelling, who has taken over the role in the interim period while we recruit a successor.

Clive Adamson
Committee Chair

Areas of focus in 2023

- Monitoring and reviewing the risk profile. Key risks and issues, and emerging risks facing M&G, particularly in light of the geopolitical and market events of 2023.
- Monitoring sustainability and ESG risk, including our climate change scenarios.
- Monitoring operational resilience, including the management of third-party risk and outsourcing, data privacy, artificial intelligence, and cyber security.
- Reviewing the M&G ORSA and recommending its approval to the Board.

Composition and Schedule

Details of Committee members' relevant skills and experience are on pages 96-98.

In 2023, there were five scheduled Risk Committee meetings and two ad hoc meetings. In addition, we held one joint meeting with the Audit Committee.

Chief Risk & Compliance Officer

The Chief Risk & Compliance Officer (CRCO) has responsibility for the risk function and all compliance matters, and is a standing attendee at all our meetings. Our CRCO provides written reports to us covering key risk matters and compliance reporting, and is available to the Committee for consultation regarding any agenda item.

Review of current and emerging risks

We are responsible for reviewing the Risk Management Framework, detailed on page 58, together with a list of M&G's principal risks and how those risks are identified, managed and mitigated. We're satisfied that our review, and subsequent reporting to the Board, enabled the Board to carry out a robust assessment of M&G's emerging and principal risks.

Risk appetite, tolerance, profile and strategy

We reviewed regular reports from the CRCO, including updates on the risk profile, key risks and issues facing M&G, emerging risks, our capital and liquidity position against appetite and our control environment. We also received regular reports from our subsidiary Board Risk Committees.

Geopolitical and market events remained a key focus during 2023. Additionally, we monitored M&G's response to the developments in artificial intelligence and the enhancement of our operational resilience capabilities.

Sustainability and ESG risk was also an area of focus. During 2023, we reviewed M&G's sustainability and ESG risks. We also reviewed the required scenarios, including climate change scenarios, on a full balance sheet basis as part of the Own Risk and Solvency Assessment (ORSA), and recommended to the Board a range of economic scenarios for business planning purposes.

We regularly reviewed and provided advice to the Board on how the assessment and analysis of the top financial and non-financial risks facing M&G were being managed. We were also provided with 'deep-dive' reviews and presentations from executives on key risks under their management, including third-party risk and outsourcing, data privacy, risk impact of the transformation programme, artificial intelligence and cyber security. We also received regular updates on business change activities and key programmes.

Risk Management Framework and internal controls

We approved changes to the Risk Management Framework and the risk policies as part of our annual review. We also recommended updates to M&G's risk appetite and individual risk limits to the Board for approval.

Risk models and measures

We approved the overall methodology and key assumptions for the Solvency II valuation in conjunction with the Audit Committee, and reviewed the overall effectiveness of M&G's Internal Model by reviewing the results of the annual programme of Solvency II Internal Model validation. We also approved the Internal Model validation plan for the forthcoming year. In conjunction with the Audit Committee, we received an update on financial systems resilience and the financial model valuations programme.

Regulatory matters

We reviewed M&G's ORSA and recommended its approval to the Board. In conjunction with the Audit Committee, we also reviewed regulatory and public Solvency II disclosures and recommended them to the Board for approval. In addition, we received updates on emerging regulations, regulatory risks and other regulatory matters arising during the year.

Compliance and fraud

We reviewed and approved updates to a number of policies including those relating to regulatory compliance risk, privacy and data protection, conduct risk, market abuse and financial crime compliance.

Annual evaluation of Risk Committee performance

The process and results of the 2023 Board and Committee effectiveness review are described on page 106. This year's results and agreed areas of focus are described on page 107.

Role and responsibilities of the Risk Committee

The Committee is responsible for assisting the Board in its oversight of risk, including but not limited to:

- Advising the Board on M&G's overall risk appetite, risk tolerances and risk strategy.
- Reviewing the Risk Management framework and advising the Board on its overall effectiveness.
- Approving M&G's risk and compliance policies and recommending such approval to the Board.
- Reviewing current and potential future risks and mitigation strategies.
- In conjunction with the Audit Committee, reviewing the effectiveness of financial and non-financial controls across the Internal Control framework.
- Reviewing the effectiveness of the Internal Model, including stress testing.
- Reviewing the Group Own Risk and Solvency Assessment (ORSA); and in conjunction with the Audit Committee, ensuring compliance with regulatory requirements.
- Advising the Remuneration Committee on risk and control issues that may impact remuneration strategy in any given year, including adjustments to individual incentives.

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In this section

Directors' Remuneration Report

Remuneration Committee[i]

- Clare Chapman (Chair)
- Clare Thompson
- Massimo Tosato

Priorities for 2024

- **Reviewing the Executive Directors' packages to ensure structure and opportunity are appropriate**
- **Assessing the effectiveness of incentives in promoting long-term value creation through alignment with the refreshed purpose and strategy**
- **Assessing the effectiveness of client and sustainability metrics in delivering strategic objectives and outcomes**
- **Continuing focus on the fairness of workforce remuneration in a challenging economic environment**

Areas of focus in 2023

Policy consultation and AGM vote

Triennial review of the Remuneration Policy, which was approved by shareholders in May with a 96.46% favourable vote.

Incentive outcomes, 2024 scorecard design and stakeholder alignment

We considered the incentive outcomes and 2024 scorecard measures for alignment with our performance and broader stakeholder experience including shareholders, clients and colleagues.

Consumer Duty

We reviewed our Group Remuneration Policy, incentive plans and remuneration governance processes for alignment with the Consumer Duty principles in the design and determination of outcomes. No material gaps were identified.

Transformation and Senior Management Changes

Oversight of remuneration decisions linked to transformation initiatives and for new hires and leavers from our Group Executive Committee (below the Board) and broader senior management population.

Dear Shareholder

On behalf of the Board and its Remuneration Committee, I am pleased to present the Directors' Remuneration Report (DRR) for the year ended 31 December 2023, covering our decisions in respect of remuneration outcomes for the 2023 financial year and implementation of the Directors' Remuneration Policy (DRP) in 2024.

I would firstly like to again thank shareholders for their engagement and support for the review and renewal of the DRP in 2023. We engaged with 21 of our largest shareholders representing c. 60% of share ownership and received a 96.46% vote in favour of the DRP, along with a 98.6% vote in favour of the 2022 DRR.

We remain mindful of the need to keep certain aspects of the DRP and its implementation under review to maintain strong alignment with our refreshed strategy and purpose as they become further embedded within M&G. We've highlighted key updates in this report.

Performance delivered in 2023

In 2023, we have continued to deliver progress on our strategy, focused on simplification, profitable growth and financial strength. We've established a corporate infrastructure with three clear operating segments, Asset Management, Life and Wealth, which also work together: simplifying our business, improving the way we serve our clients, and creating more opportunities to grow M&G. Despite a backdrop of evolving market dynamics and geopolitical uncertainties, we've remained resilient and adaptive with financial and operating results that demonstrate the strength of our business model.

In Asset Management the Wholesale business continues to build momentum with a second year of positive net inflows and fund performance over three and five years remaining strong. The Institutional business, as expected, remained impacted by the 2022 UK mini budget crisis resulting in overall net client outflows in the year.

i Louise Fowler is a standing attendee as representative for the Prudential Assurance Company (PAC) Board.

In comparison to peers over three and five years, our performance remains strong or has strengthened with 64% of our Wholesale funds ranked in the upper performance quartiles over three years (2022: 67%), and 69% ranked in the upper performance quartiles over five years (2022: 60%). However, our Wholesale funds performance over one year has reduced relative to the previous year, with 51% of our Wholesale funds ranked in the upper performance quartiles over one year (2022: 68%).

The Life business has started its growth transformation by entering into two major bulk purchase annuity transactions in the year. The increase in yields during 2022 led to increased adjusted operating profit before tax and operating change in contractual service margin (our new additional alternative performance measure following the adoption of the new insurance accounting standard, IFRS 17) in Life.

Our Wealth segment results have benefitted from improved net client inflows into PruFund following strong underlying investment performance, and improved adjusted operating profit before tax and operating change in CSM in relation to the result from PruFund, again reflecting the increase in yields during 2022.

Our capital position remains strong with our shareholder Solvency II ratio increasing to 203%, maintaining strong momentum from the previous year to outperform our three-year cumulative operating capital generation target for the 2021-23 LTIP award and remaining on track to achieve our £2.5 billion target by the end of 2024, linked to the 2022 LTIP.

With share price growth in excess of 18% and the continuation of our dividend policy in 2023, shareholders realised a total return of 30% for the 12-month period.

Clients remain at the core of our new purpose, which is to give everyone real confidence to put their money to work, and aligns with our refocused strategy. We are committed to serving our clients with excellence, prioritising their needs and expectations, elevating the quality of our service delivery, fostering stronger relationships and deeper trust.

We are continuing to simplify and automate processes and enable our colleagues and business partners to work together more effectively so we can respond to clients' needs and find the right solutions more quickly.

2023 Short-term Incentive Plan

The performance measures driving the outcome of the 2023 Short-Term Incentive (STI) scorecard are summarised below.

Financial performance in 2023

In 2023, we moved to a new basis of accounting for insurance contracts (IFRS 17), which required the 2023 adjusted operating profit target under the previous accounting basis (IFRS 4) to be recalculated for the purpose of the STI scorecard. We discussed the different methodology for determining adjusted operating profit under IFRS 17 and whether a simple recalculation of the target was appropriate for remuneration purposes.It was concluded that under IFRS 17 the like-for-like methodology would lead to a measure that would not align remuneration to actual management delivery and value creation during the year. In order to achieve this alignment, it was decided to adopt a new STI profit measure for the 2023 performance period taking account of operating change in contractual service margin, being a new Board-approved IFRS 17 alternative performance measure.

Operating change in contractual service margin gives a view of economic value generated by including the impact of new business written and management actions taken in the period. Further details of the measure can be found on page 147. By adding the two metrics together, executive remuneration is better linked to strategic actions in the performance period in which they have been made.

AOP plus operating change in CSM of £1,152 million was above target in 2023. Above target AOP benefitted from higher than expected amortisation rates for the CSM in relation to with-profits business and also an increase in investment and interest income in the Corporate Centre. The operating change in CSM was also above target benefitting from higher than expected inflows into PruFund in the Wealth segment.

Operating Capital Generation is £996 million and is above the maximum performance level, driven by higher underlying capital generation as a result of increased yields, together with higher other operating capital generation largely driven by model changes, offset by lower management actions.

Non-financial performance in 2023

Non-financial measures focus on our clients and colleagues, and ensuring we operate within an effective risk and controls environment. Non-financial measures ensure that the scorecards retain an appropriate balance between performance and how it is delivered, which is critical for M&G's long-term success, sustainable shareholder value creation and aligning with the principles of the Consumer Duty. Although we did not achieve all of the stretching targets established at the beginning of the year, an above-target outcome was achieved for the non-financial section overall, and the Committee was pleased to observe stable or improving year-on-year trends across most client outcomes, colleague engagement and the control environment.

Our client metrics include:

- Our Life and Wealth net promoter score, which was 15 for 2023, a +1 improvement on prior year and between the threshold and target of the performance range;
- With-Profits Fund investment performance, which again outperformed the benchmark demonstrating the benefit to policyholders of the strength and diversification of the Fund's investment approach; and
- Asset Management investment performance, which is measured on a rolling quarterly average basis over one and three years. 70.7% of institutional funds outperformed their investment benchmark/objective to deliver a maximum outcome. 51% of wholesale funds outperformed their investment benchmark/objective, which was consistent with the 2022 outcome and at the threshold of the performance range.

Employee engagement is the degree to which employees invest themselves to drive positive organisational outcomes. Colleague inclusion continues to be measured on a regular basis as part of our OneVoice surveys. We measure this in our OneVoice survey, asking colleagues how happy they are at work and if they would recommend M&G as a great place to work. Our response rate to the OneVoice survey generally remained stable at 77% at the end of 2023 (2022: 79%) with our Sustainable engagement score also remaining relatively stable at 70.7 (2022:72).

The scorecard target and performance is based on an average of the three surveys conducted in 2023. Taking into account the level of change across the Group Executive Committee during 2023, the average outcome of 70.7, between threshold and target, was a pleasing outcome.

Our annual assessment of risk management and internal control effectiveness identified that we made positive progress in 2023, while acknowledging that implementation work will continue into 2024 to reach target maturity.

The positive trend of reducing the number of overdue high and very high assurance issues continued in 2023, with the outcome of 0.9% just below the maximum performance requirement. At 63.6%, the proportion of self-identified high and very high issues was above target, and stable with the 2022 performance level.

As a result of this performance the 2023 STI delivered an outcome of 79.9% of maximum opportunity for the Executive Directors (compared to an outcome of 50.6% in 2022).

	Measure	Performance	Vesting (Max)
Financial Measures	– Adjusted operating profit plus operating change in CSM – Operating Capital Generation	£1,152m – above target £996m – above maximum	59.15% (60%)
Client Outcomes	– Life & Wealth – Net Promoter Score – With-Profits Fund (versus benchmark) – Wholesale (% of funds above benchmark) – Institutional (% of funds above benchmark)	15 – below target 5.7% – above maximum 51.0% – at threshold 70.7% – at maximum	11.50% (20%)
Colleague Measures	– Sustainable engagement index score	70.7 – below target	1.75% (10%)
Risk & Controls	– % high/very high assurance issues overdue – Proportion self-identified high/very high issues of total	0.9% – above target 63.6% – above target	7.50% (10%)

2021 Long-Term Incentive Plan

The 2021 LTIP award was granted in April 2021 with performance measures covering the period 2021 to 2023 and has an overall outcome of 90.1% of maximum.

	Measure	Performance	Vesting (Max)
Financial Measures	– Cumulative operating capital generation	£2,934m – above target	46.1% (50%)
	– Relative total shareholder return ranking	75th percentile – at maximum	25.0% (25%)
Non-Financial Measures	– Risk and Conduct	40% – in line with expectations with some improvement needed in 2024	4.0% (10%)
	– Diversity (Gender)	37% – at maximum	7.5% (7.5%)
	– Climate – own emissions reduction	43% – above maximum	7.5% (7.5%)

The primary measure was cumulative operating capital generation which was above target, with performance in 2023 driven by higher yields and positive management actions.

25% of the scorecard was based on our total shareholder return relative to a peer group of FTSE 100 financial services companies (excluding investment trusts), with threshold performance set at the median of the peer group and maximum performance at the upper quartile.

Performance was at the upper quartile of the peer group with a return of 46.1% for the three-year period, driven by a solid share price performance with a c. 12.5% increase over the period and the continuation of our dividend policy which continued to be at the high end of FTSE 100 levels in 2023.

There has also been strong performance against the non-financial measures in the scorecard:

- For Risk and Conduct, the Committee considered a range of factors in determining the outcome of the measure. They observed that over the 3-year period the business had generally operated within risk appetite and policy limits, with appropriate remediation promptly implemented in a limited number of instances where the business operated outside of this. In particular, policy compliance was maintained at a high level.

- It was observed that there had been incremental improvements in the control environment in each of the three years of the performance period and, while further improvement is needed in 2024, the positive progress over the performance period was acknowledged. Taking consideration of all of these factors, the Committee concluded that an outcome of 40% was appropriate.
- We currently have 37% women in senior leadership, which has remained constant with 2022, and we remain committed to achieving our target of 40% female representation in senior leadership by 2025.
- Own emissions reduced by 43% from the 2019 baseline. The outperformance of the target has primarily been driven by positive management actions to reduce Scope 1&2 emissions, particularly in relation to changes in our office portfolio, removal of natural gas from the Scottish offices following the relocation of our Stirling based colleagues to a new office in 2022, and proactive procurement of renewable electricity. In 2023, our Scope 3 emissions increased due to upward trends in colleague travel. However, the 2023 level of business travel emissions was still 28% lower than the 2019 baseline and ahead of the target.

Consideration of pay and conditions across the wider workforce

The Committee takes careful consideration of pay and conditions for the wider workforce with a focus on fairness of remuneration outcomes, particularly in the current challenging economic environment. From 2023 a remuneration-based question has been included in the all-colleague OneVoice survey to give the Committee additional insight. Workforce remuneration is also a key input when determining salary reviews and incentive outcomes for the Executive Directors. The key indicators considered by the Committee as part of its 2023 year-end decision making included:

- **2024 salary increases:** The actual salary spend increase across the UK workforce in 2024 has been 4.6%, with higher increases towards more junior roles with an average increase of 5%, compared to 4% for more senior roles. During 2023 we remained mindful of the cost-of-living challenges, making a further one-off payment of £500 to all colleagues earning under £75,000 pa;
- **2023 STI outcomes:** The average STI outcome for wider workforce colleagues, which was 14% higher than it had been in 2022; and
- **2023 Total Remuneration outcome:** The Chief Executive Total Remuneration Ratio, which was 28:1 in 2023 at median (compared to 77:1 in 2022).

The Committee noted that the decrease in the remuneration ratio was primarily a consequence of the new Group Chief Executive Officer not receiving an LTIP vesting in respect of the 2021-23 performance period, having joined the Company in October 2022. It was also noted that the new Group Chief Executive Officer's package was 13% lower than his predecessor, no salary increase had been awarded during 2023 and on a like-for-like basis the STI award had increased in line with the formulaic outcome of the scorecard relative to the prior year. The Committee was therefore assured that the decisions taken in respect of remuneration outcomes were fair and reasonable when compared to the wider workforce experience over the period. The Committee noted that outputs such as the Group Chief Executive Officer pay ratio would continue to be subject to some volatility over a period where there have been changes to the Executive Directors and transformation activity impacts the demographics of our wider workforce.

In our approach to sustainability we continue to prioritise diversity and inclusion, along with climate change. We are proud to have been one of the first companies in our industry to publish an ethnicity in leadership target and voluntarily publish ethnicity pay gap data.

We believe that transparency is key to driving real change, which is why we report our ethnicity pay gap in the same way that we report our gender pay gap data. See our gender pay gap report on our website for more detail.

We are committed to achieving year-on-year improvement in the representation of gender and ethnicity in senior leadership roles, with ambitious targets to ensure fair representation of women and individuals who identify as Black, Asian or from a Minority Ethnic background throughout M&G. This is underpinned by our LTIP scorecard, with measures and targets aligned to achieving and maintaining our stretching public goals of 40% women and 20% ethnicity by the end of 2025. For more information on diversity and inclusion please refer to the colleagues section of this report from pages 50-53.

Other areas of focus in 2023

There has been further significant transformation activity and changes among the Group Executive Committee (GEC) over the course of the year, with the Committee overseeing remuneration decisions linked to transformation initiatives and for the hiring and exit of a number of below-Board executives during the year. We were pleased to be able to support the execution of initiatives and attract executives of the required calibre and experience for these key roles, within the parameters of our Group Remuneration Policy.

The Board oversaw a review across the Group to ensure that we meet our Consumer Duty responsibilities, which included an independent assessment of all incentive plan arrangements. The Committee received the report and conclusions and was pleased to note general alignment of the design of incentive plans and the approach to determining remuneration outcomes with the Consumer Duty principles. Areas of refinement were identified to strengthen alignment in some incentive plans and governance documentation.

Directors' Remuneration Report continued

Implementation in 2024

The Committee approved a salary increase of 4% for the Group Chief Executive Officer and Chief Financial Officer in 2024. This was the first increase to apply since they were hired during 2022.

In determining this increase the Committee considered external market benchmark data, performance/delivery since their hire dates and the experience of the wider workforce, for whom an overall spend of 4.6% applied.

During 2024 we will undertake a further review of the Executive Directors' remuneration packages to ensure that the structure, alignment and opportunity are appropriate in the context of the scale of our strategic ambition and how effective we are in maintaining the momentum in its delivery. If changes are considered, we will consult with shareholders in advance of finalising any decisions.

Incentive plan measures for 2024

The scorecards went through a comprehensive review for the 2023 performance period as part of the Policy review and consultation. We concluded that the structure and balance of financial and non-financial measures within the scorecards remained appropriate. Some changes have been applied to the underlying measures as we continue to monitor the effectiveness of alignment to our refreshed purpose and strategy.

Financial measures: Following the adoption of IFRS 17 we have retained the updated profit measure to add operating change in contractual service margin to adjusted operating profit before tax in the 2024 STI scorecard. We also identified that in order to more effectively align the Executive Directors to our strategic decision to re-enter the defined benefit pension de-risking market, the Committee decided to adopt an adapted operating capital generation measure for use in the STI and LTIP scorecards which excludes the capital strain on writing new business.

Non-financial measures: There is very little change to these measures, which provide effective alignment to our refreshed purpose and commitments to clients, our culture, our sustainability priorities (diversity and climate) and to operate within an effective risk and control environment. In defining the measures and targets for the 2024 scorecards, we reviewed our methodology to ensure the measures were aligned to purpose and strategy, and would drive our new behaviours.

We were also mindful of the progress made at the end of 2023 to ensure targets and performance ranges for sustainability measures were sufficiently stretching.

Additional context for the financial and non-financial measures can be found in the link to strategy and 2024 implementation sections of this report on pages 130 and 144.

During 2024, we will be looking closely at our approach to measuring and tracking client outcomes with our three segment CEOs. We will also consider additional climate measures as we embed our strategy and interim targets for the asset manager and asset owner, as well as reviewing how we continue to incorporate diversity into the scorecards in light of our 2025 targets and the outcome of the FCA consultation on diversity and inclusion. We therefore expect further adaptations to the measures in 2025.

Conclusion

As we look forward to 2024, the Committee will be focused on:

- Reviewing the Executive Directors' packages to ensure structure and opportunity are appropriate.
- Assessing the effectiveness of incentives in promoting long-term value creation through alignment with the refreshed purpose and strategy.
- Assessing the effectiveness of client and sustainability metrics in delivering strategic objectives and outcomes.
- Continuing focus on the fairness of workforce remuneration in a challenging economic environment.

Clare Chapman
Remuneration Committee Chair

Role and responsibilities of the Remuneration Committee

Deciding the framework of the remuneration policies: establishing, approving and maintaining the principles and framework of the remuneration policies and arrangements for the Group.

Determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, Group Executive Committee and identified staff for all remuneration regulations that apply to the Group, and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

The Remuneration Committee's terms of reference
www.mandg.com

Membership and meeting attendance
page 104

Remuneration at a glance

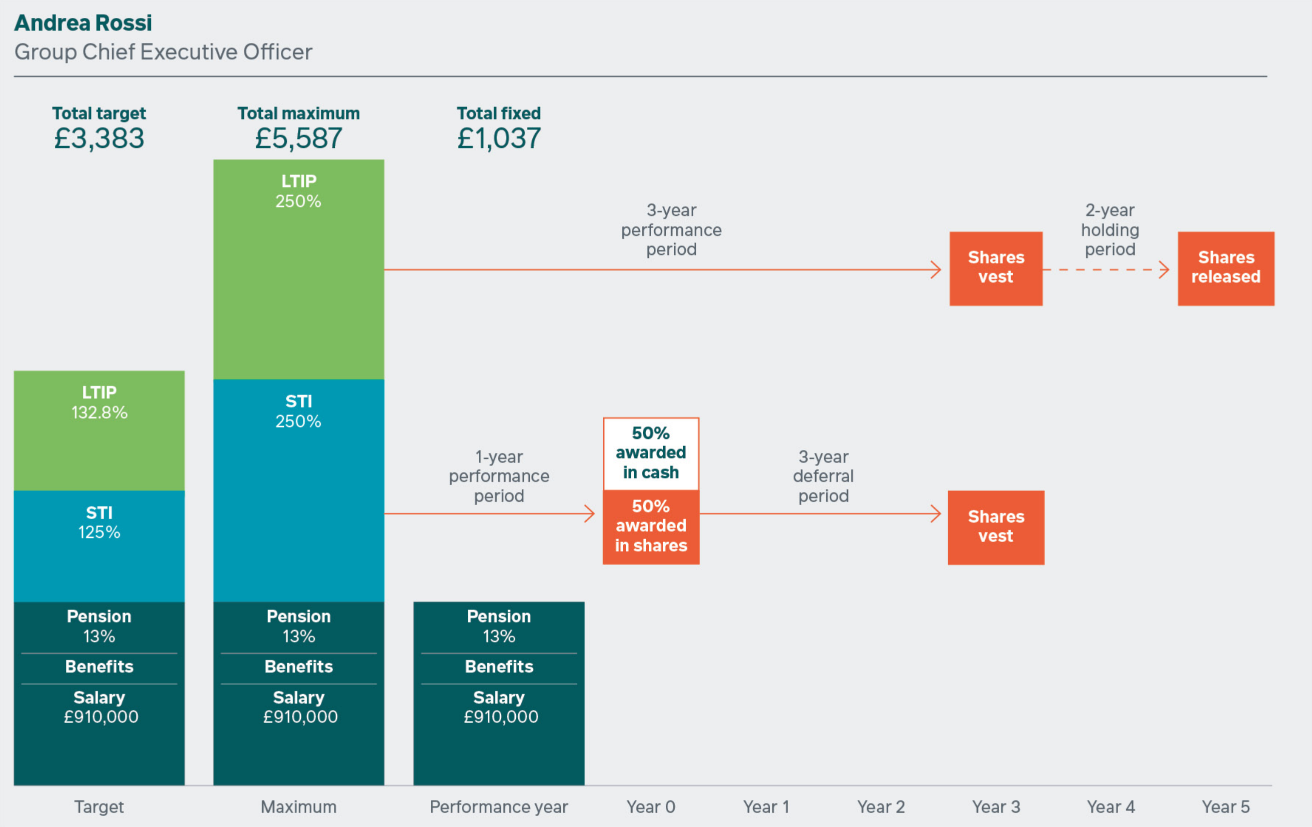
This section provides an overview of the Directors' Remuneration Policy, the remuneration outcomes for 2023 and implementation decisions for 2024. Through our implementation and operation of the Policy we ensure alignment to the following principles:

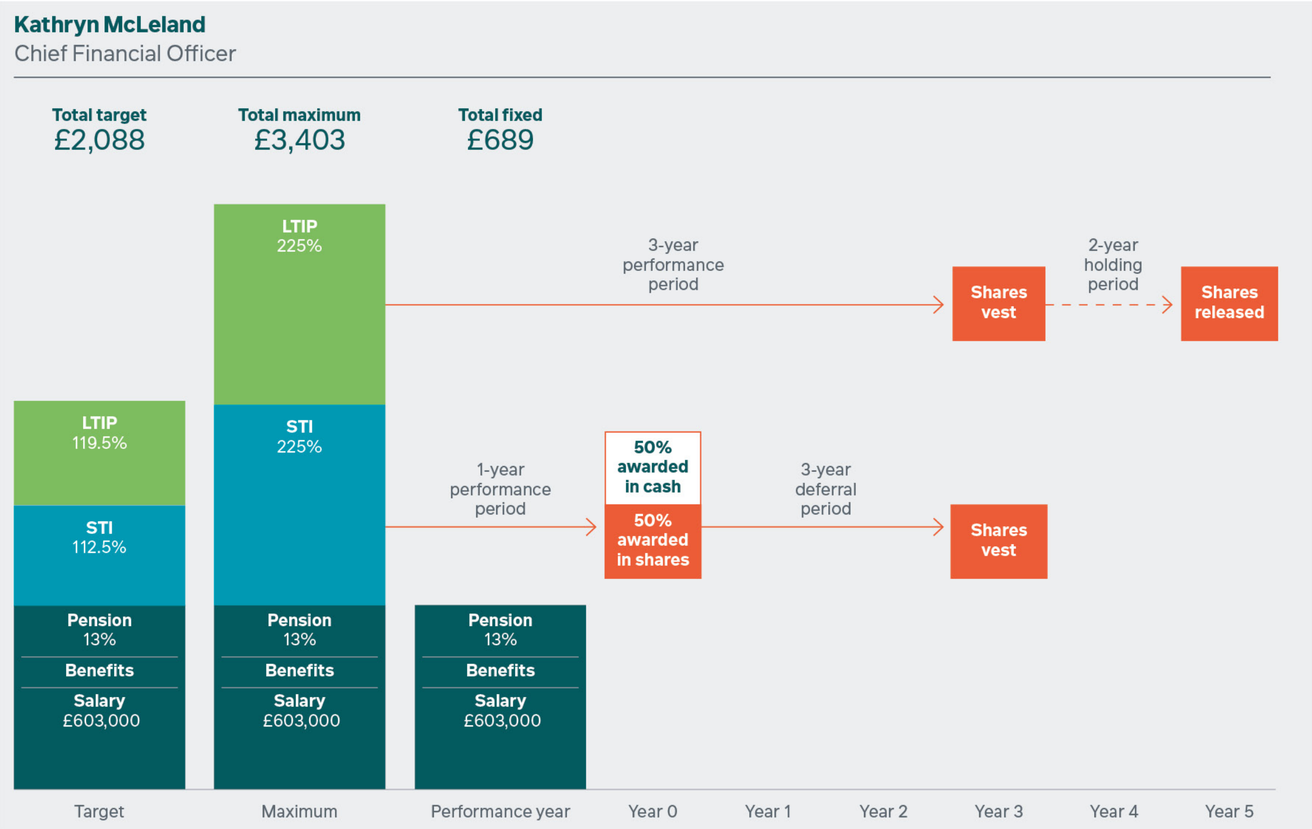
Sustainable, long term success of the Group and robust risk framework	Clear alignment with the long-term interests of the Company through a significant proportion of executive packages being delivered in shares for three to five years and through the shareholding and two-year post-employment shareholding requirement policies. Remuneration appropriately balanced between recognising short and long term performance. Financial and non-financial incentive measures that are focused on indicators of sustainable performance that position the company strongly for continued success. A robust and rigorous risk review of remuneration outcomes to ensure that these properly reflect overall company performance from a financial, key stakeholder, conduct and reputational perspective, and within an effective risk management framework and culture.
High performing talent	Clarity of our remuneration packages which are appropriately positioned relative to the scope and complexity of the roles and relevant market benchmarks, and designed to reflect and recognise performance.
Positive, safe and collaborative environment aligned to our purpose, values and culture	Key focus on positive client outcomes and quality of client engagement. Strong alignment with our ambitious diversity targets and objectives to maintain a positive and engaging culture that provides equality of opportunity for all current and prospective colleagues. Promoting a positive culture in which the ‘how’ as well as the ‘what’ is recognised and valued, with a focus on colleagues and clients and demonstrable alignment between behaviours and remuneration outcomes.
Predictability and alignment with stakeholders	Strong alignment for our executives with the experience of shareholders through the delivery of a significant proportion of remuneration in shares, with vesting and holding periods over 5 years and a robust shareholding requirement policy. Incentive plan measures aligned to client outcomes and long term diversity and climate measures that reflect and recognise the company’s wider role and impact.
Simple and transparent	Remuneration plans and programmes that are simple to understand and provide clear linkage to performance set in line with business strategy.
Compliant and focused on best practice	Arrangements are fully compliant with all applicable regulatory and legal requirements and reviewed on a continuous basis to align with best practice as this continues to evolve.

Remuneration at a glance continued

Overview of the Directors' Remuneration Policy

The following chart shows the operation of the key elements of our Directors' Remuneration Policy. Summary details of the Policy are provided in the next section (total amounts in £'000). The charts detail the remuneration arrangements proposed for our Group Chief Executive Officer, Andrea Rossi, and our Chief Financial Officer, Kathryn McLeland.





Remuneration at a glance continued

Summary of the Directors’ Remuneration Policy and 2024 implementation

References to the Policy in this section and the detailed implementation section of the report align with the Remuneration Policy approved at the 2023 AGM.

Remuneration element and time horizon	Policy summary	2024 Implementation

Base Pay

Operation

Normally reviewed annually with any increases usually taking effect from 1 April each year.

Opportunity

There are no prescribed maximum salary levels. The Committee considers a range of internal and external factors to ensure that base salaries are appropriate.

Performance

Individual and Company performance will be taken into consideration.

	Effective 1 April 2024 £	Effective 1 April 2023 £	% increase
Andrea Rossi	910,000	875,000	4.0%
Kathryn McLeland	603,000	580,000	4.0%
Wider workforce 2024 (UK annual review spend)			4.6%

Benefits

Operation

Reviewed periodically against market practice taking consideration of benefits offered to colleagues across the Company.

Opportunity

Cover levels are defined within the terms of each benefit with maximum opportunity dependent on the terms of the insurer and individual circumstances.

Performance

There are no performance measures that apply to the provision of benefits.

- Life, disability and critical illness insurance
- Private health insurance (including partner and dependants) and annual health assessment
- Eligibility to participate in the Company Sharesave and Share Incentive Plan (SIP)

Pension

Operation

Defined contribution pension participation or cash in lieu.

Opportunity

13% of base salary per annum, aligned with the wider workforce.

Performance

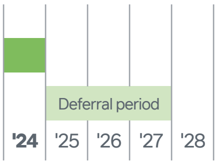
There are no performance measures.

	Contribution 2024	Contribution 2023
Andrea Rossi	13%	13%
Kathryn McLeland	13%	13%

Remuneration at a glance continued

Remuneration element and time horizon	Policy summary	2024 Implementation

Short-term incentives (STI)



Operation

An annual incentive award subject to performance conditions assessed at the end of the calendar year. Performance outcomes are subject to a discretionary downward risk adjustment. 50% of any STI payable will normally be deferred into shares with a three-year vesting period. Malus and/or clawback provisions apply to cash and deferred STI.

Opportunity

Up to a maximum of 250% of base salary, subject to performance. Threshold, target and maximum performance levels are established for each award.

Performance

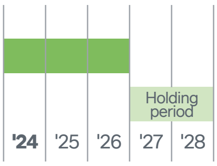
Performance scorecards comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures will normally comprise at least 50% of the scorecard.

2024 Implementation

Financial measures comprise 60% and non-financial measures 40% of the 2024 STI scorecard, which can be found on page 144. There were no changes to target and maximum STI opportunity as a % of base salary for 2024:

	Target STI % 2024	Maximum STI % 2024
Andrea Rossi	125%	250%
Kathryn McLeland	112.5%	225%

Long-term incentives (LTIP)



Operation

LTIP awards over M&G plc shares are normally granted annually subject to performance conditions assessed at the end of a three-year performance period. Vested shares are subject to an additional holding period of two years. Performance outcomes may be subject to a discretionary downward risk adjustment. Malus and clawback provisions apply to the award during the vesting and holding periods.

Opportunity

Up to a maximum of 250% of base salary, subject to performance. Threshold, target and maximum performance levels are established for each award.

Performance

Performance scorecards may comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures (including TSR) will normally comprise a minimum of 75% of the scorecard.

2024 Implementation

In 2024 financial measures consist of 50% cumulative operating capital generation gross of new business strain ('NBS') and 25% relative TSR. Non-financial measures constitute 25% of the 2024 LTIP scorecard and are equally weighted across Gender, Ethnicity and Climate targets. The scorecard can be found on page 145.

The term 'LTIP' refers to awards granted under the M&G Performance Share Plan.

There were no changes to maximum LTIP opportunity as a % of base salary for 2024:

	Maximum LTIP % 2024
Andrea Rossi	250%
Kathryn McLeland	225%

Remuneration at a glance continued

Shareholding requirements

The Group Chief Executive Officer and Chief Financial Officer must attain a shareholding requirement of 300% and 250% of base salary respectively within five years. Vested shares, after the sale of shares to fund tax liabilities, must be held until the requirement is met (unless there are exceptional circumstances). Unvested shares not subject to performance conditions count towards the requirement on a net-of-tax basis. In addition, shares subject to the shareholding requirement must be held in full for two years post-employment.

The shareholdings for Andrea Rossi and Kathryn McLeland are shown in the table below as at 31 December 2023. Having joined the Board in 2022 both are currently in compliance with the shareholding policy.

Name	Guidelines	Shares as a % of salary
Andrea Rossi	300% of base salary	56%
Kathryn McLeland	250% of base salary	86%

2023 Performance outcomes

The performance scorecard outcome for the 2023 STI was the same for both Executive Directors at 79.9%. Taking into account a range of factors, including personal performance and a risk and controls assessment, the Committee was satisfied that no adjustments be applied to the formulaic STI outcomes for the Executive Directors. Neither Andrea Rossi nor Kathryn McLeland had awards vesting under the 2021 LTIP, as both joined the company in 2022. Performance against the 2021 LTIP scorecard measures is however detailed in this report on page 135 with an overall vesting of 90.1%.

The component and total outcomes of the scorecards were as follows, including comparison to prior year.

2023 STI – % of maximum opportunity

		Financial Measures	Non-Financial Measures	Overall STI Outcome
Andrea Rossi	2023	98.6%	51.9%	79.9%
Andrea Rossi	2022	57.5%	34.6%	50.6%
Kathryn McLeland	2023	98.6%	51.9%	79.9%
Kathryn McLeland	2022	57.5%	34.6%	50.6%

Remuneration outcomes

The Executive Directors' 2023 single figure earnings are summarised below:

		Fixed Remuneration £'000	STI £'000	LTIP £'000	Total (incl. 'Other') £'000
Andrea Rossi	2023	998	1,748	—	2,745
Andrea Rossi	2022	229	255	—	484
Kathryn McLeland	2023	663	1,043	—	1,706
Kathryn McLeland	2022	438	438	—	876

- Fixed remuneration includes salary, benefits and pension.
- STI includes both the cash and deferred elements of the STI awarded for the 2023 performance year.
- Neither Executive Director has awards vesting under the 2021 LTIP in relation to the performance period ending 31 December 2023.
- 2022 single figure earnings for the Group Chief Executive Officer and the Chief Financial Officer reflect respective dates of joining the Board (10 October 2022 for Andrea Rossi and 3 May 2022 for Kathryn McLeland).
- Additional details of the single figure methodology and incentive plan scorecards can be found in the Annual Report on Remuneration section from page 133.

Remuneration at a glance continued

Rationale for measures and link to strategy

During the triennial review of the Policy in 2023, our incentive scorecards underwent a comprehensive review, and the Committee considered alternative models for delivering long-term incentives for simplification of our incentive structure and alignment with our purpose, strategy, culture and operational priorities.

We concluded that our current approach of a Short-Term Incentive (STI) and performance-based LTIP created effective alignment and should be retained.

We believe our incentive scorecards retain an appropriate balance between performance and how it is delivered, which is critical for M&G's long-term success, and also sustainable shareholder value creation. Key aspects of non-financial performance include risk management effectiveness, client experience and outcomes, conduct, culture, diversity and climate, demonstrating alignment with all our stakeholders:

Customers	Customer outcome measures embedded in the STI scorecard
Colleagues	Colleague engagement is an established measure within the STI scorecard and Diversity in our LTIP scorecard
Communities	Climate and Diversity measures embedded in the LTIP scorecard
Shareholders	Alignment to the shareholder experience via: – The relative TSR component within the LTIP scorecard – Focus on capital generation which underpins our ability to pay a dividend – Deferral into shares of a significant proportion of annual STI awards with vesting over three years – Post-vesting holding and share ownership requirements for our senior executives

Performance measures

Our 2024 incentive scorecards have retained the same structure and measures, aligned to our refreshed purpose and strategy. We have refined the definition/methodology for some measures, as we continue to monitor the effectiveness of this alignment. All measures have transparent, quantifiable targets and performance ranges.

In accordance with the Policy, the performance conditions may comprise a combination of financial and non-financial measures, with financial measures comprising at least 50% for STI and at least 75% (including TSR) for the LTIP.

The 2024 STI scorecard will have:

- 60% financial weighting with measures aligned to profit and capital generation; and
- 40% non-financial weighting with measures aligned to client outcomes, colleagues and risk and controls.

In 2023 the Company adopted IFRS 17 for accounting for its insurance contracts which required the 2023 Adjusted Operating Profit Target to be recalculated for the purpose of the STI scorecard since it had been based on the previous accounting standard .We discussed the different methodology under IFRS 17 and whether a simple recalculation of the target was appropriate for remuneration purposes. It was concluded that under IFRS 17 the like-for-like methodology would lead to a measure that would not effectively align remuneration to actual management delivery and value creation during the year. In order to achieve this alignment, it was decided to adopt a new STI profit measure for the 2023 performance period taking account of operating change in contractual service margin, being a new Board-approved IFRS 17 alternative performance measure.

In order to more effectively align the incentive plans to our strategic decision to re-enter the defined benefit pension de-risking market, the Committee decided to adopt an adapted Operating Capital Generation measure in the STI and LTIP scorecards from 2024, which excludes new business strain (NBS). Without this amendment there is an unintended risk that the STI and LTIP would disincentivise the executive to pursue new business with the potential to deliver attractive long-term returns on capital, but which produces a short-term negative impact on capital generation at the point of execution.
The definitions of the financial measures are provided on page 147.

In addition, we have refined the methodology for the risk and control measures to increase coverage and reflect performance throughout the year, rather than as at a discrete point in time at the end of the year.

The 2024 LTIP scorecard will have:

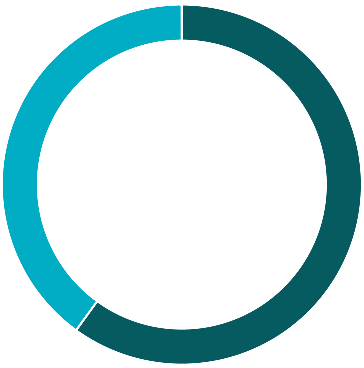
- 75% financial weighting (including TSR), comprising Cumulative Operating Capital Generation excluding NBS (50%) and TSR ranking within a peer group (25%)
- 25% non-financial weighting with sustainability measures aligned to Diversity and Climate.

Remuneration at a glance continued

The capital measure has been refined to exclude new business strain, as explained above. We have retained the same three sustainability measures in 2024 (Gender and Ethnicity Diversity and Own Emissions reduction), for which we have published medium-term strategic objectives. The Committee paid careful consideration to performance delivered up to the end of 2023 and the challenges in maintaining and advancing performance over the next three years when determining the targets and performance ranges.

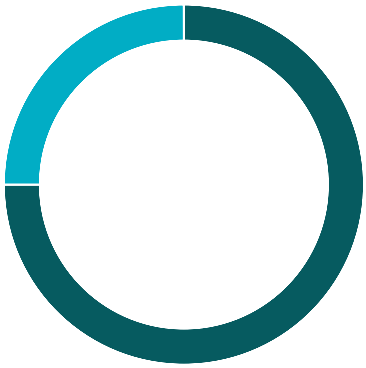
The performance conditions and weighting for 2024 are illustrated in the following table:

STI



Financial	**60%**
Operating capital generation excluding NBS	30%
Adjusted operating profit before tax plus operating change in CSM	30%
Non-financial	**40%**
Clients	20%
Colleagues	10%
Risk and controls	10%

LTIP



Financial	**75%**
Cumulative operating capital generation excluding NBS	50%
Relative total shareholder return	25%
Non-financial	**25%**
Diversity (Gender)	8.33%
Diversity (Ethnicity)	8.33%
Climate	8.33%

2024 Financial measures

The financial measures in our incentive scorecards are based on the Group's Alternative Performance Measures, which are aligned with M&G's long-term performance, external financial targets and shareholder experience. In line with our commitment to review the relative weightings of the financial measures in the consultation on the 2023 Policy review, the measures are equally weighted at 30% in the 2024 STI scorecard (capital was previously 40% and profit 20%).

Operating Capital Generation excluding new business strain (short and long-term incentive)

Operating capital generation (defined on page 147) is an alternative performance measure which demonstrates the longer-term view of the movements in our capital surplus. Operating capital generation is aligned to our external targets and is reflective of performance that is within management's control to deliver. The Committee decided to adopt an adjusted metric that excludes new business strain in order to ensure the measurement of current management's performance is not impacted by the regulatory requirement to hold additional capital against new business written. New business strain is a component of underlying capital generation in the Life and Wealth segments.

Adjusted operating profit before tax plus operating change in contractual service margin (CSM) (short-term incentive)

Adjusted operating profit before tax (defined on page 147) is the Group's non-GAAP alternative performance measure used to demonstrate the longer-term performance of the Group as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax. The Committee decided to adopt a new STI profit measure by adding the operating change in contractual service margin, our new IFRS 17 related alternative performance measure for the Life and Wealth segment (defined on page 366) to adjusted operating profit before tax, to ensure that the incentive recognises growth and management actions in the period in which they were taken.

Relative total shareholder return (long-term incentive)

A long-term measure, which ensures direct alignment of remuneration outcomes to shareholder experience relative to a peer group. Our peer group comprises selected FTSE 350 peers based on comparable size, business scope and geography. This approach ensures close alignment to M&G's core business activities of Asset Management, Wealth and Life, and geographic coverage. The peer group is consistent with that applied to the 2023 LTIP scorecard other than reflecting the removal of Liontrust, which is not currently a constituent of the FTSE 350, and comprises:

– 3i Group – abrdn – Ashmore – Aviva – Hargreaves Lansdown – ICG – Jupiter – Just Group – Legal & General
– Man Group – Ninety One – Phoenix Group – Quilter – Rathbone – Schroders – St James's Place

Remuneration at a glance continued

2024 Non-financial measures

Across our short and long-term incentive plans, we have non-financial measures aligned with our purpose, strategy and culture. These measures ensure that there is an appropriate balance between our performance and how that performance has been delivered.

Client measures (short-term incentives)

Client measures are key to the successful execution of our strategy, and to understanding and delivering good client outcomes. We include the following measures:

- Life and Wealth clients: (a) a measure aligned to addressing and improving our client net promoter score; and (b) With-Profits Fund investment performance relative to benchmark.
- Investment management clients: (a) investment performance of wholesale funds; and (b) investment performance of institutional funds, relative to benchmarks and objectives.

Colleague and Risk measures (short-term incentives)

- Colleague measure: aligned to the sustainable engagement index outcome from an average of the colleague OneVoice surveys, aligned with embedding our culture and supporting a safe, respectful and inclusive environment for colleagues.
- Risk and control environment measures: aligned with our commitment to operate within an embedded risk culture and strong risk governance framework.

Sustainability measures (long-term incentives)

Sustainability measures aligned to our strategy and external commitments for diversity and own-emissions reductions. We are monitoring and committed to introducing an interim net zero asset manager/asset owner measure in the future.

- Diversity (gender) – target aligned to our external commitment to achieve and maintain 40% gender representation by the end of 2025;
- Diversity (ethnicity) – target aligned to our external commitment to achieve and maintain 20% ethnicity representation by the end of 2025;
- Climate – an interim target aligned with progressing towards our external commitment to achieve a near-term carbon emissions reduction of 46% by 2030.

Further information on the 2024 scorecard measures is available on pages 144 and 145

Link to strategy and purpose

The metrics used for remuneration of adjusted operating profit before tax plus operating change in CSM and operating capital generation excluding NBS are primary indicators of M&G's long-term performance and how we are delivering on our strategic priorities. Total shareholder return aligns with our performance in delivering value to shareholders through improvements in our financial performance and outlook, driven by the execution of our three strategic priorities and how we serve our clients. Non-financial measures ensure there is appropriate balance with how we deliver performance and underpin our purpose to give everyone real confidence to put their money to work:

	Strategic priorities			
Metric	Maintain our financial strength	Simplify our business	Deliver profitable growth	Purpose
Operating capital generation excluding NBS	●	●	●	
Adjusted operating profit before tax plus operating change in CSM	●	●	●	
Relative total shareholder return	●	●	●	●
Client measures	●	●	●	●
Colleague & Risk measures		●		●
Sustainability measures		●		●

Find out more about our strategy on pages 15-17

Annual Report on Remuneration

Single figure remuneration

In this section

Single figure total remuneration table (Audited)

The following table provides the 2023 single figure remuneration for the Executive Directors, with prior year for comparison where applicable.

Year	Executive Director	Base Salary £'000	Benefits £'000	Pension £'000	Total fixed remuneration £'000	STI £'000	LTIP £'000	Total variable remuneration £'000	Total £'000
2023	Andrea Rossi	875	9	114	998	1,748	—	1,748	2,745
2022	Andrea Rossi	201	2	26	229	255	—	255	484
2023	Kathryn McLeland	580	8	76	663	1,043	—	1,043	1,706
2022	Kathryn McLeland	384	4	50	438	438	—	438	876

Notes to the single figure table

- Andrea Rossi was appointed as Group Chief Executive Officer on 10 October 2022 and Kathryn McLeland was appointed as Chief Financial Officer on 3 May 2022.
- Remuneration for Andrea Rossi and Kathryn McLeland includes fixed pay and STI awards based on their respective service periods in 2022 and for the full 2023 performance year. Neither Executive Director has awards vesting under the 2021 LTIP in relation to the performance period ending 31 December 2023.

Single figure remuneration – Base salary (Audited)

No salary increase was awarded to either Andrea Rossi or Kathryn McLeland in 2023, in line with the annual salary review budget guidelines for 2023 under which no increases were awarded to senior management with salaries over a certain level. The 2023 salary budget across the wider UK workforce was 5.1%, targeted at lower earning colleagues to recognise the prevailing inflationary environment and cost-of-living challenge.

Single figure remuneration – Benefits (Audited)

Benefits include the total value of all benefits provided in respect of the year ended 31 December 2023. For both Executive Directors these comprise life, disability and critical illness insurance, private medical cover and eligibility for health assessments.

	Andrea Rossi		Kathryn McLeland	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Healthcare and insurances	9	2	8	4
Total	9	2	8	4

Single figure remuneration – Pension (Audited)

Executive Directors receive a 13% employer pension contribution which they may receive in part or in full in cash. The contribution rate and delivery options are in line with other colleagues who participate in the Company's defined contribution pension plan. Executive Directors do not accrue benefits under any Company legacy defined benefit pension plans.

Single figure remuneration – Short-Term Incentive (Audited)

For the purposes of determining the 2023 STI outcome, the Remuneration Committee assessed the performance of the Company and the individuals by reference to the 2023 STI scorecard, which included a combination of financial and non-financial measures, as follows:

2023 Executive Director STI scorecard outcome

	2023 STI Scorecard	Weighting	Threshold 0%	Target 50%	Maximum 100%	Actual	Outcome of maximum	Weighted Outcome of maximum
Financial	Adjusted operating profit before tax plus operating change in contractual service margin (CSM)	20%	862	1,014	1,166	1,152	95.7%	19.15%
	Operating capital generation (£m)	40%	708	833	957	996	100%	40%
Non-financial	Customer: Net Promoter Score - Wealth and Life	5.0%	14	16	18	15	25%	1.25%
	Customer: With-Profits Fund investment performance over benchmark (three-year)	5.0%	0%	1%	3%	5.7%	100%	5.0%
	Customer: Investment performance of Wholesale Funds relative to benchmark (one and three-year)	5.0%	50%	60%	70%	51%	5.0%	0.25%
	Customer: Investment performance of Institutional Funds relative to benchmark (one and three-year)	5.0%	50%	60%	70%	70.7%	100%	5.0%
	Colleague: sustainable engagement index	10.0%	70	72	75	70.7	17.5%	1.75%
	Risk and Controls: % high/very high issues overdue at year-end	5.0%	10%	5%	0%	0.9%	91%	4.55%
	Risk and Controls: % self-identified of total issues raised	5.0%	50%	60%	80%	63.6%	59%	2.95%
	Total	100%						79.9%

Definitions

Definitions and further details of the above measures can be found on page 147.

Consideration of individual performance

The Committee considered performance assessments for the Executive Directors and concluded that the formulaic outcome of the STI was appropriate in the context of their personal contribution over the performance period.

Deferral policy

50% of any STI amount awarded is deferred for three years in M&G plc shares, subject to continued employment, good leaver and malus provisions. Dividend equivalents accrue on a reinvestment basis during the vesting period.

STI opportunity and outcome

The maximum STI opportunity for the Group Chief Executive Officer and Chief Financial Officer roles remained unchanged at 250% of base salary and 225% of base salary respectively. The STI amounts in the single figure table reflect awards to be delivered in 2024 in respect of 2023 performance, inclusive of both cash and deferred elements as follows:

Executive Director	Maximum STI Opportunity £'000	Total STI Outcome £'000	Cash STI £'000	Deferred STI £'000
Andrea Rossi	2,187.5	1,747.8	873.9	873.9
Kathryn McLeland	1,305	1,042.7	521.3	521.3

Single figure remuneration – LTIP vesting in year (Audited)

Neither Executive Director had LTIP awards vesting for the 2023 performance year. The 2021 LTIP outcome vesting on the basis of the three-year performance period ending 31 December 2023 is however displayed for information in the following table.

2021 LTIP Scorecard

	Weighting	Measure	Period	Threshold	Target	Maximum	Actual	Vesting	Weighted Outcome
Vesting				0%	50%	100%			
Capital	50%	Cumulative operating capital generation (£m)	1/1/21–31/12/23	2,213	2,604	2,995	2,934	92.2%	46.1%
Diversity	7.5%	Gender - % of women at the senior leadership level		33%	35%	37%	37%	100%	7.5%
Climate	7.5%	Own operations carbon emissions reduction		14.7%	16.8%	18.9%	43%	100%	7.5%
Risk & Conduct	10%	Qualitative assessment					40%	40%	4.0%
Vesting				25%		100%			
Relative TSR	25%	Percentile ranking relative to peer group	1/1/21–31/12/23	50th p'cile		75th p'cile	75th	100%	25%
Performance outcome									90.1%

Notes to the 2021 LTIP scorecard

Cumulative operating capital generation

See the definitions table on page 147.

Sustainability measures of Diversity and Climate

Details of these measures are set out on page 147.

Risk and Conduct

The Committee considered a range of factors in determining the outcome of the qualitative Risk and Conduct measure. They observed that over the 3-year period the business had generally operated within risk appetite and policy limits, with appropriate remediation promptly implemented in the limited number of instances where the business operated outside these. In particular, policy compliance was maintained at a high level. It was observed that there had been incremental improvements in the control environment in each of the three years of the performance period and that, while further improvement is expected in 2024, the positive progress was acknowledged. Taking consideration of all of these factors the Committee concluded that an outcome of 40% was appropriate.

Relative Total Shareholder Return (TSR) outcome

For the 2021 LTIP M&G plc TSR was measured against a peer group constituted of FTSE 100 Financial Services companies excluding investment trusts. The starting point for TSR was based on a 30-calendar day average of M&G plc and peer group companies preceding the performance period. The end point was based on an average of the last 30-calendar days of the performance period.

Consideration of risk

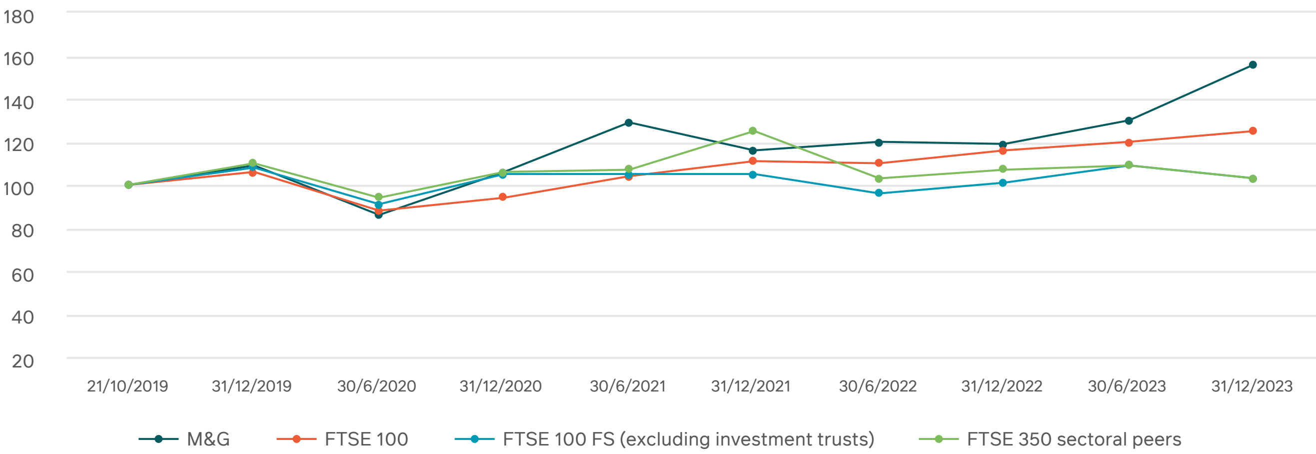
The Committee received an independent review of the control environment and key risk and compliance matters from the Chief Risk and Compliance Officer, as well as input from the Risk Committee and the subsidiary Risk Committees for PAC and MGG. The Committee noted positive progress has been made across M&G plc during 2023 in building on the risk and control framework foundations previously put in place. They acknowledged that implementation work continues into 2024 to reach target maturity, including some enhancements to elements of the framework and embedding of group-wide Key Control Assessments across the business. The review framework considers the management of individual risks (for example conflicts of interest risk) and risk outcomes, such as customer outcomes, with specific output received in respect of notifiable event impacts; compliance with Group policy requirements; risk appetite assessment; and regulatory feedback. Taking consideration of all information from the report the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2023 STI, or any risk-related adjustments to the vesting of the 2021 LTIP.

Annual Report on Remuneration continued

Total shareholder return performance graph and Group Chief Executive Officer pay

The performance graph shows the Total Shareholder Return of M&G plc compared to the index constituents of the FTSE 100, FTSE 100 financial services companies (excluding investment trusts), and a peer group of FTSE 350 sectoral firms aligned to the Group's core business activities (asset management, wealth management and/or life insurance) for the period beginning October 2019 and ending in December 2023. M&G plc is a member of the FTSE 100 index, and in addition the FTSE 100 financial services sector (excluding investment trusts) is used to measure relative TSR performance in the 2021 and 2022 LTIP scorecards, and the bespoke FTSE 350 sectoral peer group for LTIP awards granted from 2023 onwards (which is more closely aligned to M&G's core business activities and geographic coverage).

Total shareholder return performance graph



The following table sets out a breakdown of Chief Executive remuneration for the performance years 2019 to 2023 inclusive.

	2019 John Foley	2020 John Foley	2021 John Foley	2022 John Foley/ Andrea Rossi	**2023** Andrea Rossi
Total remuneration (£'000)	3,281	4,036	4,597	6,990	**2,745**
STI as % of maximum	64.3%	59.4%	70.15%	50.6%	**79.9%**
LTIP as % of maximum	63.5%	59.6%	52.6%	85.5%	**N/A**

For 2022 the figure is based on the combined earnings for John Foley and Andrea Rossi, and the LTIP as a % of maximum applied only to John Foley. The 2022 single figure earnings for John Foley have been updated to take into account the final share vesting price of £1.932 for the 2020 LTIP. Andrea Rossi does not have an LTIP award vesting in respect to 2023 (the final vesting outcome of the 2021 LTIP is 90.1% of maximum as set out on page 135 of this report).

Non-Executive Director single figure total remuneration table (Audited)

The total remuneration for the full year ended 31 December 2023 for the Chair and each Non-Executive Director is detailed below:

	Fees for 2023 £'000	**Benefits for 2023 £'000**	**2023 Total £'000**	Fees for 2022 £'000	Benefits for 2022 £'000	2022 Total £'000
Edward Braham	**525.0**	**—**	**525.0**	422.5	—	422.5
Clive Adamson	**252.5**	**1.3**	**253.8**	250.0	3.3	253.3
Clare Chapman	**115.0**	**2.6**	**117.6**	120.9	5.1	126.0
Fiona Clutterbuck	**66.4**	**—**	**66.4**	216.6	0.3	216.9
Dev Sanyal	**110.0**	**28.4**	**138.4**	65.4	1.6	67.0
Clare Thompson	**203.2**	**—**	**203.2**	185.9	0.3	186.2
Massimo Tosato	**342.5**	**26.6**	**369.1**	290.0	11.2	301.2

Notes to the table:

- Benefit values comprise the gross taxable value of expenses relating to travel, including international travel to and from the UK, accommodation and other expenses incurred while undertaking duties as Non-Executive Directors of the Company. 2022 remuneration has been restated to include expenses for the calendar year, in line with the Company's revised reporting approach.
- Edward Braham assumed the role of Chair with effect 14 March 2022 and the 2022 figure represents fees paid from that date. In his role as Chair, Edward Braham is eligible for private medical insurance but did not take up this benefit during either 2022 or 2023.
- Clive Adamson's fees include £110,000 for his roles on the PAC Board during 2023 and 2022.
- Fiona Clutterbuck stepped down from the Board with effect from 24 May 2023.
- Dev Sanyal joined the Board on 16 May 2022 and the fees and benefits reflect values from this date.
- Clare Thompson took on the position of Interim Senior Independent Director on 24 May 2023 following the departure of Fiona Clutterbuck from the Board. Fees include £35,000 in respect of her position as Chair of the IFDL Board.
- Massimo Tosato's 2023 fees include £250,000 for his role of Chair of the MGG, MAGIM and MAGAIM Boards (2022: £200,000).

Directors' share interests and other payments (Audited)

In this section

Awards granted in 2023 (Audited)

The following table provides the details of scheme interests awarded to the Executive Directors during 2023:

Plan	Participant	Type of award	Basis of award	Grant date	Vesting date	Face value at grant £'000	Number of shares awarded	% payable for threshold performance
Deferred Incentive Plan (STI)	Andrea Rossi	Conditional award	Deferred STI: 50%	31/03/23	31/03/26	127.4	68,742	n/a
Performance Share Plan (LTI)	Andrea Rossi	Nil-cost options	% of salary: 250%	31/03/23	31/03/26	2,187.5	1,180,518	6.25%
Deferred Incentive Plan (STI)	Kathryn McLeland	Conditional award	Deferred STI: 50%	31/03/23	31/03/26	218.9	118,111	n/a
Performance Share Plan (LTI)	Kathryn McLeland	Nil-cost options	% of salary: 225%	31/03/23	31/03/26	1,305.0	704,263	6.25%

Notes on the scheme interests table:

Andrea Rossi and Kathryn McLeland were granted an LTIP award at 250% and 225% of salary respectively under the M&G Performance Share Plan on 31 March 2023, subject to the performance conditions set out in the table below. The awards have a vesting date of 31 March 2026 and are subject to a further two-year holding period.

Andrea Rossi and Kathryn McLeland also received deferred STI awards of M&G plc shares on 31 March 2023, representing the 50% deferred value of their 2022 STI.

The number of shares granted under deferred STI and LTIP awards was calculated using the average middle-market closing share price for the three business days immediately preceding the award date of £1.853.

Performance conditions for LTIP awards granted in 2023

	Weighting	Threshold	Target	Maximum
Vesting		0%	50%	100%
Cumulative operating capital generation (£m)	50%	2,327	2,738	3,149
Diversity - Gender	8.33%	38%	40%	42%
Diversity - Ethnicity	8.33%	16%	20%	22%
Climate – own emissions reduction (from 2019 baseline)	8.33%	22.1%	25.2%	28.4%
Vesting		25%		100%
Relative TSR	25%	50th p'cile		75th p'cile

Definitions

Definitions for the above measures are provided on page 147.

Measurement and vesting

All performance conditions have straight-line vesting between points and are measured over the three-year period 1 January 2023 to 31 December 2025.

For all performance conditions other than TSR there is 0% vesting for performance at or below threshold, 50% at target and 100% at maximum with straight-line interpolation between these points.

The starting point for TSR is based on a 30-calendar day average of M&G plc and peer group companies preceding the performance period. The end point will be based on an average of the last 30-calendar days of the performance period. For this metric there is 0% vesting for performance below threshold, 25% for achieving the median (threshold performance) and 100% vesting for achieving upper quartile or above, with straight-line interpolation between these points. The peer group consists of a selection of FTSE 350 sectoral peers selected on objective criteria in terms of comparable size, business scope and geography and aligned to M&G's core business activities (asset management, wealth management and/or life insurance), and for 2023 comprised:

3i Group – abrdn – Ashmore – Aviva – Hargreaves Lansdown – ICG – Jupiter – Just Group – Legal & General - Liontrust – Man Group – Ninety One – Phoenix Group – Quilter – Rathbone – Schroders – St James's Place

Directors' share interests (Audited)

The following table shows the interests that each Director and where applicable their connected persons had in M&G plc shares as at 31 December 2023. This comprises personally/legally owned shares, shares purchased and held within the Company's Share Incentive Plan (SIP) and unvested shares under deferred STI and LTIP awards.

Upon vesting, shares awarded under the LTIP are subject to a two-year holding period. Neither Executive Director currently has vested shares subject to the holding period. Fully owned shares are included in the 'Shares owned outright' column in the table below. The value of the shares has been calculated using the average closing M&G plc share price for the final three months of 2023, which was £2.0575.

Name	Shares owned outright	Subject to SIP	Deferred STI shares (Conditional awards)	Unvested LTIP awards subject to performance conditions (Nil -cost options)	Total	Value	Multiple of salary (all interests)
Andrea Rossi	200,456	—	70,972	1,218,827	1,490,255	£3,066,200	350%
Kathryn McLeland	176,620	—	121,943	1,460,792	1,759,355	£3,619,873	624%
Edward Braham	210,650	—	—	—	210,650	£433,412	—
Clive Adamson	9,100	—	—	—	9,100	£18,723	—
Clare Chapman	—	—	—	—	—	—	—
Fiona Clutterbuck	15,920	—	—	—	15,920	£32,755	—
Dev Sanyal	—	—	—	—	—	—	—
Clare Thompson	22,100	—	—	—	22,100	£45,471	—
Massimo Tosato	274,900	—	—	—	274,900	£565,607	—

Shares held by Fiona Clutterbuck are shown as at the date she stepped down from the Board (24 May 2023).

There were no changes to the Directors' interests in ordinary shares between 31 December 2023 and 21 March 2024.

Shareholding guidelines

The Executive Directors are required to build up and maintain a shareholding in the Company under the Directors' Remuneration Policy. The holding requirement must be achieved within five years of the introduction of the policy in 2020 (or recruitment date for new Executive Directors). Having joined the Board in 2022 both Andrea Rossi and Kathryn McLeland are currently in compliance with the shareholding policy.

Name	Guidelines	Shares as a % of salary
Andrea Rossi	300% of base salary	56%
Kathryn McLeland	250% of base salary	86%

Holdings as a percentage of salary are shown for Andrea Rossi and Kathryn McLeland as at 31 December 2023. Shares counting towards the holding requirement are shares owned outright, vested conditional awards subject to a holding period and unvested deferred STI awards that do not have performance conditions on a net-of-tax basis.

Payments to past directors and for loss of office (Audited)

No fees or payments were made to past directors and there are no payments for loss of office to report.

Remuneration arrangements throughout the Company

In this section

Workforce remuneration

A Remuneration Policy is in place for establishing standards for the design and operation of remuneration across the Company, and is based on principles consistent with the Directors' Remuneration Policy. The core components of remuneration and how they are operated for colleagues across the Company are explained in the table below.

The Board has an established approach to how it engages with colleagues, including both formal and informal meetings, and takes careful consideration of conditions across the wider workforce in reaching its decisions. Over the course of the year members of the Board attended a number of sessions held with colleagues across different geographies and seniority levels to gain insights into M&G's culture and to understand colleague views and interests. All Board members attended a Townhall in Milan with breakout groups on topics including diversity and inclusion and client-centricity. Executive remuneration was not specifically discussed at these events but colleagues had the opportunity to raise questions and issues of importance to them. In addition the Board held discussions on the all-colleague OneVoice survey that tracks engagement and feedback and reviewed the key outputs and themes with management. From 2023 a remuneration-based question has been included in the survey which provides the Committee with additional insight.

The Board and management have continued to pay careful attention to the external environment and to conditions across the wider workforce, and have held regular discussions with UNITE union representatives and the Colleague Forum to obtain input on matters relating to their members and the wider population. Taking account of the inflationary environment and prevailing cost of living challenges, salary increases in 2023 were heavily weighted towards lower earners, with no increases for senior and executive management other than by exception. Building on previous cost of living payments delivered in 2022, UK colleagues earning less than the full time equivalent of £75,000 received a one-time payment of £500 in May 2023 to help provide support for household expenses. For 2024 the overall UK annual workforce salary increase is 4.6%, and although salary increases have been applied at all levels of the organisation increases are on average higher at junior and middle level roles.

Remuneration element	Details
Base salary	Base salaries are set at a competitive level taking into account a range of factors including: – The individual's skills, performance and experience; – Internal relativities and wider workforce salary levels; – External benchmark data; and – The size, responsibility and geographical scope of the role. The Company is an accredited Living Wage Employer in the UK. Salaries are reviewed annually. The annual salary increase budget for the UK workforce in 2023 was 5.1%. This was directed via a carefully targeted approach towards lower earning colleagues, with no increases for executives or senior roles, taking into account the impact of the prevailing inflationary environment and cost-of-living challenge. For 2024 the overall UK workforce annual salary increase was 4.6%. This was again targeted towards colleagues at middle management levels and below (with an average increase of 5%) although this year all roles have been eligible for consideration for an increase. Budgets across our international locations are determined on the basis of local market conditions but aligned to global principles and guidelines.
Pension	Across the Company all colleagues are eligible to participate in a pension scheme, or equivalent according to local market practice, which is designed to be competitive, but not excessive, in each of the markets in which we operate. Our standard defined contribution scheme in the UK offers a core contribution of 8% of salary with additional matching to a maximum company contribution of 13%, aligned with arrangements for the Executive Directors. Certain UK colleagues have retained the right to accrue benefits under defined benefit schemes, which are closed to new entrants (neither of the Executive Directors are accruing benefits under a defined benefit scheme).

Remuneration element	Details
Benefits	Benefit packages are designed to be competitive, but not excessive, aligning with local market practice for businesses with which we compete for talent, and with the culture and values of the Group. Benefits are benchmarked periodically to ensure they remain consistent with these principles. A consistent core and flexible benefit offering operates across our UK businesses. Standard benefits include life, ill-health and critical illness insurances and private medical cover. Colleagues may supplement core benefits with additional cover for both themselves and family members on a self-funded basis and have access to a range of other voluntary programmes including cycle-to-work and payroll giving. Certain colleagues have entitlement to higher levels of core benefits retained from their employment prior to 2020. Our health and well-being support is also regularly reviewed; colleagues in all countries have access to an employee assistance programme, supplemented by additional initiatives as appropriate to the local market as well as to the nature and size of our operations. This includes access to the 'Nudge' financial wellbeing platform in our two largest countries by colleague numbers, the UK and India.
Short-Term Incentive Plans (STI)	All colleagues are eligible to participate in an STI plan with outcomes closely aligned with business performance, client outcomes and individual objectives, including the effectiveness of risk management, conduct, culture and behaviours. Bespoke schemes are operated for Investment Management and Distribution colleagues consistent with these principles. Colleagues working within a control function participate in a separate STI plan assessed predominantly on own function performance and overseen by the Risk and Audit Committee Chairs to ensure independence. The Company operates a Group-wide deferral policy under which a proportion of STI over a threshold is deferred for three years, typically in M&G plc shares, unless regulation requires a higher level of deferral or an alternative deferral mechanism.
Long-Term Incentive Plans (LTIP)	Participation in an LTIP is reserved for senior management colleagues with the highest influence over the determination and execution of strategic goals, delivery of business performance and creation of shareholder value. The Group Executive Committee and certain other senior management roles, not including individuals in control functions, participate in the performance-based share plan, aligned with that disclosed for the Executive Directors. Other senior management and control function roles are eligible to receive time vesting awards with no performance conditions. Eligibility to participate is assessed annually.
All-colleague share plans	All colleagues are eligible to participate in one or more of our all-employee share plans to drive alignment and give the opportunity to share in the overall long-term success of the Company. In the UK all colleagues have the option to participate in the Company Sharesave (SAYE) and Share Incentive Plan (SIP) on the same terms as those applicable to the Executive Directors. Both schemes are HMRC tax-advantaged. In addition an International Sharesave is offered in other locations.

Group Chief Executive Officer pay ratio

The table below sets out the M&G plc Group Chief Executive Officer pay ratio when compared to pay levels at the 25th, 50th and 75th percentile of M&G's UK workforce for both base salary and total remuneration. We have used Option B as our method for calculating the pay ratio for this report, as this is consistent with our approach and methodology for other publicly reported information on the gender pay gap. Individuals are identified using the gender pay gap methodology, with 2023 full year remuneration then calculated on a basis consistent with the single figure methodology.

	Year	Method	25th percentile	Median	75th percentile
Single figure total remuneration	2023	B	44:1	28:1	20:1
Single figure total remuneration	2022	B	125:1	77:1	50:1
Single figure total remuneration	2021	B	80:1	52:1	36:1
Single figure total remuneration	2020	B	67:1	45:1	31:1
Single figure total remuneration	2019	B	80:1	58:1	35:1
Salary	2023	B	19:1	12.1	9:1
Salary	2022	B	23:1	15:1	10:1
Salary	2021	B	23:1	16:1	11:1
Salary	2020	B	22:1	15:1	11:1
Salary	2019	B	23:1	16:1	12:1

The company finalised the identification and calculations for the applicable colleagues at the 25th, 50th and 75th percentiles, effective 31 December 2023, following the close of the annual compensation review recommendation period on 20 February 2024.

Annual Report on Remuneration continued

The Remuneration Committee is satisfied that using this population and methodology delivers a representative pay ratio relative to the Group Chief Executive Officer and that the median ratio is reflective of our pay and progression policies and practices.

The changes in ratio from 2022 are as a result of the following factors:

- With respect to the salary ratio, Andrea Rossi joined the Company on a lower base pay than that which applied to John Foley, the previous incumbent, and did not receive an increase in 2023, compared to an overall UK workforce change of just over 5%, which was targeted primarily towards colleagues at junior and middle levels of the organisation. In combination these factors have led to a decrease in the salary pay ratio.
- The total remuneration pay gap at median has decreased significantly from 77:1 to 28:1. This is primarily due to Andrea Rossi not having LTIP awards vesting for the 2023 performance year; total compensation is therefore lower than that for the Chief Executive role in previous years where vesting LTIP values applied. Once LTIP vesting commences with effect from the 2025 performance year onwards the ratio will be likely to show a corresponding increase. In addition the median employee total compensation figure has increased from £87,789 to £99,317. The changes in compensation in the employee quartiles are a factor of the salary increase approach applied for 2023 but will also reflect on-going changes in workforce demographics and business structure.

For the purpose of comparing annual changes in pay levels and determining the pay ratio at each percentile, the single figure methodology was used for total remuneration, as disclosed earlier in this report for the Executive Directors. The salary and total remuneration of the representative individuals at each quartile were as follows in the table below. Salary and total remuneration figures for the individuals concerned are based on actual remuneration with no estimates or assumptions made and the company is satisfied that the quartile positions below are representative of the overall workforce position.

	25th percentile £	50th percentile £	75th percentile £
Total remuneration 2023	62,550	99,317	137,804
Total remuneration 2022	53,722	87,789	135,844
Total remuneration 2021	55,716	86,789	124,704
Total remuneration 2020	57,490	85,410	124,603
Total remuneration 2019	46,854	64,707	105,542
Salary 2023	46,797	71,016	101,500
Salary 2022	42,500	66,818	97,580
Salary 2021	42,314	63,047	92,000
Salary 2020	44,187	64,500	90,245
Salary 2019	39,484	55,750	77,750

Directors vs average employee pay

	2023			2022			2021			2020		
	Change to base salary/fee	**Change to benefits**	**Change to STI outcome**	Change to base salary/fee	Change to benefits	Change to STI outcome	Change to base salary/fee	Change to benefits	Change to STI outcome	Change to base salary/fee	Change to benefits	Change to STI outcome
Andrea Rossi	**334.5%**	**275.6%**	**586.0%**	—	—	—	—	—	—	—	—	—
Kathryn McLeland	**50.9%**	**91.6%**	**138.0%**	—	—	—	—	—	—	—	—	—
Edward Braham	**24.3%**	**—**	**—**	—	—	—	—	—	—	—	—	—
Clive Adamson	**1.0%**	**(62.5%)**	**—**	—	—	—	1.6%	—	—	38.6%	—	—
Clare Chapman	**(4.9%)**	**(48.8%)**	**—**	16.2%	—	—	—	—	—	—	—	—
Fiona Clutterbuck	**(69.4%)**	**(100.0%)**	**—**	(52.4%)	—	—	1037.5%	—	—	—	—	—
Dev Sanyal	**68.1%**	**1630.2%**	**—**	—	—	—	—	—	—	—	—	—
Clare Thompson	**9.3%**	**(100.0%)**	**—**	(7.6%)	—	—	32.3%	—	—	12.6%	—	—
Massimo Tosato	**18.1%**	**138.6%**	**—**	6.9%	—	—	36.5%	—	—	—	—	—
UK workforce	**6.4%**	**8.8%**	**14%**	7.85%	6.8%	9.4%	5.8%	3.4%	36.2%	3.3%	13.4%	70.4%

Notes to the 2023 to 2022 figures

- The percentage changes for the Directors between 2023 and 2022 have been based on the single figure tables on pages 133 and 137.
- Members of the Audit, Risk and Remuneration Committees received a fee increase from £15,000 to £17,500, effective 1 January 2023.
- Benefits for the Non-Executive Directors comprise the gross taxable value of expenses relating to travel, including international travel to and from the UK, accommodation and other expenses incurred while undertaking duties on behalf of the Company. Year-on-year changes are a factor of the number and location of meetings attended.
- Andrea Rossi, Kathryn McLeland, Edward Braham and Dev Sanyal joined the Board over the course of 2022 and the year-on-year percentage changes shown reflect full year compared to part year values.
- Clare Chapman stepped down from the Risk Committee with effect 25 May 2022 and therefore her year-on-year fees show a slight decrease overall.
- Fiona Clutterbuck departed the Board on 24 May 2023.
- Clare Thompson took on the role of Interim Senior Independent Director with effect 24 May 2023.
- The increase in fees for Massimo Tosato is a factor of the increase from £200,000 to £250,000 for his role as Chair of the MGG, MAGIM and MAGAIM Boards, effective 1 January 2023.
- Only the Executive Directors are employees of M&G plc. As remuneration is set by reference to the UK market and regulatory practice the UK workforce is considered the most appropriate employee population for the basis of comparison, consistent with that used for calculation of the Group Chief Executive Officer pay ratio.
- The 2023 salary review budget for the UK was 5.1% and was targeted primarily at lower levels of the organisation. The increase in average salary of 6.4% across the UK workforce over the course of 2023 reflects the focus on responding to the inflationary environment and cost of living challenges over the past year, and takes into account specific adjustments and promotions managed outside the main pay review as well as annual increases. Calculations have been run on a full time equivalent salary basis over a consistent full year population to ensure like-for-like comparison.
- There have been no material changes to benefits provision or rates and the annual workforce change percentage is therefore reflective of salary movement and employee selection choices on medical and pension benefits.
- The increase in the average STI award of 14% calculated on a consistent population basis reflects incentive plan funding relative to 2022 and the impact of salary increases in 2023.

Relative importance of spend on pay

The following table shows the relative importance of spend on pay in 2023 compared to shareholder dividends, adjusted operating profit before tax and operating capital generation. These measures have been chosen as they are key performance measures for the business which are linked to the financial measures in the Executive Directors' STI performance scorecard as defined on page 134.

£m	**2023**	2022 restated	2022 reported	% change
Spend on pay	**1,003**	955	955	5.0%
Shareholder dividends	**462**	465	465	(0.65%)
Share buy-backs	**—**	503	503	—
Adjusted operating profit before tax	**797**	625	529	27.5%
Operating capital generation	**996**	821	821	21.3%

Following implementation of the IFRS 17 accounting standard the adjusted operating profit before tax for 2022 has been restated from the £529m previously presented.

Statement of implementation of Remuneration Policy in 2024

In this section

2024 Salary review

The Committee approved a salary increase of 4.0% for the Chief Executive and Chief Financial Officer in 2024. This was the first increase to apply since they were hired during 2022. In determining this increase the Committee considered external market benchmark data, performance/delivery since their hire dates and the experience of the wider workforce, for whom an overall spend of 4.6% applied.

Year	Salary	Salary Increase
Andrea Rossi	910,000	4.0%
Kathryn McLeland	603,000	4.0%

Incentive measures 2024

We have retained the same structure and balance of financial and non-financial measures within the 2024 scorecards. Some changes have been applied to the underlying measures as we continue to monitor the effectiveness of alignment to our refreshed purpose and strategy. Additional context for the measures can be found in the 'Link to Strategy' section of this report on page 130.

All measures have transparent, quantifiable targets and performance ranges. In accordance with the Policy, the performance conditions may comprise a combination of financial and non-financial measures, with financial measures comprising at least 50% for STI and at least 75% (including TSR) for the LTIP.

The 2024 STI scorecard will continue to have:

- 60% financial weighting with measures aligned to profit and capital generation; and
- 40% non-financial weighting with measures aligned to clients, colleagues and risk/controls.

The 2024 LTIP scorecard will have:

- 75% financial weighting (including TSR) comprising Operating Capital Generation excluding new business strain (50%) and TSR ranking within a peer group (25%); and
- 25% non-financial weighting with sustainability measures aligned to Diversity and Climate.

To ensure the sustainability targets and performance ranges are meaningful and sufficiently stretching the Committee considered the respective positions as at the end of 2023 and the level of challenge to achieve and maintain the long-term external published objectives.

2024 Short-term incentive

The maximum STI opportunity for our Executive Directors in 2024 is unchanged from 2023.

- Group Chief Executive Officer – 250%
- Chief Financial Officer – 225%

The following table sets out the 2024 STI scorecard of performance measures and weightings that will apply to both Executive Directors. As these measures and targets are reflective of the Company's annual Business Plan for the year ahead, full details will be disclosed retrospectively, along with the performance outcomes, in the 2024 Annual Report on Remuneration, reflecting the associated commercial sensitivity.

	Metrics	Weighting
Financial metrics	Adjusted operating profit before tax plus operating change in contractual service margin (CSM)	30%
	Operating capital generation	30%
Non-financial metrics	Customer	20%
	Colleague	10%
	Risk and controls	10%

Definitions

Measure	Additional information
Adjusted operating profit before tax plus operating change in CSM	CSM stands for Contractual Service Margin. See the definitions section on page 147 for more information.
Operating capital generation, excluding new business strain	See the definitions section on page 147.
Clients	Life and Wealth clients (10%). Two measures, equally weighted: – Net Promoter Score; and – With-Profits Fund investment performance relative to its benchmark. Asset Management clients (10%). Two measures, equally weighted: – Wholesale funds investment performance relative to benchmark/target; and – Institutional funds investment performance relative to benchmark/target.
Colleagues	The sustainable engagement index outcome from the average of the colleague engagement surveys run over the year, relative to a target and performance range.
Risk and Controls	Represents two measures, equally weighted, aligned to assessing the effectiveness of risk management culture across the Company. Both measures have quantitative targets and performance ranges. For 2024 these are: – % of high/very high issues overdue; and – % of self-identified issues out of all issues raised.

2024 Long-term incentive

The maximum LTIP awards for our Executive Directors in 2024 are unchanged from 2023.

- Group Chief Executive Officer – 250%
- Chief Financial Officer – 225%

The table below shows the 2024 LTIP scorecard of performance measures, weightings, targets and performance ranges that will apply to both Executive Directors.

	Weighting	Threshold	Target	Maximum
Vesting		0%	50%	100%
Cumulative operating capital generation excluding NBS (£m)	50%	2,640	3,106	3,572
Diversity - Gender	8.33%	38.0%	40.0%	42.0%
Diversity - Ethnicity	8.33%	10.0%	20.0%	22.0%
Climate – own operations emissions reduction	8.33%	43%	46%	49%
Vesting		25%		100%
Relative TSR ranking	25%	50th p'cile		75th p'cile

Definitions for the above measures are provided on page 147. Performance conditions have straight-line vesting between points and are measured over the three-year period 1 January 2024 to 31 December 2026.

Relative TSR ranking

The peer group consists of a selection of FTSE 350 sectoral peers selected based on objective criteria in terms of company size, business scope and geography.

3i Group – abrdn – Ashmore – Aviva – Hargreaves Lansdown – ICG – Jupiter – Just Group – Legal & General – Man Group – Ninety One – Phoenix Group – Quilter – Rathbone – Schroders – St James's Place

Non-Executive Director remuneration

The fee structure applicable to the Non-Executive Directors in 2024 is detailed in the table below.

£'000	2024 fees	2023 fees
Chair	525	525
Non-Executive Director basic annual fee	77.25	75
Senior Independent Director	30	30
Chair of the Risk Committee	40	40
Chairs of the Audit and Remuneration Committees	30	30
Members of the Audit, Remuneration and Risk Committees	17.5	17.5
Members of the Nominations Committee	10	10

With effect from 1 January 2024 the basic annual Non-Executive Director fee was increased from £75,000 to £77,250, recognising the scope, accountabilities and time commitment of the Board and that the fee had not increased since the Board was established in 2019. No other changes were made to the fees for Non-Executive Directors.

Directors' service contracts and letters of appointment

As detailed in the Directors' Remuneration Policy all Executive Directors have service agreements of an indefinite duration that can be terminated by either party by serving 12 months' notice and each of the Non-Executive Directors has a letter of appointment with a mutual notice period of six months.

Definitions table

Category	Measure	Definition
Financial		
Profit	Adjusted operating profit before tax, plus operating change in contractual service margin (CSM)	Adjusted operating profit before tax (defined on page 366) is the Group's non-GAAP alternative performance measure used to demonstrate the longer-term performance of the Group as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax. The Committee decided to adopt a new STI profit measure by adding the operating change in contractual service margin, our new IFRS 17 related alternative performance measure for the Life and Wealth segment (defined on page 366) to adjusted operating profit before tax, to ensure that the incentive recognises growth and management actions in the period in which they were taken.
Capital Generation	Operating capital generation	Operating capital generation is the total capital generation adjusted to exclude tax and market movements relative to those expected under long-term assumptions, and to remove other non-operating items, including shareholder, restructuring and other costs.
	Operating capital generation excluding new business strain	In order to ensure the measurement of current management's performance is not impacted by the regulatory requirement to hold additional capital against new business written, the Committee decided to adopt an adapted operating capital generation metric that excludes new business strain. New business strain is a component of underlying capital generation in the Life and Wealth segments.
Shareholder Return	Relative 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. Relative TSR compares the performance of the Company with the relevant peer group.
Non-Financial		
Customer	With-Profits Fund investment performance	Performance of the With-Profits Fund, relative to its benchmark, the ABI Mixed Investment 20-60% Shares fund.
	Investment performance of Wholesale and Institutional Funds	The investment performance of wholesale and institutional funds on an asset weighted basis over one and three years, measured against relevant benchmarks/targets, as appropriate.
	UK Net Promoter Score	Applies to the Life and Wealth businesses: 6-month rolling average relative to a target and performance range.
Colleague	Engagement	The sustainable engagement index score outcome from colleague opinion surveys relative to a target and performance range.
Diversity	Gender and Ethnicity	Percentage of the senior leadership team, defined as the Executive Committee and their direct reports, that is female/Black, Asian, or minority ethnic at the end of the defined performance period compared to progress against publicly disclosed targets.
Climate	Own emissions reduction	The percentage reduction in the Company's Scope 1, 2 and 3 emissions from the disclosed baseline position for 31 December 2019 in the 2019 Annual Report. Targets are aligned to our objective to achieve a near term carbon emissions reduction of 46% by 2030, and are assessed against the 2019 base year.
Risk, Controls and Conduct	STI: Measures aligned to assessing the effectiveness of risk management culture across the Company. All measures have quantitative targets and performance ranges. 2021 and 2022 LTIP scorecards: Determined on a qualitative basis by reference to an independent report from the Chief Risk and Compliance Officer, approved by the Risk Committee, taking consideration of adherence to risk appetite policy and limits, and to conduct/culture/governance policies and standards.	

Other related disclosures

In this section

Remuneration Committee

The Remuneration Committee's terms of reference can be found on the Company's website.

The Committee's principal areas of focus are:

- Framework of the remuneration policies: establishing, approving and maintaining the principles and framework of the remuneration policies of the Group.
- Remuneration: determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, Chairs and Non-Executive Directors of subsidiary boards, the Executive Directors, members of Senior Management, 'identified staff' for all remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

The Remuneration Committee comprises Clare Chapman (Chair), Clare Thompson and Massimo Tosato. Fiona Clutterbuck stepped down from the Board on 24 May 2023. The Committee met seven times during 2023 and full details of Committee member attendance can be found on page 105 of the Governance Report. Other attendees during 2023 comprised: Edward Braham, Chair, Clive Adamson, Board member, Louise Fowler, Non-Executive Board member of PAC, and Dev Sanyal, Board member. Where appropriate the Group Chief Executive Officer, Chief Financial Officer, Chief People Officer, General Counsel, Chief Risk and Compliance Officer, Reward Director and Deputy Reward Director and from time to time other members of senior management also attended meetings. No individual was in attendance for decisions in respect of their own remuneration.

A summary of the activities undertaken by the Committee is presented below:

Q1 2023	Q2 2023
– Salary review and incentive outcomes for the executives and broader workforce – Performance outcomes of 2022 STI and 2020 LTIP awards, including determination of windfall gains adjustment – Performance measures and targets for 2023 incentive plans – Completion and disclosure of the 2022 Annual Remuneration Report and the revised Remuneration Policy – 2023 individual performance objectives for the executives	– Annual share grants for STI deferrals and LTIP awards – AGM – Remuneration arrangements for executive appointments – Review and approval of appointment and leaver terms for other roles falling under the remit of the Committee

Q3 2023	Q4 2023
– Review and approval of appointment and leaver terms for roles falling under the remit of the Committee	– Incentive plan forecasts and performance measures and targets for 2024 incentive plans – Incentive Plan arrangements for senior management – Review and approval of appointment and leaver terms for roles falling under the remit of the Committee – Annual review of remuneration governance, including regulatory compliance – Updates to the Committee Terms of Reference – Board Chair and Material Subsidiary Board fees

External advisers to the Committee

Deloitte were appointed as advisers to the Remuneration Committee in December 2020 following a formal tender process to provide guidance and advice to the Committee. Deloitte are founding members of the Remuneration Consultants Group and provide advice in line with its Code of Conduct. The Committee is satisfied that the advice received from Deloitte is objective and independent. The Committee is comfortable that Deloitte do not have any current connections with any individual M&G plc Directors that may impair their independence and objectivity. In addition to advice regarding remuneration, separate teams from Deloitte also provided other unrelated professional services to the Group during the year including technology consulting, tax advisory, finance and accounting and also cyber strategy services.

Key areas of advice provided to the Committee by Deloitte related to the 2023 Directors' Remuneration Policy review, the 2022 Directors Remuneration Report, 2024 incentive structures and measures, remuneration arrangements for Executive Directors and the Executive Committee and regulatory advice.

The total fees for 2024 charged by Deloitte on a time and expenses basis were £96,680.

Consideration of risk

The design and operation of all remuneration policies and incentive schemes must be aligned with the Company's risk management principles and policies through the appropriate use of performance measures and targets and the discretion to adjust outcomes to reflect risk, compliance and conduct events.

The Risk Committee provides independent input to the Remuneration Committee to help with the assessment of scheme design and outcomes to ensure that they are consistent with these principles and policies. A formal risk and compliance report, compiled by the Chief Risk and Compliance Officer (CRCO) and approved by the Risk Committee, is submitted to the Committee annually to provide an assessment of:

- The effectiveness of the risk and control environment, material events and specific conduct and compliance issues over the one and three-year performance periods of awards to enable the Remuneration Committee to determine if the outcome of schemes are appropriate or if any adjustments should be applied at scheme or individual level, and the appropriateness of scheme design for the coming year.

Input from the report is also used to assess whether there have been any events that warrant the consideration of malus and/or clawback on previously determined awards. Any adjustments applied to scheme outcomes for the Executive Directors will be explained in the relevant Remuneration Report.

Sustainability risk

As a responsible investor we consider the sustainability risks of all our investments and advice by taking into consideration sustainability factors that have the potential to have a material financial impact and seek to incorporate them into our general risk management framework. The effectiveness of sustainability risk management in investment decisions and advice is a consideration in the CRCO Risk and Compliance report and adherence to relevant principles and policies is monitored and reported to the Remuneration Committee as part of this report. In accordance with the M&G Remuneration Policy, any failings to meet the required standards of these principles and policies will be transparently reflected in the determination of remuneration outcomes.

Operation of the policy

The Committee is satisfied that the policy has operated as intended in respect to alignment of remuneration outcomes and quantum with company performance and key principles.

Consideration of shareholder views

In the lead up to the 2023 AGM the Company engaged with our largest shareholders, comprising 60% of the shareholder base and institutional shareholder bodies, to understand their views on the revised Remuneration Policy and on our approach to adjusting the outcome for the 2020 LTIP for windfall gains. We responded to feedback and were mindful of this in our final decisions and proposals which received a positive level of support at our 2023 AGM. The Remuneration Committee will continue to monitor trends and changes in best practice guidelines issued by institutional shareholder bodies, shareholder governance teams and corporate governance requirements to ensure remuneration at M&G plc remains appropriate. We will also continue to engage with shareholders on the effectiveness of the Remuneration Policy, its implementation and on matters of importance as and when they arise.

Voting outcomes at the Annual General Meeting (AGM) 2023

The following table provides the voting outcomes at the May 2023 AGM for the 2022 Annual Remuneration Report and the Directors' Remuneration Policy.

Voting Item	For	Against	Abstain
Remuneration Policy	96.5%	3.5%	
	1,368,489,460	50,232,635	223,066,558
2022 Remuneration Report	98.6%	1.4%	
	1,398,832,259	19,904,706	223,051,688

i Votes withheld are not votes in law and therefore have not been counted in the calculation of the proportion of the votes for and against a resolution.

Share dilution

All share plans operated by M&G plc which permit awards to be satisfied by issuing new shares contain dilution limits that comply with the guidelines produced by the Investment Association on 31 December 2018. As at 31 December 2023 M&G plc's standing against these dilution limits was:

- 3.10% (2022: 2.02%) where the guideline is no more than 5% in any 10 years under all discretionary share plans.
- 4.22% (2022: 2.90%) where the guideline is no more than 10% in any 10 years under all share plans.

Statement on external directorships

Details of external directorships held by the Executive Directors can be found on pages 96 and 97 of the Annual Report.

The Directors' Remuneration report was approved by the Board on 21 March 2024.

Clare Chapman
Remuneration Committee Chair
21 March 2024

Directors' Remuneration Policy

Remuneration Policy for Executive Directors

Key principles of the Remuneration Policy for Executive Directors

The Remuneration Policy was approved by shareholders at the 24 May 2023 AGM and has been designed to align with and support our strategic priorities to create long-term sustainable performance, resulting in the creation of shareholder value and positive client outcomes within an inclusive and engaging culture for our colleagues. There have been no changes to the policy since it was approved by shareholders. The Policy can be viewed within the 2022 Annual Report, available on the company's website.

In determining this policy the Remuneration Committee (the Committee) has followed a fully-informed and independent decision making process, receiving input from the Company's independent remuneration advisers and ensuring that conflicts of interest were managed by ensuring that no individuals participated in the consideration of decisions impacting their own remuneration. The Committee is wholly made up of independent Non-Executive Directors who do not participate in the Company's incentive plans.

The key principles underpinning the Policy are provided in the 'Remuneration at a Glance' section on page 125.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Base salary	Base salaries are appropriately positioned to attract and retain executives with the required skills and experience to deliver our strategic objectives. Base salaries are paid in monthly instalments and are normally reviewed annually with increases normally effective from 1 April each year. In reviewing base salaries, the Remuneration Committee takes into account a number of factors, including but not limited to: – Company and individual performance; – the scope/size of the roles and the skills and experience of the Executive Directors; – increases among the general workforce and affordability; and – benchmarking information for other firms of a similar size and scope to M&G plc.	There are no prescribed maximum salary levels, but any increase will normally be below or in line with increases for the general workforce in an ordinary year. The Remuneration Committee will retain the discretion to award increases at a level greater than that applied to the general workforce if the Remuneration Committee deems it appropriate to do so. The Remuneration Committee will consider the impact of increasing base salary on other elements of remuneration to ensure total remuneration remains appropriate.	Both individual and Company performance will be taken into consideration when determining base salary increases.
Benefits	Benefits are provided to ensure our remuneration packages are appropriate to attract and retain executives with the required skills and experience to deliver our strategic objectives. Benefits are provided to Executive Directors at a market competitive level, taking into account benefits offered to other employees within M&G. Benefits currently provided to Executive Directors include but are not limited to: – Life assurance; – Disability insurance and Critical Illness insurance; – Private health insurance (including eligibility for his or her spouse or civil partner and dependent children); and – Annual health screening. The Executive Directors are able to participate in self-funded voluntary benefits and discounted M&G products in line with other employees. Executive Directors are eligible to participate in UK all-employee share plans, which currently comprises HMRC-approved Sharesave and SIP plans, on the same terms as other employees. The Company may cover reasonable legal costs and certain relocation expenses in accordance with the Company's relocation policy.	Cover levels are defined within the terms of each benefit with maximum opportunity dependent on the terms of the insurer and individual circumstances.	There are no performance measures for benefits.

Directors' Remuneration Policy continued

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Pension	Pension contributions as a percentage of salary are aligned with the general workforce at a level sufficient to ensure our remuneration packages are appropriate to attract and retain executives with the required skills and experience to deliver our strategic objectives. Executive Directors are eligible for employer contributions in respect of the Company's defined contribution pension scheme which may be received in part or in full in cash. The approach to pension arrangements for the Executive Directors is in line with the wider workforce.	13% of base salary per annum	There are no performance measures for pension contributions.
Short-Term Incentives (STI)	STI awards are designed to provide clear alignment of objectives and performance with the delivery of our financial and non- financial strategic objectives annually. The deferred share component of STI provides longer-term alignment with the interests of the Company and shareholder value creation. Executive Directors are eligible to participate in an annual STI plan at the discretion of the Committee. Performance measures, targets and weightings are determined annually and may vary to ensure alignment with the Business Plan and strategy. A threshold, target and maximum performance level is set for each measure, with an outcome of 0% for threshold performance or below and 50% of maximum for on-target performance. Performance outcomes may be subject to a discretionary downward risk adjustment taking consideration of an annual report from the Risk Committee, including factors such as an assessment of risk and compliance events and the effectiveness of risk management relative to M&G's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. 50% of any STI payable to an Executive Director will normally be deferred for three years into an award of M&G shares under the Deferred Incentive Plan. The rate of deferral may be adjusted upwards and a post-vesting holding period may be applied to meet remuneration regulatory requirements where required. Dividend equivalents may accrue on deferred share awards, based on dividends paid to shareholders during the vesting period. In line with the plan rules, dividend equivalents may also accrue during any applicable post-vesting holding period. These may accrue either in cash or shares on a reinvestment basis and are subject to the same terms, including vesting date, as the deferred share award. Adjustments may be made to deferred share awards in certain circumstances including rights issues, corporate restructuring and special dividends, if the Remuneration Committee deems it appropriate to do so. Malus and/or clawback provisions apply to both cash and deferred STI awards - see "Malus and clawback" for further details.	STI awards are subject to an annual limit of 250% of base salary for the Executive Directors.	The scorecard of performance measures will comprise a combination of financial and non- financial measures, with financial measures normally comprising at least 50% of the scorecard. Performance measures and weightings are determined annually to ensure alignment with the Business Plan and strategy. The Remuneration Committee has discretion to adjust formulaic outcomes if they are not considered to be representative of the overall performance of the Company. Any adjustments applied will be explained in the relevant annual remuneration report. Performance targets and ranges will be disclosed with the performance outcomes of STI awards in the annual remuneration report published at the end of the performance period for the STI awards.

Directors' Remuneration Policy continued

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP)	LTIP awards are designed to provide long term alignment of executive remuneration to sustained business performance relative to long-term strategic objectives and shareholder value creation. Executive Directors are eligible to participate in the LTIP at the discretion of the Committee. Awards are normally granted annually over M&G plc shares. Awards are subject to performance conditions which are measured over a three-year vesting period from 1 January of the year of grant with vesting occurring on the third anniversary of the grant date. Vested awards are subject to an additional holding period of two years. A threshold and maximum performance level is set for each measure, with straight- line interpolation for performance between these levels. At threshold performance, 0% will vest for all metrics with the exception of TSR, for which 25% will vest. There is zero vesting for performance below the threshold. Maximum performance will result in 100% vesting. Performance outcomes may be subject to a discretionary downward risk adjustment taking consideration of a report from the Risk Committee, including factors such as an assessment of risk and compliance events and the effectiveness of risk management relative to M&G's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. Dividend equivalents may accrue on LTIP awards, based on dividends paid to shareholders during the vesting period. In line with the plan rules, dividend equivalents may also accrue during any applicable post- vesting holding period. These may accrue either in cash or shares on a reinvestment basis and are subject to the same terms, including vesting date, performance conditions and holding period, as the LTIP share award. Adjustments may be made to deferred share awards in certain circumstances including rights issues, corporate restructuring and special dividends, if the Remuneration Committee deems it appropriate to do so. Malus and clawback provisions apply to LTIP awards during the vesting and holding periods - see "Malus and clawback" for further details.	LTIP awards are subject to a limit of 250% of base salary in respect of any financial year.	The performance conditions may comprise a combination of financial (including TSR) and non-financial measures, with financial measures normally comprising at least 75% of the scorecard. Performance measures and weightings for the grant of new awards are determined annually to ensure alignment with the Business Plan and strategy. The Remuneration Committee has discretion to adjust formulaic outcomes if they are not considered to be representative of the overall performance of the Company. Any adjustments applied will be explained in the relevant annual remuneration report. The Remuneration Committee has discretion to amend or replace performance measures and/or targets where it reasonably considers it appropriate to do so, provided that the amended conditions are not materially less challenging. Performance measures, targets and ranges will be disclosed in the implementation section of the annual remuneration report for the year prior to the grant of LTIP awards.

Malus and clawback

All STI and LTIPs operated by M&G are subject to malus and clawback provisions in the following circumstances:

Application to STI	– Cash STI – Deferred STI (in shares)	– Clawback for 3 years from the payment date – Malus for the 3-year vesting period
Application to LTIP	– 3-year vesting period – 2-year holding period	– Malus for the 3-year vesting period – Clawback for the 2-year holding period

The circumstances in which the Remuneration Committee may consider the application of malus and/or clawback are defined in the plan rules and can be summarised as follows:

- a material misstatement of published accounts;
- an error in the calculation of performance outcomes or such calculation being based on inaccurate information;
- material risk management failures;
- reasonable evidence of individual misconduct or material error;
- breach of an applicable law, regulation or code of practice and/or failure by the individual to meet standards of fitness and propriety;
- actions or responsibility for conduct leading to significant loss(es) and/or reputational harm to the company or any Group Member;
- material downturn in financial performance; or
- corporate failure.

Malus can be applied to an alternative unvested award to satisfy a clawback event on a vested/released award. The periods that malus and clawback apply may be extended if required to meet regulatory requirements.

Legacy arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office, including the exercise of any discretions available to it in connection with such payments (notwithstanding that they are not in line with this policy), where the terms of payment:

- came into effect before this policy was approved and implemented (including where such payments are in line with a previously approved policy); and
- were agreed at a time when the individual was not a Director of the Company and, in the opinion of the Committee, the payment is not in consideration for the individual becoming a Director.

Details of any such payments will be set out in the applicable Annual Report on remuneration as they arise.

Remuneration Committee discretion

The Remuneration Committee retains discretion in the operation and administration of the Directors' Remuneration Policy, noting that no material changes will be made to the advantage of the Executive Directors without obtaining shareholder approval. Any use of discretion and how it was exercised will be disclosed, where relevant, in the Annual report on remuneration.

This includes (but is not limited to) the following:

- the Executives' participation in the Company's incentive plans;
- the timing of awards including grant, vesting and release dates;
- the size of awards and vesting levels within the limits set out in this policy;
- the performance measures and weighting for STI and LTIP awards within the terms set out in this policy;
- the adjustment of formulaic outcomes of incentive awards for risk management issues or where the outcomes are not reflective of overall Company performance or aligned with shareholder and/or wider stakeholder experience;
- the settlement of any share awards in cash in exceptional circumstances;
- the determination of good leaver status and treatment of unvested awards in line with this policy and incentive plan rules;
- the extent to which malus and clawback should apply to any award;
- the adjustment of awards in certain circumstances including rights issue, corporate restructuring, change of control and special dividends;
- the amendment or replacement of performance measures and targets where it reasonably considers it appropriate to do so, provided that the amended conditions are not materially less challenging; and
- to amend the policy to ensure continued compliance with any applicable remuneration regulations.

Performance measures

Performance measures and targets for the STI and LTIP will include a balance of financial and non-financial measures aligned with the Company's key short and long-term strategic priorities:

- stretching financial targets to deliver growth and create financial flexibility for investment opportunities to build capabilities in high value-added areas and expand our proposition in the UK and internationally. Financial targets are approved by the Board through a rigorous process taking consideration of market conditions, competitor practices and forecasts;
- balancing the interest of policyholders and shareholders;
- creating and maintaining positive experience and outcomes for our clients;
- ensuring alignment with the Company's strategy, purpose and values;
- creating an inclusive and engaging culture that supports the Company's diversity and inclusion objectives to provide equality of opportunity for all who apply for and perform work for the Company;
- adhering to a robust risk management policy and risk appetite limits;
- aligning with the long-term sustainable success of the Company and value creation for shareholders; and
- ensuring alignment with our objectives relating to Environmental, Social and Governance factors.

Shareholding requirement

Executive Director	Shareholding requirement
Group Chief Executive Officer	300% of base salary
Chief Financial Officer	250% of base salary

The purpose of the shareholding requirement is to align executives with the long-term interests of the Company, clients and shareholders through a requirement to hold shares both during and post-employment.

Executive Directors must normally attain the shareholding requirement and maintain this level of holding within five years of becoming an Executive Director.

In addition to personally owned shares, unvested shares not subject to performance conditions (deferred STI awards and LTIP share awards subject to a holding period) will count towards the requirement on a net-of-tax value basis. Executive Directors must hold vested shares until the requirement is met except in exceptional circumstances with the approval of the Chair.

Shareholding levels will be tested annually following completion of the annual grant and vesting of awards, which will be disclosed in the annual remuneration report.

A post-employment shareholding requirement will be operated for the Executive Directors requiring them to maintain their shareholding requirement or actual shareholding, if lower, at the point of departure in full for two years post-employment (following the same methodology as set out above).

External appointments

The Executive Directors may take up external directorships and retain the fees for such appointments with the approval of the Board. All external appointments and fees will be disclosed in the annual remuneration report.

Remuneration regulations

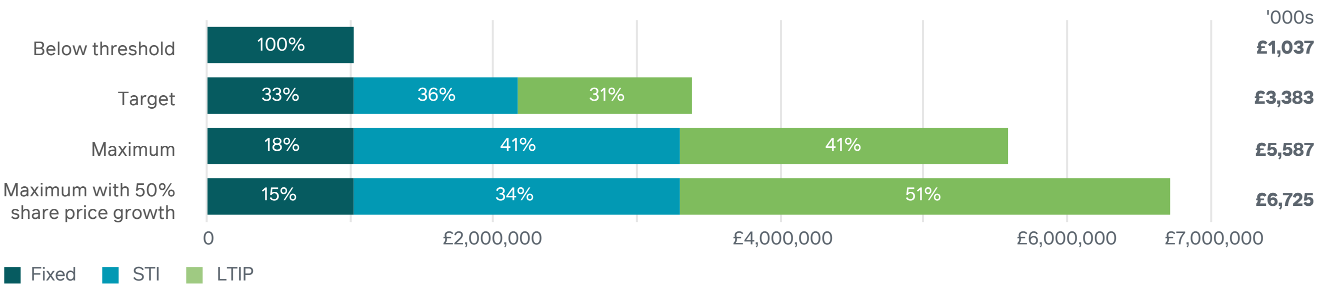
This Policy has been designed to ensure compliance with all remuneration regulations applicable to the Company. The Remuneration Committee reserves discretion to amend the policy if it is required to do so in order to maintain compliance with any new or amended regulations.

Scenario charts

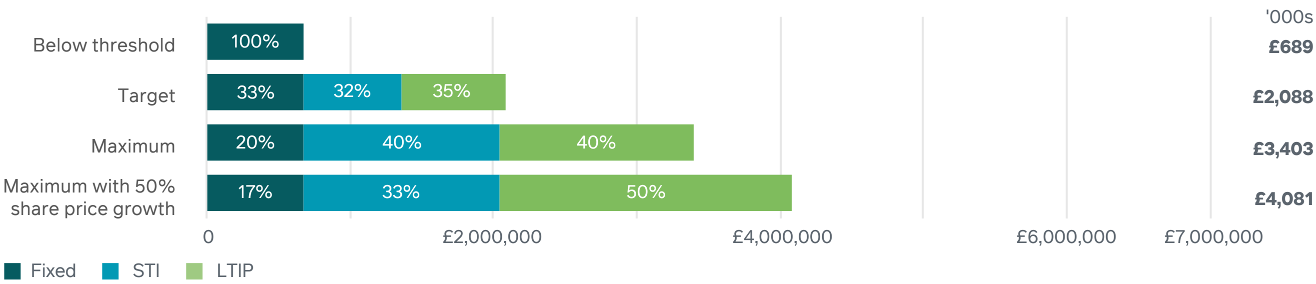
This policy is designed to ensure that executive remuneration is directly aligned with the delivery of key financial and non-financial performance objectives and the creation of shareholder value, achieved in accordance with the Company's policies and values for risk management, conduct, client and culture. The majority of the remuneration packages are in the form of incentive awards with the maximum values only achievable with significant outperformance of business plans and objectives. The LTIP and 50% of the STI award are delivered in shares to maintain close alignment with shareholders. The table to the right illustrates the potential earnings of each Executive Director in four performance scenarios:

Directors' Remuneration Policy continued

Group Chief Executive Officer



Chief Financial Officer



The performance scenarios incorporate the following assumptions:

Fixed remuneration	Comprising the 2024 base salary, benefits (based on the annualised 2023 single figure for the Group Chief Executive Officer and Chief Financial Officer) and a 13% pension contribution.
Target remuneration	Fixed remuneration plus the value that would arise from the incentives for achieving on-target performance: STI with a 50% outcome for on-target performance. LTIP with a 53% outcome for on-target performance (financial/non-financial measures with a 50% outcome and TSR with a performance scale mid-point of 62.5%).
Maximum remuneration	Fixed remuneration plus the value that would arise from the incentives for achieving maximum performance.
Maximum remuneration with 50% share price growth	Maximum remuneration increased for the assumption that the shares granted under the LTIP increase in value by 50% from the share price at grant.

Remuneration Policy for new appointments

Remuneration packages for new Executive Directors (including those promoted internally) will be in line with the requirements of this Policy, including maximum incentive levels, and will be determined on the principle of delivering remuneration that is proportionate and not more than what is necessary to recruit and secure talented individuals with the requisite levels of skills and experience, ensuring that the cost to secure the right candidate is appropriate. If required, awards may be granted to replace awards or amounts forfeited by a previous employer (buyout awards). Any buyout awards would be limited to what is considered to be a fair estimate of the value of remuneration forfeited and with equivalent terms (including vesting dates, performance conditions and malus/claw back provisions) to ensure that the cost to secure the right candidate is appropriate. As buyout awards may cover multiple years of awards from a previous employer, the grant value is not subject to the maximum limits described in this policy.

The Company may cover reasonable legal costs and certain relocation expenses in accordance with the Company's relocation policy for new appointments.

The fees and benefits to be paid to a new Non-Executive Director will be determined in accordance with the terms described in the Remuneration Policy for Non-Executive Directors.

Service agreements

All Executive Directors have service agreements of an indefinite duration that can be terminated by either party by serving 12 months' notice. Under this policy this is the maximum notice period that may be applied to Executive Directors. The terms of the service agreements are considered to be in line with current best practice for Executive Directors. The service contracts are available for inspection on request from the Company's offices.

Loss of Office

In the event of the termination of an Executive Director, the terms of the termination will be determined by reference to the service agreement, this policy, the rules of the relevant incentive plans, relevant regulatory requirements and the signing of a settlement agreement, as detailed in the table below:

Element	Policy
Notice period	– 12 months from either party. – The Company may require that all or an element of the notice period be taken as gardening leave. – The Company may elect to pay in lieu of notice for all or a portion of the contractual notice period. In this instance payment would be restricted to salary only and may be delivered monthly to mitigate loss. – Any holiday entitlement will be pro-rated to reflect the proportion of the year employed. Any outstanding holiday entitlement must be used during the notice period. – If an executive is dismissed for cause, there will be no notice period or payment made for loss of office.
Termination payments	Consistent with other employees, Executive Directors may receive payments to compensate them for the loss of employment rights on termination, subject to entering into a satisfactory settlement agreement. Payments may include a nominal amount for agreeing to non-solicitation and confidentiality clauses, insurance cover for a specified period following the termination date, outplacement services, legal fees or repatriation assistance. In the event of redundancy, a payment may be made in accordance with the Company redundancy policy in effect at that time.
STI awards	A good leaver[i] will be entitled to a pro-rated STI award for the period worked (excluding garden leave) during the year, determined and paid through the normal process and subject to normal terms, including deferral. There is no entitlement to an STI award in the year of termination for a bad leaver.
Treatment of incentive awards	Unvested deferred STI awards for good leavers continue to their normal vesting date. Unvested awards for bad leavers will lapse. Unvested LTIP awards for good leavers will continue to their normal vesting date, pro-rated for the time worked during the performance period. The Remuneration Committee has discretion to waive the pro-ration of LTIP awards, should they deem this to be appropriate. Unvested awards for bad leavers will lapse. Vested LTIP awards subject to a holding period will remain subject to the holding period until the original release date. All awards continue to be subject to their original terms, including malus, clawback and holding periods. The Remuneration Committee has discretion to accelerate the vesting and release of awards for good leavers in exceptional circumstances.
Change of control	In the event of a change of control of the Company, the Remuneration Committee may determine that: – STI awards for the year during which the change of control occurred may either continue to be determined on the basis of the whole year or may be pro-rated to the date of the change of control. – Unvested deferred STI awards are exchanged or replaced with equivalent awards over shares in another company, continuing to their normal vesting date, or that the vesting of the awards is accelerated to the date of the change of control. – Unvested LTIP awards are exchanged or replaced with equivalent awards in another company, continuing to their normal vesting date and subject to the same or equivalent performance conditions, or that the vesting of awards is accelerated to the date of the change of control. If the awards are accelerated, they will be subject to pro-ration and an assessment of the extent to which the performance conditions have been achieved. The Remuneration Committee has discretion to waive the pro-ration of LTIP awards if this is deemed appropriate.

i Good leaver applies in the event of death, disability, redundancy and sale of the company/business in which an individual works. Other leavers may be granted good leaver status at the discretion of the Remuneration Committee (which may include retirement).

Remuneration Policy for Non-Executive Directors

Element	Policy
Fees	Fees take account of the time commitment and responsibilities of the roles and market reference points for comparable FTSE organisations. The Chair receives a base fee which is reviewed annually by the Remuneration Committee. Non-Executive Directors receive a base fee and additional fees for other Board roles such as Chairship or membership of a Committee, acting as the Senior Independent Director or subsidiary Board roles. Fees are reviewed annually by non-conflicted members of the Board.
Benefits	The Chair is eligible to receive private medical insurance. – The Chair and Non-Executive Directors are not eligible to participate in the Company's pension or incentive arrangements. – Benefits may be provided in specific circumstances to the Non-Executive Directors that are immaterial in nature and value, up to a maximum value of £1,000. – Reasonable expenses may be reimbursed by the Company. The Company may pay any tax due on reimbursed expenses.
Recruitment	Fees for a new Non-Executive Director will normally be aligned with the fee structure applicable to other Non-Executive Directors at the time of appointment.
Notice period	– Chair: six months by either party without liability for compensation. – Non-Executive Director: six months by either party without liability for compensation.
Key terms of appointment	The Chair and Non-Executive Directors are subject to annual re-election at the AGM.

Directors' Report

The Directors present their Report for the financial year ended 31 December 2023. The information that fulfils the requirements of the Corporate Governance Statement for the purposes of the FCA's DTRs can be found in the governance section of the Annual Report on pages 94-163 report (all of which forms part of this Directors' Report) and in this Directors' Report.

Directors

The names and details of the current Directors, along with their biographical details as at the date of this Report, are set out on pages 96-98. The Directors who served during 2023 are set out below:

Director	Appointment	Resignation
Clive Adamson	22 March 2019	
Edward Braham	14 March 2022	
Clare Chapman	15 March 2021	
Fiona Clutterbuck	9 October 2020	24 May 2023
Kathryn McLeland	3 May 2022	
Andrea Rossi	10 October 2022	
Dev Sanyal	16 May 2022	
Clare Thompson	7 May 2019	
Massimo Tosato	1 April 2020	

Details of the Directors' and executives' beneficial interests in the share capital of the Company can be found in the Directors' Remuneration Report on page 139.

Powers of the Board

The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles which can be found on our website) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company. The Articles of Association also govern the appointment and replacement of Directors (so long as the number of Directors does not exceed the limit prescribed in the Articles). The Board has the power to appoint additional Directors or to fill a casual vacancy among Directors. Any such Director only holds office until the next AGM and may offer themselves for election.

Information included in the Strategic Report

The Company's Strategic Report on pages 1 to 92 includes the following information that would be otherwise be required to be disclosed in this Directors' Report:

Subject matter	Page reference
Corporate responsibility governance	54
Employment practices and engagement	43
Greenhouse gas emissions	77
Charitable donations	57
Assessing and monitoring culture	99
Internal control and risk management objectives and policies	58-59
Business review and future developments of the business	15-17 and 20-33
Stakeholder engagement with suppliers, customers and others	43-45
Events since the end of the financial year	341

In addition, the principal risks set out on pages 60-68, the financial instruments set out on pages 265-266, the changes in borrowings set out on pages 294-296 and the Shareholder Information on page 382 are incorporated by reference into the Directors' Report.

Requirements of Listing Rule 9.8.4R

Information to be included in the Annual Report and Accounts under Listing Rule 9.8.4R, where applicable, can be found as follows:

Subject matter	Page reference
Details of long-term incentive schemes	122
Shareholder waivers of dividends	162
Shareholder waivers of future dividends	162
Publication of unaudited financial information	366

Share capital

Issued share capital

The issued share capital as at 31 December 2023 consisted of 2,382,058,117 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange. At 31 December 2023, the Company held 13,414,030 ordinary shares in Treasury. Accordingly, at 31 December 2023, the total number of voting rights in the Company was 2,368,644,087.

Directors' Report continued

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. Where, under an employee share scheme, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by Apex Group Fiduciary Services Limited and Equiniti Share Plan Trustees Limited (The Trustees) in accordance with the relevant plan rules. The Trustees would not usually vote any unallocated shares held in trust, but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed. As at 18 March 2024, Trustees held 0.87% of the issued share capital under the various plans in operation. Rights to dividends under the various schemes are set out in the Directors' Remuneration Report.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Conduct Authority as well as under the rules of some of the Group's employee share plans. All Executive Directors are required to hold a minimum number of shares under guidelines approved by the Board, described on page 129 of the Directors' Remuneration Report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro-rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. M&G plc will seek authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. Relevant resolutions to authorise share capital issuances will be put to shareholders at the 2024 AGM.

Authority to purchase own shares

The authority for the Company to purchase in the market for up to 237,471,200 of its ordinary shares (representing 10% of the issued share capital of the Company as at the latest practicable date before publication of the Notice of the Company's last AGM) granted at the Company's last AGM, expires on the date of the forthcoming AGM.

The Company has not utilised the authority obtained at the 2023 AGM. Shareholders will be asked to give a similar authority to purchase shares at the forthcoming 2024 AGM.

Major shareholders

Information provided to the Company by substantial shareholders pursuant to the Disclosure Guidance and Transparency Rules (DTRs) are published via a Regulatory Information Service and is available on the Company's website.

As at 31 December 2023, the Company had been notified under Rule 5 of the DTRs of the following holdings of voting rights in its shares. Between 31 December 2023 and 18 March 2024 (the latest practicable date for inclusion in this report), the Company has not received any additional notification pursuant to Rule 5 of the DTRs.

The Company is not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or on voting rights.

Shareholder	% of total voting rights
BlackRock, Inc.	6.61%
Kingdom Holding Company	6.37%
Norges Bank	4.01%
Schroders plc	4.95%
Silchester International Investors LLP	5.05%

Dividend information

The Directors have recommended a second interim dividend for the financial year ended 31 December 2023 of 13.2 pence per Ordinary Share which will be paid out of distributable reserves. Below is a table of the key dates and further information regarding the dividend can be found on our website.

2023 dividend	Shareholders registered on the UK register
Ex-dividend date	28 March 2024
Record date	2 April 2024
Payment date	9 May 2024

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans. As at 18 March 2024 (the latest practicable date for inclusion in this report), the Company held 13,414,030 shares in Treasury. Treasury shares are not taken into consideration in relation to the payment of dividends.

Cash dividend alternative

The Company operates a Dividend Reinvestment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP can be found on our website. The ability to receive dividend payments by cheque was withdrawn during 2021.

Dividends will be paid directly via bank mandate or shareholders can join the DRIP to use their dividend to purchase further M&G plc shares. Receiving dividends via bank mandate, rather than by cheque, means shareholders can receive funds more quickly, more securely and in a more environmentally friendly way.

Political donations

The Group does not make political donations or incur political expenditure within the ordinary meaning of those words and nor did it in 2023. However, the definitions of political donations, political parties, political organisations, and political expenditure used in the UK Companies Act 2006 are broad. As a result, they may cover routine activities that form part of the normal business activities of the Group and are an accepted part of engaging with stakeholders, such as sponsoring events or supporting policy reviews where M&G has a legitimate business in policy development. While the Group prohibits political donations, the Group retains the right to seek authority from shareholders in making political donations at the AGM in order to avoid inadvertent breaches.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. In the context of the Group as a whole, none of these are deemed to be significant in terms of their potential impact except for those listed below.

Credit facilities

Under a £1,286 million multi-currency revolving credit facility between the Company and the banks and financial institutions named therein as lenders (Lenders) dated 27 March 2019 (the Facility), in the event that any person or group of persons acting in concert directly or indirectly gains control of the Company and its subsidiaries, then any Lender may elect within a prescribed time frame to be replaced by a new lender, or to cancel its commitment, under the Facility whereupon the Company shall be required to repay each loan made to it on the last day of the interest period for that loan, and any loan repaid may be reborrowed from a new lender, subject to the terms of the Facility.

Under a £107 million and two £53.6 million revolving loan facilities between the Company and the bank named therein as lender (Lender) dated 27 March 2019 (the Facility), in the event that any person or group of persons acting in concert directly or indirectly gains control of the Company and its subsidiaries, then the Lender may elect within a prescribed time frame to be replaced by a new lender, or to cancel its commitment, under the Facility whereupon the Company shall be required to repay each loan made to it, together with accrued interest and all other amounts accrued under the Facility, which shall in each case be immediately due and payable, on the last day of the interest period for that loan.

Risk management objectives and policies

Details of the framework which allows M&G to manage risk within agreed appetite levels are set out on page 58. In this section is information on risk culture and governance, systems of internal control, how risks are categorised and how risk appetites and levels are set. Specific information around risk management objectives, policies (eg hedging) and exposure (eg price, credit, liquidity, cash flow risk) is contained in the financial statements on pages 311-332.

Environmental, employee and social policies

Policies relating to environmental matters, the Company's employees and social, community and human rights issues can be found on page 47 of this Report.

Equal opportunities and employment of disabled persons

M&G plc's Global Diversity and Inclusion Policy ensures that equal opportunities are afforded to all colleagues, candidates and suppliers in an environment in which each is treated with dignity and respect. Defined processes are in place to ensure diversity and inclusion is embedded in the culture of the workplace and that we comply with statutory and regulatory requirements in the local labour marker; provide equal opportunity for all who apply for and perform work for M&G plc irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital or civil partnership status, religion or belief, sexual orientation or disability; and allow for reasonable adjustments to support those with special requirements. We also encourage the same standards of our recruitment and consultant suppliers.

The Company's goals around women in senior executive positions can be found on page 52 and the proportion of women on the Board and in senior executive positions can be found on page 53. The Company's ethnicity targets can be found on page 52. We make reasonable adjustments for colleagues with a temporary or permanent disability to ensure that both their individual role and M&G more broadly as a workplace remains accessible to them. Where reasonable adjustments alone do not enable a colleague to continue in their role we aim to provide support to colleagues in identifying alternative roles.

Research and development

In the ordinary course of business, the Group develops new products and services in each of its businesses.

Transactions with related parties

The Company and its related parties comprise members of the M&G plc Group, as well as the Group's joint ventures and associates and any entities controlled by those parties. Note 35 to the consolidated financial statements on page 335 sets out details of related party transactions.

Conflicts of interest

The Company's Articles of Association allow the Board to authorise conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The Group has established procedures whereby actual and potential conflicts of interest are regularly reviewed, appropriate authorisation is sought prior to the appointment of any new Director, and new conflicts are addressed appropriately. The decision to authorise a conflict of interest can only be made by non-conflicted Directors and, in making such decisions, the Directors must act in a way they consider, in good faith, would be most likely to promote the Company's success.

Directors' indemnities and insurance

The Company maintains Directors and Officers Liability insurance cover in respect of legal actions brought against its Directors and Officers. Pension Trustee Liability insurance is also in place to cover legal actions brought against pension trustees of the Group's three pension schemes managed for staff pensions. The policies include coverage for M&G plc and its subsidiaries. Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain Directors of the other companies within the Group. Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee Directors within the Group.

Branch registrations

The Group has registered branches in Belgium, France, Germany, Italy, Malta, The Netherlands, Poland, South Korea, Spain, Sweden and the UK.

Independent Auditors

The Directors are recommending the reappointment of PricewaterhouseCoopers LLP as the Group's statutory auditor at the 2024 AGM.

Statement of disclosure of information to the auditor

Each Director of the Company confirms that, as far as each is aware, there is no relevant audit information of which the Company's auditor is unaware and that each of the Directors has taken all reasonable steps to ascertain any relevant audit information and to ensure the Company's auditor is aware of that information.

Signed on behalf of the Board of Directors

Charlotte Heiss
General Counsel and Company Secretary
21 March 2024

Statement of Directors' responsibilities

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

The Board requested that the Audit Committee review the Annual Report and provide its opinion on whether the report is fair, balanced and understandable. The Audit Committee's opinion is on page 112.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, 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 profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Directors' confirmations

The Directors consider that 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 and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

For further information on the comprehensive process followed by the Board in order to reach these conclusions please refer to the Audit Committee Report on pages 111-117.

Signed on behalf of the Board of Directors

Andrea Rossi
Group Chief Executive Officer
21 March 2024

Financial information

Independent auditors' report

to the members of M&G plc

Report on the audit of the financial statements

Opinion

In our opinion:

- M&G plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2023 (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2023; the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of cash flows, the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 9, we have provided no non-audit services to the Parent Company in the period under audit.

Our audit approach

Context

The Group is an international asset manager and insurer. Its operations primarily consist of the legal entity operations in the United Kingdom, Europe and Asia. Given the activities of the Group, we have built teams with the relevant industry experience in all significant locations in which the Group operates. In addition to forming this opinion, in this report we have also provided information on key audit matters we discussed with the Audit Committee, setting out a description of the matter, how we approached the audit in these areas, and our conclusion. In designing our audit approach we have considered the impact that climate change could have on the Group, including physical or transitional risks which could arise. In particular, we have assessed the impacts on the financial statements of the commitments related to climate change which the Group has made.

Overview

Audit scope

- Our audit scope has been determined to provide coverage of all material financial statement line items, and as part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- The Group has four reportable segments: Asset Management, Wealth, Life and Corporate Centre. Each reportable segment includes a number of reporting businesses across different locations and legal entities.
- We tailored our in scope components based on our assessment of inherent risk and their financial significance to the consolidated financial results. In particular, we considered where Management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.
- Three components were subject to an audit of their complete financial information. Sixteen other components were subject to an audit on certain balances and transactions.
- Our audit scope provided coverage of 82% of IFRS Profit before tax and 94% of Total equity.

Key audit matters

- Valuation of insurance contract liabilities: Implementation of IFRS 17 - Judgements on transition and restatement of comparative information (Group)
- Valuation of insurance contract liabilities: Implementation of IFRS 17 - New models and data flows (Group)
- Valuation of hard to value financial investments (level 3) (Group)
- Valuation of hard to value plan assets (level 3) and Valuation of defined benefit obligation (Group)
- Valuation of insurance contract liabilities: Annuitant mortality (Longevity) (Group)
- Valuation of insurance contract liabilities: Credit default allowance for annuity contracts (Group)
- Valuation of insurance contract liabilities: Illiquidity premium for with profit contracts (Group)
- Valuation of insurance contract liabilities: Renewal expenses (Group)
- Valuation of insurance contract liabilities: Persistency for with-profit contracts (Group)
- Recoverability of the carrying value of investment in subsidiaries (Parent Company)

Materiality

- Overall Group materiality: £60 million (2022: £55 million) equivalent to 8% of 3-year average of the Adjusted operating profit before tax.
- Overall Parent Company materiality: £105 million (2022: £115 million) based on 1% of Total assets.
- Performance materiality: £39 million (2022: £35 million) (Group) and £68 million (2022: £79 million) (Parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Valuation of insurance contract liabilities: Implementation of IFRS 17 - Judgements on transition and restatement of comparative information, Valuation of insurance contract liabilities: Implementation of IFRS 17 - New models and data flows, Valuation of insurance contract liabilities: Illiquidity premium for with profit contracts and Valuation of insurance contract liabilities: Persistency for with-profit contracts are new key audit matters this year. IAS 8 disclosure on the adoption of IFRS 17, which was a key audit matter last year, is no longer included because IFRS 17 became effective from 1 January 2023 and therefore no IAS 8 disclosure is required. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter

Valuation of insurance contract liabilities: Implementation of IFRS 17 - Judgements on transition and restatement of comparative information (Group)

Refer to notes 1.2.1, 1.3, 1.4, and 1.5.2 to the consolidated financial statements for disclosures of related accounting policies and balances.

The Group applied IFRS 17 Insurance Contracts from 1 January 2023 to value its insurance contract liabilities, replacing IFRS 4. International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8") requires that when the impact of adopting a new accounting standard would be material to the financial statement comparatives, these comparatives should be restated. As a result, the opening balance sheet as at 1 January 2022 (transition date) and the year end 2022 comparatives have been restated in order to comply with the requirements of IFRS 17. Given the judgements and uncertainty in estimating the opening balance sheet and restated comparatives, this has been an area of focus.

Separate to the ongoing significant risks in respect of the insurance liabilities, assumptions relating to annuitant mortality, renewal expenses, persistency, credit default for annuity contracts; and the illiquidity premium for with-profit contracts apply equally to the opening balance sheet and restated comparatives.

The implementation of IFRS 17 required the Group to make significant judgments in the development of its accounting policies. The key judgements impacting the Group at transition include:

- The determination of the date before which it is impracticable to apply the fully retrospective approach to calculate the Contractual Service Margin (CSM) on transition;
- The selection of data and assumptions made in applying the modified retrospective approach (MRA) to calculate the CSM on transition (for applicable with-profit contracts), specifically:
  - The determination of the date from which MRA would apply; and
  - The assumptions management made where necessary data was unobtainable at the required level of granularity for the historic periods.
- The approach applied in determining the fair value used to calculate the CSM on transition (for applicable contracts); including, the compensation a market participant would require for taking on the obligations; and,
- The application of IFRS 17 methodology to determine the liabilities of with-profit contracts, specifically:
  - The assessment of eligibility for the variable fee approach;
  - The definition and classification of the variable fee;
  - The approach to allow for mutualisation (including shareholder tax), the appropriate policyholders share and the measurement of the liability for additional amounts expected to be paid to current or future policyholders (in accordance with paragraph B71 of IFRS 17); and
  - Treatment of non-profit contracts in the with-profit fund.

Due to the nature and complexity of the implementation of IFRS 17, we also deemed the narrative and analysis within the transition disclosures and accounting policies to be an area of focus because of the significant changes introduced by the standard.

We involved PwC actuarial specialists to evaluate the key judgements and assumptions made on transition for each Group of products. We have performed the following procedures:

- Obtained an understanding and challenged the key methodologies and judgements in applying IFRS 17;
- Understood, evaluated and assessed the relevant controls and governance process in place for the determination and approval of key IFRS 17 judgements relating to the opening balance sheet at the transition date and the year end 2022 restated comparative information;
- Assessed and challenged the date of impracticability which determines the extent to which the fully retrospective approach is used to calculate the CSM on transition;
- Assessed and challenged the appropriateness of the inputs and judgements applied in determining the CSM on transition for business measured using the fully or modified retrospective approaches, including the use of previously audited or disclosed information and our expectations based on market experience;
- Tested the calibration and methodology to measure the fair value at the transition date (for applicable contracts), including assessing the calibration and methodology relative to market data (to the extent available and relevant), our industry knowledge and experience, and by comparing to other insurers of a similar nature in the market;
- Performed substantive testing over the calculations, processes and tools developed to determine the full and modified retrospective CSMs and fair value of insurance contracts (for applicable contracts) on adopting IFRS 17 at the transition date;
- Evaluated the key actuarial judgements made in applying the transition approaches to the with-profit contracts specifically challenging the variable fee eligibility assessment, the definition and classification of cash flows within the variable fee, the approach to allowing for mutualisation, the calculation of the additional amounts expected to be paid to current or future policyholders, the derivation of shareholder tax and the treatment of non-profits business in the with-profits fund;
- Assessed and tested the adequacy and compliance of the relevant sections of quantitative and qualitative transition disclosures impacted by the significant judgements made on adoption of IFRS 17; and
- Reconciled the relevant disclosures to underlying accounting records and output from the IFRS 17 infrastructure.

Based on the audit procedures performed and evidence obtained, we consider the methodologies used, key judgements and assumptions made by management on IFRS 17 transition to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities: Implementation of IFRS 17 - New models and data flows (Group) Refer to note 1.2.1 to the consolidated financial statements for disclosures of related accounting policies and balances.	
The implementation of IFRS 17 required the Group to develop and introduce new models, systems and data stores. There is a significant volume of data processed, transformed and aggregated in the new infrastructure. There is also complexity in the application of IFRS 17 in the data selected / excluded, the flow of data between systems and as used in the methodology and judgements within the actuarial models. This is particularly the case with regard to the initial implementation of data flows to produce the IFRS 17 year end 2022 comparative results where new models and systems were used for the first time giving rise to increased risks of material misstatement. The key areas of risk and complexity are: – The implementation of the 'RiskAgility FM' IFRS 17 Calculation Engine ('CSM engine'), specifically the application of IFRS 17 methodology and calculations in the engine; – The enhancements made to the accounting cash flows in the data processing layer which is an input into the new IFRS 17 infrastructure, specifically the tagging of transactions to determine fulfilment cash flows, non-distinct investment components, underlying items and unit of account; – Enhancements made to the actuarial cash flow models to produce the granularity of results required for the new IFRS 17 infrastructure; – The development of new tools to produce the level of stresses applied in the calculation of the risk adjustment; and – The completeness and accuracy of data flowing through the new IFRS 17 infrastructure, specifically the data into the new 'cash flow' databases which were implemented to manage new actuarial and accounting data sets required for the CSM engine.	We have performed the following procedures: – Obtained an understanding of the new infrastructure implemented for IFRS 17 reporting; – Evaluated the design and operational effectiveness of the key controls in place across the new infrastructure; – Evaluated the appropriateness of the tagging rules implemented in the categorisation of accounting cash flows based on our understanding of the business, management's methodology and the requirements of IFRS 17; – Tested the changes to the existing actuarial cash flows models to incorporate IFRS 17 functionality and the development of the new tool to determine the level of stresses applied in the calculation of the risk adjustment; – Tested the methodology and calculations in the CSM engine are appropriate and in line with the requirements of IFRS 17 and the policies implemented by management; – Examined management's iterative testing of the implementation of the CSM engine using their test cases to assess appropriateness and where necessary, we performed independent validation of the CSM engine; and – Tested reconciliations to assess the completeness and accuracy of key data flows in the new infrastructure. Based on the audit procedures performed and evidence obtained, we consider that the new models and data flows implemented for transition to IFRS 17 have appropriately applied the requirements of the standard and management's methodology in calculating the IFRS 17 results.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter

Valuation of hard to value financial investments (level 3) (Group)

Refer to notes 1.5.5, 31.3.1 & 31.4 to the consolidated financial statements for disclosures of related accounting policies, valuation methodologies and balances.

The Group's financial investments are held to back the Group insurance contract liabilities and investment contracts within its Life and Wealth businesses, and to meet regulatory capital requirements, as well as providing returns on shareholder assets.

Most of the Group's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. The models vary in complexity depending on the nature of the investments. Investments that require the use of significant judgement and inputs that are not market observable have a higher level of inherent estimation uncertainty. These investments are classified as Level 3 under the fair value hierarchy and include:

- Equity release mortgages;
- Unlisted equity investments;
- Private credit and other illiquid debt securities; and
- Investment property.

The valuation of hard to value financial investments was a key area of focus given the magnitude and the inherent uncertainty involved in the estimation. Changes in estimates could result in material changes in the valuation.

Equity Release Mortgages (ERMs)

The valuation of the Group's LTM portfolio is inherently subjective. There are significant unobservable inputs relating to the No Negative Equity Guarantee. The valuation uses an internal discounted cash flow model with assumptions based on the current property value, net property growth rate and the discount rate (including spread assumptions to estimate an illiquidity premium above the risk free discount rate).

Unlisted Equity Investments

Private equity investments are held through funds managed by internal and external fund managers. The investments are valued in line with the requirements of The International Private Equity and Venture Capital Valuation (IPEV) Guidelines. Given their magnitude, the external valuations are an area of focus. Valuations are performed periodically by the fund managers. The investments are included at the most recent Net Asset Value (NAV) provided by the fund manager adjusted for cash movements, where applicable.

We performed the following audit procedures to test the valuation of the investments classified as Level 3:

- Assessed the design and, where applicable, the operating effectiveness of controls related to the valuation of investments; and
- Assessed both the methodology and assumptions used in the calculation of the year end valuation as well as understanding the governance controls that the Group has in place to monitor these processes.

For equity release mortgages, we:

- Applied our industry knowledge and experience (using our actuarial specialists) to assess the appropriateness of the methodology, models and assumptions used against recognised actuarial practices;
- Tested data inputs used in the valuation models to underlying documentation on a sample basis;
- Evaluated the appropriateness of significant economic assumptions, including the spread applied above the risk free rate, that are used within the valuation process, with reference to market data and industry benchmarks where available;
- Evaluated the appropriateness of the mortality and morbidity assumptions used in the valuation, based on available experience data and industry data on expectations of future mortality improvements; and
- Performed testing over the model calculation . We placed reliance on the model baselining carried out as part of our first year audit (in 2022), whereby we independently replicated the asset cash flows for a sample of policies in order to validate that the model calculations were operating as intended. There are no changes in the model calculations over 2023.

For unlisted equity investments, we:

- Assessed the methodology used for the valuation of these investments and whether this is consistent with the International Private Equity and Venture Capital Valuation ('IPEV') guidelines;
- Where possible, independently obtained the most recent NAV statements from fund managers and agreed the valuation to underlying books and records;
- For a sample, verified any adjustments made for subsequent capital movements; and
- For a sample, performed look back testing on the NAV statements provided by fund managers against the equivalent audited financial statements.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Private credit and other illiquid debt Private credit and other illiquid debt are predominantly valued using discounted cash flow models. A key assumption applied in determining the discount rate used to calculate the fair value of these securities is the credit rating and the associated credit spread. The credit rating is determined by assessing the credit quality of the underlying borrower and assigning an internal credit rating, which is unobservable. The credit spread is then determined by reference to a comparable security or basket of securities. Determining the internal credit rating and the associated comparables requires expert judgement. For residential ground rents, the valuation could be impacted by the UK government's Leasehold and Freehold Reform Bill and the associated consultation on potential restrictions to the level of residential ground rents, issued on 9 November 2023.	For private credit and other illiquid debt, we: – Tested inputs into the valuation model to external sources, where possible, and contractual data; – Engaged our valuation experts to assess the appropriateness of the methodology used to determine internal credit ratings; – For a sample, assessed the application of the internal credit rating methodology, including challenging the assumptions used in setting the internal credit rating; – For a sample of investments, reperformed the valuation using our independently selected internal credit ratings and comparables; – Where a management expert has been used to corroborate management's Level 3 valuations, we have assessed their competence and capabilities. We also assessed their independence by discussing the scope of their work and reviewing the terms of their engagement for unusual terms or fee arrangements; and – Assessed the impact of our findings on credit ratings and valuation on the portfolio of private placement loans. In response to the recent Leasehold and Freehold Reform Bill and the associated consultation on potential restrictions to the level of residential ground rents, we have: – Assessed the appropriateness of the judgements made in determining the impact of the consultation on the valuation of the loans secured on residential ground rent assets; – Ensured that sufficient consideration was given to a range of likely outcomes of the consultation and subsequent changes in legislation; – Challenged management on the changes in credit ratings and associated credit spread applied; and – Assessed and challenged the associated disclosure given the inherent uncertainty resulting from the consultation.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter

Investment Property
 	
The Group holds property (directly and indirectly) within the UK, Europe and Asia. The valuation of the Group's portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. There is continued uncertainty facing the real estate sector as a result of the current economic environment and the impact of climate change.
 	
Valuations are carried out by third party valuers engaged by the Group, who perform their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards or equivalent local standards. The valuations take into account the property-specific information including the current tenancy agreements and rental income, condition and location of the property, and future rental prospects, as well as prevailing market yields and market transactions.
	For Investment property in the UK, Europe, and Asia, we:
	
	– Engaged our own valuation experts who are qualified chartered surveyors with relevant market knowledge to support our audit of the property valuations;
	– Assessed the competence and capabilities of the third party valuers and verified their qualifications. The valuers are reputable and established real estate valuation firms. We also assessed their independence by discussing the scope of their work and reviewing the terms of their engagement for unusual terms or fee arrangements;
	– Obtained and read the external valuation reports and held separate meetings with the third party valuers to discuss the key assumptions; and
	– To verify that the valuation approach was suitable for use in determining the carrying value for investment properties in the financial statements, we:
	  – Confirmed that the valuation approach was in accordance with RICS standards;
	  – Performed sample testing on the standing data in the Group's information systems used in the the valuation process to verify the accuracy of the property information supplied to the third party valuers by Management;
	  – Obtained valuation details of properties held by the Group and set an expected range for yield and capital value movement, determined by reference to published benchmarks and using our experience and knowledge of the market;
	  – Compared the investment yields used by the third party valuers with our expected range of yields and the year on year capital movement to our expected range. Where key assumptions were outside the expected range or otherwise appeared unusual, and/or valuations showed unexpected movements, we undertook further investigations;
	  – Challenged the third party valuers on the extent to which the valuations have taken into account the impact of climate change and related ESG considerations; and
	  – For properties under development valued using the residual valuation method, obtained the development appraisal and assessed the reasonableness of the third party valuers' key assumptions. This included comparing the yield to comparable market benchmarks, comparing the estimated costs to complete, to development plans and contracts, and considering the reasonableness of other assumptions that are not so readily comparable with published benchmarks, such as estimated rental value and developers' profit.
	
	For all asset classes we assessed the adequacy of the disclosures in the financial statements.
	
	Based on the work performed and the evidence obtained, we consider the valuations for hard to value assets to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Valuation of hard to value plan assets (level 3) and Valuation of defined benefit obligation (Group) Refer to notes 1.5.13 and 17 to the consolidated financial statements for disclosures of related accounting policies and balances.	
The Group has three key defined benefit schemes which are closed to new entrants. The schemes are run by Trustees on behalf of the beneficiaries. The defined benefit surplus or deficit presented is the net of the defined benefit obligation and the scheme plan assets, and a restriction on the surplus to the Prudential Staff Pension Scheme ("PSPS") scheme. The key areas of focus are the valuation of the defined benefit obligations and the valuation of the level 3 plan assets which are complex and judgemental. The valuation of the defined benefit obligations ("DBO") for the Group is performed by third party administrators with key assumptions initially set through the triennial valuation process and reassessed annually by the Group. The estimate of the DBO is dependent on a number of assumptions, including the discount rate, inflation rate and mortality rates. Small changes in these assumptions can have a material impact on the valuation due to the size and the duration of the pension obligations. Management performs a review of the DBO valuation methodology and assumptions each year with the assistance of external experts. During the year there were no changes to mortality base tables. The financial methodologies were updated and longevity improvements updated based on annuity book data. The valuation of complex plan assets includes a longevity swap and illiquid private credit assets. The valuation of the illiquid private credit assets was assessed along with similar assets described in the 'Valuation of hard to value financial investments' key audit matter above. The valuation of the longevity swap has been performed by an external expert. The swap has been valued under the requirements of Fair Value, IFRS13, which is consistent with assuming the swap had nil value at outset. This has been completed by applying a fee loading to the floating leg of the longevity swap. The financial assumptions, including discount rate and inflation rate, are updated in line with market conditions at the reporting date. Other assumptions, such as mortality and the fee collateral have been set in line with the assumptions set out in the longevity swap contract. The surplus in the Prudential Staff Pension Scheme that is recognised is limited to the amount which is recoverable through reduced future contributions.	For the pension schemes, we have: – Understood and, evaluated the design effectiveness of key controls in place in respect of the DBO; – Reviewed management expert's IAS 19 report and challenged the methods adopted to determine the valuation of the obligations; – Engaged our actuarial specialists to evaluate the judgements made by management in determining the key financial and mortality assumptions used in the calculation of the liability; – Assessed the reasonableness of the methodologies and assumptions adopted using our knowledge of market practice and industry developments, including use of benchmarks and external market data. We also used sensitivity analysis to determine the impact of alternative assumptions; – Evaluated the objectivity and competence of management's actuarial expert; and – Reperformed calculations of pension liabilities and compared these with the expert's calculations. For the valuation of the level 3 plan assets, our work focused on: – For the illiquid private credit assets, we assessed the methods and assumptions used to value the assets (as set out above); – For the longevity swap, we reviewed the assumptions used to calculate the collateral value of the longevity swap and assessed the magnitude of the change in value of the longevity swap since the previous year end. For the surplus recognised in the schemes, we assessed the availability of the pension surplus to the Group and recalculated the available surplus in the PSPS scheme. We read and assessed the disclosures made in the financial statements, including disclosure of the assumptions. Based on the evidence obtained, we found the valuation of the Scheme's defined benefit obligations and hard to value plan assets to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities: Annuitant mortality (Longevity) (Group) Refer to note 1.4, 1.5.2, 24 and 32.7 to the consolidated financial statements for disclosures of related accounting policies and balances.	
Annuitant mortality (longevity) assumptions are an area of significant management judgement, due to the inherent uncertainty involved. We consider these assumptions underpinning the insurance contract liabilities to be a key audit matter given the Group's exposure to a large volume of annuity business. The annuitant mortality assumption has two main components as set out below. **Base mortality assumptions** This component of the assumption is mainly driven by internal experience analyses. It requires expert judgement that includes determining the most appropriate level at which to carry out the analysis; the period used for historic experience (considering COVID-19 in recent periods); the choice of base table / rates; and adjustments made within the process of fitting rates to past experience using management's Prudential Retirement Mortality (PRM) model. **Rate of future mortality improvements** This component of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of internal experience data, with additional uncertainty around the longer term impact of COVID-19 and other trends in the UK on future mortality rates. The areas of judgement also include the selection of the mortality projection model, its calibration as well as re-expressing this in terms of the Continuous Mortality Investigation (CMI) Bureau industry standard model. In addition, under IFRS 17, an allowance for risk in excess of the best estimate is held and represents the view of compensation for non-financial risk that management requires (known as the risk adjustment). The primary component of the risk adjustment is annuity mortality risk and the selection of the distribution and associated stresses is a matter of judgement.	We have performed the following procedures: – Understood and evaluated the design effectiveness of key controls in place in respect of the longevity assumptions, including the longevity stresses for the risk adjustment component of the insurance contract liabilities; – Assessed the appropriateness of the methodology for analysing experience and setting assumptions for longevity with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; – Tested the design and operation of the controls in place to validate the assumptions and data used in the experience calculations and model calibration, including the accuracy of the PRM model used to calculate actual and expected deaths; – Examined the results of management's experience analysis and the resulting base mortality rates; – Assessed the appropriateness of areas of expert judgement used in the future mortality improvements and the consistency of these with observed experience from the Group's annuity portfolio and market data; – Tested and challenged significant judgements in determining the longevity assumptions, including assessing the implications of COVID-19 and other mortality trends in the UK; – Tested the re-expression of the projection basis in terms of CMI models and their parameterisation; – Compared the longevity assumptions selected by management against those adopted by peers using our annual benchmarking survey of the market; – Tested the appropriateness of the results of the longevity contribution to the risk adjustment by comparing to Solvency II stresses and using our expert knowledge; – Examined management's calculation of the financial impact of changes to the longevity assumptions, to ensure that these are in line with our expectations; and – Assessed the disclosure of the longevity assumptions and the commentary to support the profit (or CSM deferral) arising from any changes made as part of 2023 reporting. Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

Independent auditors' report continued

Key Audit Matter | **How our audit addressed the key audit matter**

Valuation of insurance contract liabilities: Credit default allowance for annuity contracts (Group)

Refer to 1.4, 1.5.2, 24, 32.7 to the consolidated financial statements for disclosures of related accounting policies and balances.

Key Audit Matter

The discount rate for calculating the annuity in payment and deferment liabilities (future cash flows and risk adjustment) is determined in IFRS 17 using a 'top-down' approach. In this approach the discount rate is set using the yield on a reference portfolio of assets (based on the actual assets held) with explicit deductions for both expected and unexpected credit default risk.

The credit default assumptions are also used to determine the locked-in discount rate based on the target asset mix for new business written in the period (to calculate the contractual service margin).

The allowance for expected and unexpected credit default risk is based on the credit rating of the reference portfolio of assets and consists of various components. The components include:

- A mechanical long-term allowance for expected defaults and downgrades (based on historical data);
- A credit risk premium; and
- A short-term overlay reflecting a prospective outlook on future potential experience.

Significant management judgement is required to set the internal credit ratings, particularly for illiquid level 3 assets (such as private credit assets and equity release mortgages). Once the credit rating has been established there is further judgement in selecting the short-term overlay to allow for risks not captured in the long-term credit default allowance.

Changes to the valuation and internal credit rating of residential ground rent assets (see 'Valuation of hard to value assets' above) that back annuity liabilities will impact the credit default allowances.

The allowance for credit risk can have a significant impact on the annuity liabilities, with small changes having a large financial impact, and hence this is a key audit matter.

How our audit addressed the key audit matter

We have performed the following procedures:

- Understood and evaluated the design effectiveness of key controls in place in respect of the credit default assumptions to value the insurance contract liabilities;
- Assessed the methodology used to derive the credit default assumptions with reference to relevant requirements of IFRS 17, actuarial guidance and by applying our industry knowledge and experience;
- Obtained an understanding and challenged management over the analysis performed to assess internal credit ratings for illiquid assets such as equity release mortgages;
- Tested the approach, the ratings ascribed and the resulting default allowances;
- Tested to ensure that the inputs and calculations for the internal credit ratings were in line with intended methodology and are appropriate;
- Tested and challenged key management judgements including the short-term overlay, referencing industry data, market benchmarking where available and our industry knowledge. In particular, consideration has been given to the appropriateness of management's proposals in the context of the current economic climate;
- Assessed the impact of the recent Leasehold and Freehold Reform Bill and the associated consultation on potential restrictions to the level of residential ground rents and ensured this was reflected in credit default risk assumptions;
- Examined management's calculation of the financial impact of changes to the credit default assumptions on the liability, to ensure that these are in line with our expectations; and
- Assessed the disclosure of the credit default risk assumptions and the commentary to support the impact of any changes in the 2023 financial statements.

Based on the work performed and the evidence obtained, we consider the assumptions used for credit default risk to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities: Illiquidity premium for with profit contracts (Group) Refer to note 1.4, 1.5.2, 24 and 32.7 to the consolidated financial statements for disclosures of related accounting policies and balances.	
The discount rate for calculating the with-profit liabilities (future cash flows and risk adjustment) is determined in IFRS 17 using a ‘bottom-up’ approach. In this approach the discount rate is set using a risk-free yield curve with an additional illiquidity premium applied to reflect characteristics of the with-profit liabilities. Significant management judgement is required to set the methodology used in the calculation of the illiquidity premium. This includes the selection of the asset portfolio and credit risk allowance to measure a market level of asset illiquidity premium; and the application of this premium to the with-profit liabilities. The illiquidity premium can have a significant impact on the with-profit liabilities, with small changes having a large financial impact, and hence this is a key audit matter.	We have performed the following procedures: – Understood and evaluated the design effectiveness of key controls in place in respect of the illiquidity premium assumptions to value the insurance contract liabilities; – Assessed the methodology applied in calculation of the illiquidity premium with reference to relevant requirements of IFRS 17, actuarial guidance and by applying our industry knowledge and experience; – Tested controls to validate the inputs and calculation performed or performed substantive testing to ensure that the inputs and calculations are in line with intended methodology and are appropriate; – Challenged key management judgements including the choice of the reference portfolio, credit risk allowance and unchanged ratio, with reference to industry data and market benchmarking where available and relevant. In particular, consideration was given to the appropriateness of management’s proposals in the context of the current economic climate and the interaction with annuity credit allowances; – Examined management’s calculation of the financial impact of changes to the illiquidity premium default assumptions, to ensure that these are in line with our expectations and; – Assessed the disclosure of the illiquidity premium assumptions and the commentary to support the impact of any changes in the 2023 financial statements. Based on the work performed and the evidence obtained, we consider the illiquidity premium assumptions used to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities: Renewal expenses (Group)	
Refer to note 1.4, 1.5.2, 24 and 32.7 to the consolidated financial statements for disclosures of related accounting policies and balances.	

Future maintenance expenses and expense inflation assumptions (or collectively the renewal expenses assumptions) are used in the measurement of the insurance contract liabilities. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date, including an allowance for unavoidable project costs.
 	
For IFRS 17, only those expenses which are directly attributable to each group of contracts are included in the valuation of insurance contract liabilities.
 	
Significant judgement is required to estimate the maintenance expenses through the use of a cost allocation model and the allocation of costs to cost centres; identification of non-attributable costs; removal of one-off costs; the allocation between fixed and variable costs; identification of any future costs and short term allowances.
 	
Unit costs are then set by product, based on the maintenance expenses and the current number of policies in force.
 	
In addition, when calculating the liabilities, an assumption is also needed to reflect how these costs will change in future as a result of inflation rates. This assumption is set with reference to industry and market data; and management's view of how their cost base will inflate in future.
 	
The projection of these costs forward over the duration of the policies means that small changes in unit costs can lead to significant changes in the estimated liabilities. Due to this, and the management judgement involved, we have noted this as a key audit matter.
	We have performed the following procedures:
	– Understood and evaluated the design effectiveness of key controls in place in respect of renewal expense assumptions in the valuation of insurance contract liabilities;
	– Examined and assessed the methodology applied in the cost model, choice of approach and cost drivers to confirm that these are reasonable and supportable.
	– Tested the input data used in the cost allocation model, including the completeness and accuracy of the total cost base and allocation of expenses to the appropriate cost centres;
	– Compared the allocations in the cost allocation model to prior year and understood the rationale for changes;
	– Assessed the methodology used by management to derive the assumptions with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience;
	– Assessed and challenged the appropriateness of significant judgements in the application of the methodology, including:
	  – excluded costs (for example, costs neither related to the insurance business nor being non-recurring in nature),
	  – the split of expenses between acquisition and maintenance expenses,
	  – the allocation of costs to products,
	  – the allowance for recurring project costs,
	  – the projection of fixed costs,
	  – allowances for cost savings (to the extent permissible),
	  – assumptions about outsourcing costs beyond current contracts; and
	  – treatment of look-through costs for intra-group services.
	– Tested the calculation of any components of the renewal expense assumptions that are not based on the cost allocation model (for example, short term expense allowances), by performing a combination of controls and substantive testing;
	– Tested the assumption derived for expense inflation by assessing the use of industry data, current economic conditions and challenged the judgements used within the calculations to ensure that they are reasonable;
	– Examined management's calculation of the financial impact of changes to the renewal expense assumptions, to ensure that these are in line with our expectations; and
	– Assessed the disclosure of the renewal expense assumptions financial statements.
	
	Based on the work performed and the evidence obtained, we consider the assumptions used for renewal expenses to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter

Valuation of insurance contract liabilities: Persistency for with-profit contracts (Group)

Refer to note 1.4, 1.5.2, 24 and 32.7 to the consolidated financial statements for disclosures of related accounting policies and balances.

Key Audit Matter	How our audit addressed the key audit matter

Persistency risk can cover a wide range of policyholder actions including lapse, retirement (normal, early, late), rate of ceasing regular contributions (paying up), level of premium increments, and option take-up rates. However the main persistency risk relates to lapse and retirement assumptions. Under IFRS 17, the with-profits insurance contract liabilities are sensitive to the assumptions selected.
 	
For these assumptions:
– Significant judgement is required to set the persistency assumptions including: the choice of predictive parameters, applicability of historic experience to the future, the impact of one-off or short-term events on the data (for example COVID 19) and potential changes in the economic and regulatory environment going forward;
– In some areas, there is limited historic experience on which to base the assumptions, for example, retirement assumptions for certain products beyond the initial selected retirement age; and
– The current economic conditions, trends and volatility which may increase the levels of uncertainty about future persistency.
 	
Consequently we have selected persistency assumptions as a key audit matter.
	We have performed the following procedures:
	– Understood and evaluated the design effectiveness of key controls in place in respect of the persistency assumptions to value the with-profit contract liabilities
	– Examined the methodology for analysing historic experience and setting assumptions for persistency and assessed whether these are reasonable and in line with our expectations and market experience;
	– Tested controls to validate the assumptions and the data used in the experience calculations;
	– Examined the results of management's experience analysis and the resulting persistency assumption;
	– Assessed the appropriateness and justification for significant judgements applied, including:
	  – Whether the data used is an appropriate representation of likely future experience or whether changes are needed;
	  – The potential impact on persistency of changes in regulation and the current economic environment which may change the perceived value of products, ability to invest or retirement habits;
	– Examined the judgments applied where there is a lack of credible historical data to set the assumptions.
	– Where available and applicable, compared the persistency assumptions selected by management against those adopted by peers using our annual benchmarking survey of the market;
	– Examined management's calculation of the financial impact of changes to the persistency assumptions, to ensure that these are in line with our expectations; and
	– Assessed the disclosure of the persistency assumptions and the commentary to support the profit (or CSM deferral) arising from any changes for 2023 reporting in the financial statements.
	
	Based on the work performed and the evidence obtained, we consider the persistency assumptions used to be appropriate.

Independent auditors' report continued

Key Audit Matter	How our audit addressed the key audit matter
Recoverability of the carrying value of investment in subsidiaries (Parent Company) Refer to note A to the Parent Company financial statements for disclosures of related accounting policies and balances.	

In the Parent Company's financial statements, investments in subsidiaries are reported at cost less impairment.
 	
This balance is material to the Parent Company being the largest asset on the Parent Company's statement of financial position.
 	
During the year impairment indicators have been noted, due to higher discount rates and the current economic environment, for the investments in subsidiaries and a full impairment assessment has been undertaken.
 	
Management has compared the carrying value of investments in subsidiaries to their recoverable value which is assessed as the higher of Value in Use and Fair Value less Costs of Disposal. This includes but is not limited to judgement regarding discount rates, forecasted cash flows, comparable peer companies and long-term growth rates.
	Our procedures in relation to management's assessment of the carrying value of investments in subsidiary undertakings as at 31 December 2023 included the following:
	– Obtained and assessed the completeness of impairment indicators noted by management;
	– Assessed investment in subsidiaries for any indication of impairment based on our understanding of the business and current market environment; and
	– Where an impairment assessment was necessary, we:
	  – engaged our valuation experts to assist us in our audit;
	  – obtained the value in use and fair value less costs of disposal assessments completed by management;
	  – challenged the methodology and assumptions used, including the discount rate, the cash flows, the long-term growth rate, and selection of appropriate peer companies;
	  – tested the inputs back to source documents; and
	  – recalculated the mathematical accuracy of the Value In Use and Fair Value Less Cost of Disposal calculations.
	– Assessed the disclosures in the financial statements.
	– Based on the work performed and evidence obtained, we consider the carrying value of investments in subsidiaries to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is a global investment manager and insurer, and its operations primarily consist of the legal entity operations in the United Kingdom, Europe and Asia. We performed a full scope audit over the following three components:

i) the Parent Company, M&G plc; ii) Prudential Assurance Company (the key contributor to the "Life" segment); iii) M&G Group (the key contributor to the "Asset Management" segment).

For certain other components, we identified account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the consolidated financial statements, and performed financial statement line item audit procedures over these specified balances. Analytical procedures over the remaining components that were not inconsequential were performed by the Group engagement team. We also performed audit procedures over the consolidation process.

As the Group audit team, we determined the level of involvement required at those components to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. In our role as Group auditors, we exercised oversight of the work performed by auditors of the components including performing the following procedures:

– Issued Group instructions outlining areas requiring additional audit focus, including the key audit matters included above;
– Maintained an active dialogue with reporting component audit teams throughout the year;
– Attended meetings with local Management in person or via video conference;
– Attended Audit Committee meetings for certain in-scope components;
– Reviewed reporting requested from component teams, including those areas determined to be of heightened audit risk; and
– Reviewed selected working papers on component audit files, where considered relevant.

The impact of climate risk on our audit

As part of our audit we have made enquiries of Management (both within and outside of the Group's finance functions) to understand the governance and process adopted to assess the extent of the potential impact of climate risk on the Group's financial statements and support for the disclosures made within the Annual Report and Accounts.

In addition to enquiries with Management, we also read the Group's climate risk assessment documentation, reviewed Board minutes and considered disclosures in the Annual Report and Accounts in relation to climate change (including those recommended by the Task Force on Climate-related Financial Disclosures "TCFD") in order to assess the completeness of Management's climate risk assessment.

We have also made enquiries to understand the commitments made by the Group and how these may affect the financial statements and the audit procedures that we perform.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2023.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Parent Company
Overall materiality	£60 million (2022: £55 million).	£105 million (2022: £115 million).
Materiality benchmark	The materiality amount was selected judgmentally and is equivalent to 8% of 3-year average of the Adjusted operating profit before tax.	1% of Total assets.
How we determined it	In determining our materiality we have considered financial metrics and benchmarks which we believe to be relevant to the primary users of the consolidated financial statements. Due to the disparate size of the Income Statement and Statement of Financial Position, the materiality amount was selected judgmentally by the Group audit team having considered a range of relevant benchmarks including Adjusted Operating Profit before tax, Profit before tax, Operational Capital Generation before tax, Total assets, and Shareholder SII coverage ratio, Net Assets plus CSM and Total Assets.	As the Parent Company is balance sheet focused with limited income statement activity, we consider that total assets is an appropriate benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £15 million and £55 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 65% (2022: 65%%) of overall materiality, amounting to £39 million (2022: £35 million) for the Group financial statements and £68 million (2022: £79 million) for the Parent Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3 million (Group audit) (2022: £2.5 million) and £5.25 million (Parent Company audit) (2022: £5.7 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtained the Directors' going concern assessment and challenged the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Group's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considered Management's assessment of the regulatory solvency coverage and liquidity position in the forward looking scenarios which have been driven from the Group's Own Risk and Solvency Assessment (ORSA);
- Agreed the Group Solvency II information to the draft unaudited Group Solvency II schedules prepared by Management;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict Management's assessment of going concern; and
- Reviewed the disclosures included in the financial statements in relation to going concern, including the Basis of Preparation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Directors' Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Parent Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Parent Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities and Financial information, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK and European regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgmental areas of the financial statements as shown in our 'Key audit matters'. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with the Board, Management, Internal Audit, management involved in the Risk and Compliance functions and Group and Parent Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of Management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Group and Parent Company's whistleblowing helpline and fraud register and the results of Management's investigation of such matters;
- Meeting with the PRA periodically and reading key correspondence with the PRA and the FCA, including those in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors, Audit, Risk, Remuneration and Disclosure Committees;
- Identifying and testing journal entries based on risk criteria;
- Testing of judgements and assumptions in subjective areas as set out in the key audit matters;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Reviewing the Group's register of litigation and claims, Internal Audit reports, and compliance reports in so far as they related to non-compliance with laws and regulations and fraud; and
- Attendance at Audit Committee and Joint Audit and Risk Committee meetings.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 25 May 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2022 to 31 December 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Mark Pugh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 March 2024

Consolidated financial statements

Consolidated income statement

For the year ended 31 December	Note	2023 £m	Restated[i] 2022 £m
Insurance revenue	4	**3,887**	3,325
Insurance service expenses	24.2.1	**(2,834)**	(2,949)
Net expenses from reinsurance contracts held	24.2.1	**(95)**	(15)
Insurance service result		**958**	361
Interest revenue from financial assets not measured at FVTPL	5	**672**	217
Interest revenue from financial assets measured at FVTPL	5	**2,446**	2,203
Net change in investments contract liabilities without DPF	5	**(700)**	1,637
Net credit impairment reversal	5	**2**	31
Other investment return	5	**6,214**	(18,097)
Investment return		**8,634**	(14,009)
Finance (expenses)/income from insurance contracts issued	5	**(7,318)**	11,823
Finance income/(expenses) from reinsurance contracts held	5	**39**	(472)
Net insurance finance (expenses)/income		**(7,279)**	11,351
Net insurance and investment result		**2,313**	(2,297)
Fee income	6	**1,003**	1,037
Other income		**37**	70
Administrative and other expenses	7	**(2,241)**	(2,255)
Finance costs	7	**(160)**	(162)
Movements in third party interest in consolidated funds		**(226)**	550
Share of profit from joint ventures and associates	14	**23**	38
Profit/(loss) before tax[ii]		**749**	(3,019)
Tax (charge)/credit attributable to policyholders' returns	10	**(328)**	379
Profit/(loss) before tax attributable to equity holders		**421**	(2,640)
Total tax (charge)/credit		**(440)**	964
Less tax charge/(credit) attributable to policyholders' returns	10	**328**	(379)
Tax (charge)/credit attributable to equity holders	10	**(112)**	585
Profit/(loss) for the year		**309**	(2,055)
Attributable to equity holders of M&G plc		**297**	(2,068)
Attributable to non-controlling interests		**12**	13
Profit/(loss) for the year		**309**	(2,055)
Earnings per share:			
Basic (pence per share)	11	**12.7**	(83.6)
Diluted (pence per share)	11	**12.4**	(83.6)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information. Additionally, following a review of the Group's presentation of policyholder tax, comparatives for 31 December 2022 have been restated from those previously reported in the 2023 interim consolidated income statement.

ii The profit/(loss) before tax comprises the pre-tax result attributable to equity holders and an amount equal and opposite to the tax charge attributable to policyholder returns. This is the formal measure of profit or loss before tax under IFRS, but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include taxes borne by policyholders. These amounts are required to be included in the tax charge of the Company under IFRS. The tax charge/(credit) attributable to policyholder returns is removed from the Group's total profit/(loss) before tax in arriving at the Group's profit/(loss) before tax attributable to equity holders. As the net of tax profits attributable to policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge attributable to policyholders included in the total tax charge.

The Notes on pages 190 to 356 are an integral part of these consolidated financial statements.

Consolidated financial statements continued

Consolidated statement of comprehensive income

For the year ended 31 December	Note	2023 £m	Restated[i] 2022 £m
Profit/(loss) for the year		**309**	(2,055)
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations[ii]		**(12)**	20
Other comprehensive (loss)/income on items that may be reclassified subsequently to profit or loss		**(12)**	20
Items that will not be reclassified to profit or loss:			
(Loss)/gain on remeasurement of defined benefit pension scheme	17	**(124)**	29
Tax on remeasurement of defined benefit pension scheme	10	**28**	(7)
Other comprehensive (loss)/income on items that will not be reclassified to profit or loss		**(96)**	22
Other comprehensive (loss)/income for the year, net of related tax		**(108)**	42
Total comprehensive income/(loss) for the year		**201**	(2,013)
Attributable to equity holders of M&G plc		**193**	(2,026)
Attributable to non-controlling interests		**8**	13
Total comprehensive income/(loss) for the year		**201**	(2,013)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Of the exchange movements arising on foreign operations, £8m loss is attributable to equity holders of M&G plc (2022: £20m gain) and £4m loss is attributable to non-controlling interests (2022: £nil).

The Notes on pages 190 to 356 are an integral part of these consolidated financial statements.

Consolidated financial statements continued

Consolidated statement of financial position

	Note	2023 31 December £m	Restated[i] 2022 31 December £m	Restated[i] 2022 1 January £m
Assets				
Goodwill and intangible assets	13	**1,815**	1,877	1,615
Deferred acquisition costs		**23**	31	35
Defined benefit pension asset	17	**19**	155	38
Investment in joint ventures and associates accounted for using the equity method	14	**287**	413	469
Property, plant and equipment	15	**2,065**	1,953	2,536
Investment property	16	**15,422**	16,505	19,698
Deferred tax assets	10	**443**	445	114
Insurance contract assets	24	**44**	39	28
Reinsurance contract assets	24	**1,099**	1,082	1,715
Equity securities and pooled investment funds	18	**66,248**	70,127	74,069
Loans	18	**3,908**	3,234	5,880
Debt securities	18	**70,683**	62,821	81,059
Derivative assets	18	**1,693**	2,850	3,373
Deposits	18	**16,324**	21,399	17,632
Current tax assets	10	**67**	255	358
Accrued investment income and other debtors	19	**2,536**	2,404	2,833
Assets held for sale[ii]		**1,356**	684	1,023
Cash and cash equivalents	20	**5,590**	4,884	6,908
Total assets		**189,622**	191,158	219,383
Equity				
Share capital	21	**119**	119	130
Share premium reserve	21	**379**	370	370
Shares held by employee benefit trust	22	**(26)**	(70)	(93)
Treasury shares	22	**(21)**	(47)	(1)
Retained earnings		**15,223**	15,504	18,469
Other reserves	23	**(11,633)**	(11,613)	(11,660)
Equity attributable to equity holders of M&G plc		**4,041**	4,263	7,215
Non-controlling interests		**43**	48	49
Total equity		**4,084**	4,311	7,264
Liabilities				
Insurance contract liabilities	24	**142,135**	141,976	160,821
Reinsurance contract liabilities	24	**357**	348	546
Investment contract liabilities without discretionary participation features	25	**12,535**	11,937	14,884
Third party interest in consolidated funds		**9,893**	10,389	12,636
Subordinated liabilities and other borrowings	26	**8,089**	7,537	8,930
Defined benefit pension liability	17	**294**	—	84
Deferred tax liabilities	10	**682**	795	1,718
Lease liabilities	27	**387**	420	413
Current tax liabilities	10	**97**	58	314
Derivative liabilities	18	**2,910**	4,185	2,689
Other financial liabilities	18	**1,186**	2,172	2,882
Provisions	28	**82**	90	138
Accruals, deferred income and other liabilities	29	**6,226**	6,768	6,064
Liabilities held for sale[ii]		**665**	172	—
Total liabilities		**185,538**	186,847	212,119
Total equity and liabilities		**189,622**	191,158	219,383

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Assets held for sale as at 31 December 2023 includes £138m (31 December 2022: £158m, 1 January 2022: £127m) of seed capital classified as held for sale as it is expected to be divested within 12 months and £211m of investment property (31 December 2022: £333m, 1 January 2022: £896m). Additionally £1,007m (31 December 2022: £193m, 1 January 2022: £nil) of assets held for sale and £665m (31 December 2022: £172m, 1 January 2022: £nil) of liabilities held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

The Notes on pages 190 to 356 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 184 to 356 were approved by the Board and signed on its behalf by the following Directors on 21 March 2024:

Andrea Rossi
Chief Executive Officer

Kathryn Mcleland
Chief Financial Officer

Consolidated financial statements continued

Consolidated statement of changes in equity

	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
As at 1 January 2023		119	370	(70)	(47)	15,504	(11,613)	4,263	48	4,311
Profit for the year		—	—	—	—	297	—	297	12	309
Other comprehensive loss for the year	23	—	—	—	—	(96)	(8)	(104)	(4)	(108)
Total comprehensive income for the year		—	—	—	—	201	(8)	193	8	201
Shares issued to settle employee share option schemes	21	—	9	—	—	—	—	9	—	9
Dividends paid to equity holders of M&G plc	12	—	—	—	—	(462)	—	(462)	—	(462)
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	(13)	(13)
Shares distributed by employee trusts or from treasury shares	22	—	—	71	4	(71)	—	4	—	4
Vested employee share-based payments	23	—	—	—	—	42	(42)	—	—	—
Expense recognised in respect of share-based payments	23	—	—	—	—	—	32	32	—	32
Shares acquired by and transferred to employee trusts	22	—	—	(27)	22	—	—	(5)	—	(5)
Tax effect of items recognised directly in equity	23	—	—	—	—	9	(2)	7	—	7
Net increase/(decrease) in equity		—	9	44	26	(281)	(20)	(222)	(5)	(227)
As at 31 December 2023		119	379	(26)	(21)	15,223	(11,633)	4,041	43	4,084

Consolidated financial statements continued

Consolidated statement of changes in equity (continued)

	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
As at 1 January 2022, as previously reported		130	370	(93)	(1)	16,550	(11,660)	5,296	49	5,345
Adjustment on initial application of IFRS 17 and IFRS 9, net of tax		—	—	—	—	1,919	—	1,919	—	1,919
Restated balance as at 1 January 2022[i]		130	370	(93)	(1)	18,469	(11,660)	7,215	49	7,264
(Loss)/profit for the year (restated)		—	—	—	—	(2,068)	—	(2,068)	13	(2,055)
Other comprehensive income for the year	23	—	—	—	—	22	20	42	—	42
Total comprehensive income for the year (restated)		—	—	—	—	(2,046)	20	(2,026)	13	(2,013)
Shares purchased in buy-back[ii]		(11)	—	—	(47)	(456)	11	(503)	—	(503)
Dividends paid to equity holders of M&G plc	12	—	—	—	—	(465)	—	(465)	—	(465)
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	(14)	(14)
Shares distributed by employee trusts or from treasury shares	22	—	—	23	—	(22)	—	1	—	1
Vested employee share-based payments	23	—	—	—	—	23	(23)	—	—	—
Expense recognised in respect of share-based payments	23	—	—	—	—	—	34	34	—	34
Tax effect of items recognised directly in equity	23	—	—	—	—	1	5	6	—	6
Other movements		—	—	—	1	—	—	1	—	1
Net (decrease)/increase in equity		(11)	—	23	(46)	(2,965)	47	(2,952)	(1)	(2,953)
Restated balances as at 31 December 2022		119	370	(70)	(47)	15,504	(11,613)	4,263	48	4,311

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii On 27 October 2022 the share buy-back programme completed with a total consideration, including expenses and stamp duty of £503m. Shares with a nominal value of £11m were cancelled, leading to a capital redemption reserve for the same amount, disclosed within other reserves.

The Notes on pages 190 to 356 are an integral part of these consolidated financial statements.

Consolidated financial statements continued

Consolidated statement of cash flows

For the year ended 31 December	Note	2023 £m	Restated[i] 2022 £m
Cash flows from operating activities:			
Profit/(loss) before tax		**749**	(3,019)
Non-cash and other movements in operating assets and liabilities included in profit/(loss) before tax:			
Investments		**852**	26,645
Other non-investment and non-cash assets		**509**	2,014
Insurance and reinsurance contract liabilities		**167**	(18,976)
Investment contract liabilities		**671**	(2,982)
Other liabilities (including operational borrowings)		**(679)**	(4,378)
Interest income and expense and dividend income included in profit before tax		**(5,149)**	(4,491)
Other non-cash items		**(100)**	290
Operating cash items:			
Interest receipts		**3,086**	2,529
Interest payments		**(204)**	(88)
Dividend receipts		**2,364**	2,220
Tax paid[ii]		**(250)**	(268)
Net cash flows from operating activities[iii]		**2,016**	(504)
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(496)**	(573)
Proceeds from disposal of property, plant and equipment		**1**	1
Net cash paid on acquisition of subsidiaries, joint ventures and associates[iv]		**(103)**	(210)
Divestment of subsidiaries by consolidated private equity vehicles[v]		**105**	429
Investment in subsidiaries by consolidated private equity vehicles[v]		**(110)**	(15)
Net cash flows from investing activities		**(603)**	(368)
Cash flows from financing activities:			
Interest paid		**(189)**	(190)
Lease capital repayments		**(25)**	(30)
Shares purchased in buy-back		**—**	(503)
Shares issued under employee share option scheme	21	**9**	—
Dividends paid to equity holders of M&G Plc	12	**(462)**	(465)
Dividends paid to non-controlling interests		**(13)**	(14)
Net cash flows from financing activities		**(680)**	(1,202)
Net increase/(decrease) in cash and cash equivalents		**733**	(2,074)
Cash and cash equivalents at 1 January		**4,884**	6,908
Effect of exchange rate changes on cash and cash equivalents		**(27)**	50
Cash and cash equivalents at end of period		**5,590**	4,884

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Tax paid for the year ended 31 December 2023 includes £99m (2022: £68m) paid on profits taxable at policyholder rather than shareholder rates.

iii 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.

iv Net cash paid on acquisition of subsidiaries, joint ventures and associates consists of £22m (2022: £227m) of cash paid, net of £nil (2022: £17m) cash acquired. Refer to note 2.2 for further information on shareholder acquisitions made in the period. £81m (2022: £nil) relates to the acquisition of controlling stakes in equity accounted joint ventures held by the With-Profits Fund.

v Divestment/(investment) in subsidiaries by consolidated private equity vehicles represents the amount paid or received in relation to the purchase or sale of underlying investee companies held by the Group's consolidated private equity vehicles. As at 31 December 2023, £110m (2022: £15m) relates to investments in these vehicles and £105m (2022: £429m) relates to divestment in these vehicles.

The Notes on pages 190 to 356 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Basis of preparation and material accounting policies

1.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2023 comprise the financial statements of M&G plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS) and the legal requirements of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost basis except for investment property measured at fair value, certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit and loss (FVTPL), insurance contract liabilities that are measured in accordance with the requirements of IFRS 17: Insurance contracts, and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligations. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

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

The consolidated financial statements from the full year 2022 have been restated to reflect the retrospective application of IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' from 1 January 2023, as outlined below in Note 1.2.1.

Going concern

The Directors have reasonable expectation that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of approval of the consolidated financial statements.

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

In addition, the Directors also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and tested the resilience of the balance sheet to adverse scenarios using reverse stress testing.

The impact of the following individual stresses on solvency were considered as part of the assessment:

- 20% fall in equity prices,
- 20% fall in property prices,
- (50bps) parallel shift in nominal yields,
- 20% of the credit portfolio downgrading by one full letter,
- +100bps spread widening (A-rated assets).

The scenarios considered as part of the assessment included a range of different scenarios (base, optimistic and pessimistic) taking into account the plausible pathways that the global economy would take, its impact on consumer demand and actions that central banks could take. We also assessed the resilience of our financial position in a high inflationary and low growth environment (stagflation scenario) and the economic implications resulting from it. In addition, we assessed the strength of our solvency position to withstand any potential legislative change that may result in the value of the residential ground rent portfolio falling to close to nil as a result of the Government implementing the 'peppercorn cap' described in the Department for Levelling up, Housing and Communities' recent consultation on residential ground rents (UK Government consultation). This is explained further in note 31.8.1. Where relevant, consideration was given to any impending legislative change, which may affect the financial position of the Group adversely as part of the assessment.

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

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

Presentation of risk and capital management disclosures

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

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements

1.2.1 New accounting pronouncements adopted by the Group

In these financial statements, the Group has applied IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments', for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods beginning on or after 1 January 2023.

The Group has applied the standard retrospectively by applying the transitional provisions in Appendix C of IFRS 17. Furthermore, as allowed within the transition provisions of IFRS 17, the Group has elected to not present the following information required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the adoption of a new standard for current and prior periods presented:

(i) The amount of adjustment for each financial statement line item affected; and

(ii) The impact on basic and diluted earnings per share calculated in accordance with IAS 33 Earnings per Share.

The Group has restated comparative information for 2022 applying the transitional provisions in Appendix C to IFRS 17. The nature of the changes in accounting policies can be summarised, as follows:

(i) Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features (DPF). It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin (CSM).

Under IFRS 17, insurance revenue in each reporting period represents the provision of services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. This includes amounts relating to the changes in the liability for remaining coverage and the allocation of the portion of the premiums that relate to recovery of insurance acquisition cash flows. Investment components are not included within insurance revenue.

Insurance finance income and expenses are presented separately from insurance revenue and insurance service expenses.

Previously, acquisition costs in relation to insurance contracts were recognised and presented under IFRS 4 as separate assets from the related insurance contract liabilities until those costs were included in profit or loss. Under IFRS 17, insurance acquisition cash flows in relation to all contracts in scope that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognised once the related contracts have been recognised.

There is no change in accounting policy for investment contracts without DPF which are not in scope of IFRS 17. For these contracts, deferred acquisition costs continue to be presented as separate assets and amortised into profit or loss in line with revenue.

Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

For an explanation of how the Group accounts for insurance and reinsurance contracts under IFRS 17, see Note 1.5.

Notes to the consolidated financial statements continued

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 17 Insurance Contracts (continued)

(ii) Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a fully retrospective approach to the extent practicable. Under the fully retrospective approach, at 1 January 2022 the Group:

- identified, recognised and measured each group of insurance contracts, investment contracts with DPF and reinsurance contracts as if IFRS 17 had always been applied;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied, such as the unallocated surplus of the With-Profits Fund; and
- recognised any resulting net difference in equity, after allowing for any deferred tax adjustment.

In addition, there are also changes in presentation in the consolidated statement of financial position line items from the adoption of IFRS 17:

- The inclusion of insurance receivables and payables balances as cash flows in the measurement of insurance and reinsurance held contracts;
- The presentation of reinsurance held contracts as an asset or liability based on the net position of all contracts within a portfolio, rather than the previous IFRS 4 treatment which was recognised on an individual contract basis; and
- Investment contract liabilities with DPF within the scope of IFRS 17 are presented within insurance contract liabilities.

Where it is impracticable to apply a fully retrospective approach to a group of contracts, then the Group has, as permitted under IFRS 17, used either the modified retrospective approach or the fair value approach.

The Group has applied the following approaches to valuing the CSM on transition to IFRS 17:

Transition approach	Applied to products
Fully Retrospective Approach (FRA)	90:10 With-Profits contracts written 2020-2021[i] PruProtect contracts written June 2010 – June 2016[ii] Non-Profit protection in Poland written 2020-2021 Rothesay reinsurance treaty[iii]
Modified Retrospective Approach (MRA)	90:10 With-Profits contracts written 2004-2019[i] PruProtect contracts written before June 2010[ii]
Fair Value Approach (FVA)	90:10 With-Profits contracts written before 2004[i] All other insurance and reinsurance contracts written up to 2021

i Shareholder transfers for most contracts in the With-Profits Sub-Fund (WPSF) are up to one-ninth of the cost of bonus declared to policyholders, in accordance with the Articles of Association. These contracts are referred to as 90:10 business.

ii PruProtect is a non-profit contract providing life and sickness cover that the Group issued through a joint venture arrangement with Vitality Life.

iii The Rothesay Part VII transfer in December 2021, which involved the sale of an annuity portfolio from M&G plc to Rothesay Life PLC, and consequential update to the reinsurance treaty for the retained annuity business is deemed to constitute a derecognition event. Therefore, for IFRS 17 purposes, the inception date of the reinsurance contract is 15 December 2021 and so is transitioned under FRA.

The impact of adopting IFRS 17 on total equity at 1 January 2022 is presented in the consolidated statement of changes in equity.

Fully retrospective approach

The Group has applied the fully retrospective approach on transition to products as shown above. On transition to IFRS 17, the Group has applied the fully retrospective approach unless impracticable.

The reasons why the Group considers the fully retrospective approach to be impracticable for some contracts include:

- The effects of retrospective application are not determinable because the information required was not collected, or was not collected with sufficient granularity, or is unavailable because of system migrations or other reasons.
- The fully retrospective approach requires assumptions about what the Group management's intentions would have been in previous periods that cannot be made without the use of hindsight. These include judgements about the compensation the Group requires for bearing non-financial risk in order to determine the risk adjustment. As the Group was established as a separate entity in 2019, the Group's current business management and assumptions are not appropriate prior to 2020 and choosing to use these or other assumptions would require the application of hindsight. This rationale does not apply to PruProtect contracts, which have been managed through a joint venture and for which the approach to managing the business prior to 2019 (and back until 2010) is known without the need to apply hindsight.
- Where the fully retrospective approach is impracticable for the valuation of a portfolio of insurance contracts written then it is also impracticable for the valuation of any associated reinsurance portfolio as measurement requires similar considerations.

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 17 Insurance Contracts (continued)

Modified retrospective approach

The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The Group has applied each of the following modifications only to the extent that it does not have reasonable and supportable information to apply IFRS 17 retrospectively.

Assessments at inception or on initial recognition

The Group has determined the identification of groups of contracts and classification of contracts using information available at contract inception where reasonable and supportable information is available. Where the Group does not have reasonable and supportable information this has been assessed based on information at 1 January 2022.

Groups of contracts valued under the modified retrospective approach contain contracts issued more than one year apart.

90:10 with-profits contracts written 2004-2019

For groups of with-profits contracts issued between 2004 and 2019 transitioning under the modified retrospective approach, the Group has determined the CSM at 1 January 2022 by calculating a proxy (as permitted in IFRS 17) for the total CSM for all services to be provided from inception as the fair value of the underlying items at 1 January 2022 minus the fulfilment cash flows at 1 January 2022, adjusted for:

- Amounts charged to policyholders (including charges deducted from the underlying items) before 1 January 2022.
- Amounts paid before 1 January 2022 that did not vary based on the underlying items.
- The change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which was estimated by reference to the release of risk for similar contracts that the Group issued at 1 January 2022.

If the calculation resulted in a CSM, the Group measures the CSM at 1 January 2022 by deducting the CSM related to services provided before 1 January 2022. The CSM related to services provided before 1 January 2022 was determined by comparing the remaining coverage units at 1 January 2022 with coverage units prior to 1 January 2022.

If the calculation resulted in a loss component then the Group adjusted the loss component to nil and increased the liability for remaining coverage excluding the loss component by the same amount.

PruProtect contracts written before June 2010

The PruProtect contracts written before June 2010 are transitioning under the modified retrospective approach by applying the modification that contracts issued more than one year apart are grouped together.

Fair value approach

The Group has applied the fair value approach on transition for contracts for which the fully retrospective approach was considered impracticable, and for which reasonable and supportable information to apply the modified retrospective approach was not available without undue cost or effort.

The Group has determined the CSM of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the Group has applied the requirements of IFRS 13 Fair Value Measurement except for, as required, the principles relating to demand features.

Using Level 3 inputs in accordance with the IFRS 13 hierarchy, the Group has measured the fair value of the contracts as the sum of:

- The best estimate of the liability, determined using a discounted cash flow technique and assumptions used for Solvency II reporting; and
- the compensation a market participant would require for taking on the obligation, over and above the best estimate liability, determined using a cost of capital approach, and for with-profits contracts an amount to reflect the risk around the quantum of future shareholder transfers.

For reinsurance contracts held the calculation above has been carried out twice, using gross of reinsurance cash flows and net of reinsurance cash flows. The fair value of reinsurance contracts held has been determined as the difference between the two amounts.

The allowance for the cost of capital is based on:

- Capital at 135% of the Group Solvency II internal model Solvency Capital Requirements (SCR) on a diversified basis, plus Group Solvency II Risk Margin less allowance for the Group's Transitional Measure on Technical Provisions (TMTP) for pre-2016 incepting contracts.
- Cost of capital at 7%.
- Investment return based on assets backing capital, net of investment management expenses and corporation tax.

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 17 Insurance Contracts (continued)

Fair value approach (continued)

In addition to the allowance for the cost of capital, key assumptions underpinning the determination of the fair value are set out below:

– Discount rate

The discount rate used for with-profits contracts is the prescribed Solvency II risk-free curve.

The discount rate used for non-profit annuity contracts is the prescribed Solvency II risk-free curve plus the Group's matching adjustment. The matching adjustment for the shareholder non-profit annuities is 106 basis points (bps) per annum and for the non-profit annuities in the With-Profits Fund is 94 bps per annum.

– Longevity assumptions

The longevity assumptions for annuity contracts are consistent with the best estimate basis used for the Group's Solvency II reporting as at 31 December 2021, as disclosed in the Group Solvency and Financial Condition Report as at 31 December 2021.

– Shareholder transfers

For with-profits contracts the level of compensation required to reflect the risk in relation to future shareholder transfers is 20% of the present value of future shareholder transfers.

– Expense assumptions

Renewal expenses are based on the Group's best estimate view and are considered to be in line with what other market participants would assume.

Investment management fees are negotiated on an arms-length basis, including those for the assets managed by the Group's asset managers. Therefore the Group assumes that a market participant would adopt comparable investment management expense assumptions.

The fair value was calculated at an aggregate level based on availability of Solvency II inputs. The fair value was then allocated to IFRS 17 groups based on estimates of the underlying inputs at a more granular level based on consideration of the characteristics of the portfolio and output from the SCR reporting processes.

The fair value has been calibrated based on analysis of the Group's own data and market data including public information on recent transactions (to the extent relevant and available).

The Group has determined the identification of groups of contracts and classification of contracts using information available at 1 January 2022. Groups of policies valued under the fair value approach contain contracts issued more than one year apart. For contracts valued under the General Measurement Model, locked-in discount rates and financial assumptions applied after transition have been determined as at 1 January 2022.

The table below shows the locked-in discount rates for annuity business at the transition date:

	1 year	5 years	10 years	15 years	20 years	25 years	30 years
Annuities - shareholder-backed	1.850%	2.143%	2.040%	2.005%	1.971%	1.942%	1.915%
Annuities - in the With-Profits Fund	1.747%	2.039%	1.937%	1.902%	1.868%	1.839%	1.812%

The tables below show selected sensitivities of the fair value to the assumed parameters:

Sensitivity of the fair value of with-profits business to the compensation required in relation to shareholder transfers

	Parameter	Fair value £m	Impact on fair value £m
Base	20%	42,130	N/A
Sensitivity	25%	42,233	103

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 17 Insurance Contracts (continued)

Sensitivity of the fair value to the cost of capital rate

		With-profits contracts		Annuity contracts	
	Parameter	Fair value £m	Impact on fair value £m	Fair value £m	Impact on fair value £m
Base	7%	42,130	N/A	28,670	N/A
Sensitivity	6%	42,123	(7)	28,379	(291)
Sensitivity	8%	42,135	5	28,922	252

Fulfilment cash flows

The fulfilment cash flows at 1 January 2022 under all transition approaches have been measured in accordance with the accounting policies set out in Note 1.5. For this purpose the key assumptions are set out below.

The risk-free yield curve for with-profits and annuity contracts is shown in the table below:

Risk-free yield curve (excluding illiquidity premium)

	1 year	5 years	10 years	15 years	20 years
As at 1 January 2022	0.76%	1.05%	0.95%	0.91%	0.88%

For with-profits contracts, future investment return assumptions and discount rates (using a bottom-up approach) are set at the above risk-free yield curve plus an illiquidity premium of 34 bps.

For annuity contracts, discount rates (using a top-down approach) are set at the above risk-free yield curve plus an illiquidity premium of 109 bps for shareholder-backed annuities and 99 bps for annuities in the With-Profits Fund.

The longevity assumptions for annuity contracts are consistent with the best estimate basis used for the Group's Solvency II reporting, as disclosed in the Group Solvency and Financial Condition Report as at 31 December 2021.

Comparison with IFRS 4

The timing of profit recognition changed significantly under IFRS 17. Under IFRS 4 profits are recognised as follows:

- For with-profits contracts that share in the profit arising in the main With-Profits Fund, profits are recognised when bonuses are added to policies. As a substantial proportion of the total bonus is determined when claims are paid to policyholders, a considerable part of the profit is recognised when policies terminate.
- For non-profit contracts (notably annuities) a substantial proportion of the lifetime expected profit is recognised at policy inception, reflecting the difference between the premiums received less costs incurred and the prudent liability established for the expected future cash flows.

In contrast, IFRS 17 does not allow upfront profit recognition for profitable contracts but rather requires that profit is recognised as services are provided to the policyholders.

Other differences in the measurement of the liabilities include:

- IFRS 17 requires that the discount rates include an illiquidity premium. The IFRS 4 discount rates for with-profits contracts in particular do not include an illiquidity premium. For annuity contracts, the IFRS 4 discount rates are similar to IFRS 17.
- IFRS 4 liabilities for non-profit contracts are determined using implicit prudent margins in the demographic and expense assumptions. In contrast, IFRS 17 requires a separate risk adjustment for non-financial risks which may differ from the value of the IFRS 4 margins.
- Under IFRS 4, the unallocated surplus of the With-Profits Fund represented the excess of the fund's assets over policyholder liabilities that is yet to be appropriated between policyholders and shareholders with no allocation to equity. There is no unallocated surplus under IFRS 17 although IFRS 17 requires a liability to be held for the policyholders' share of the surplus assets in the With-Profits Fund. Under IFRS 17 there is equity for the first time relating to the With-Profits Fund.

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 17 Insurance Contracts (continued)

Comparison with IFRS 4 (continued)

Driver	Description	£m
	Total equity as previously reported	**5,345**
Liability remeasurement	Includes impact of: – Removing the prudent margins required under IFRS 4 for annuity liabilities (primarily for demographic and expenses assumptions); and – Different basis for determining discount rate for both annuity and with-profit liabilities.	1,334
Value of shareholder transfers	Under IFRS 17 the present value of all future shareholder transfers are allowed for in the Variable Fee (broadly the entity's expected future profit) and so the unearned share of the shareholder transfers is included in the CSM.	3,954
CSM	Introduction of CSM which represents unearned profit on insurance contracts and investment contracts with DPF which will be released over the life of the contract in line with the provision of service.	(4,400)
Risk adjustment	Introduction of risk adjustment which represents compensation for non-financial risk and replaces the IFRS 4 prudent margins.	(487)
Shareholder interest in excess assets in the With-Profits Fund	As a consequence of applying the mutualisation requirements of IFRS 17, a portion of the with-profits estate is allocated to shareholders. Under IFRS 4, this was included within the unallocated surplus of the With-Profits Fund.	1,687
Tax and other	Impact of change in deferred tax and other minor effects.	(169)
	Remeasurement of equity attributable to equity holders on adoption.	1,919
	Total equity as restated	**7,264**

IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Group elected, under the amendments to IFRS 4 to apply the temporary exemption from IFRS 9, deferring the initial application date of IFRS 9 to align with the initial application of IFRS 17.

The Company has applied IFRS 9 retrospectively and restated comparative information for the year ended 31 December 2022 for financial instruments in the scope of IFRS 9. Differences arising from the adoption of IFRS 9 have been recognised in retained earnings as at 1 January 2022 and presented in the consolidated statement of changes in equity and have been disclosed in below.

The nature of the changes in accounting policies can be summarised as follows:

(i) Classification of financial assets and financial liabilities

IFRS 9 includes three classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. It eliminates the previous categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets applied by IAS 39.

IFRS 9 has not had a significant effect on the Group's financial instruments classification as the majority were already measured at FVTPL. The Group does not hold any assets measured at FVOCI.

(ii) Impairment of financial assets

IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model for recording impairment. The new impairment model applies to financial assets measured at amortised cost and contract assets under IFRS 15. The ECL model results in earlier recognition of impairment as compared to the previous model which required objective evidence of impairment to exist before any impairment was recorded.

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- The comparative period has been restated adopting the overlay approach.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2023:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- If a financial asset had low credit risk at 1 January 2023, then the Group determined that the credit risk on the asset had not increased significantly since initial recognition.

The adoption of IFRS 9 has not had a material impact on the Group's basic or diluted EPS for the years ended 31 December 2023 and 2022.

Details of the changes and implications resulting from the adoption of IFRS 9 are presented below.

(iv) Effect of initial application

Classification of financial assets and financial liabilities

The following table and the accompanying notes below explain the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2023.

	As at 31 December 2022	As at 1 January 2023	As at 31 December 2022	**As at 1 January 2023**
	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39[i]	**New carrying amount under IFRS 9**
			£m	**£m**
Financial assets				
Equity securities and pooled investment funds	FVTPL designated	FVTPL mandatory	70,127	**70,127**
Loans	Loans and receivables	FVTPL mandatory	2,114	**2,018**
Loans	FVTPL designated	FVTPL mandatory	1,216	**1,216**
Debt securities	FVTPL designated	FVTPL mandatory	62,821	**62,821**
Derivative assets	FVTPL held for trading	FVTPL mandatory	2,850	**2,850**
Deposits	Amortised cost	Amortised cost	21,401	**21,399**
Accrued investment income and other debtors	Loans and receivables	Amortised cost	2,408	**2,404**
Cash and cash equivalents	Loans and receivables	Amortised cost	4,884	**4,884**
Total financial assets			167,821	**167,719**

	As at 31 December 2022	As at 1 January 2023	As at 31 December 2022	**As at 1 January 2023**
	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39[i]	**New carrying amount under IFRS 9**
			£m	**£m**
Financial liabilities				
Investment contract liabilities without DPF	FVTPL designated	FVTPL designated	11,937	**11,937**
Third party interest in consolidated funds	FVTPL designated	FVTPL designated	10,389	**10,389**
Subordinated liabilities and other borrowings	Amortised cost	Amortised cost	7,537	**7,537**
Derivative liabilities	FVTPL held for trading	FVTPL mandatory	4,185	**4,185**
Other financial liabilities	Amortised cost	Amortised cost	2,172	**2,172**
Accruals, deferred income and other liabilities	FVTPL designated	FVTPL designated	246	**246**
Accruals, deferred income and other liabilities	Amortised cost	Amortised cost	6,522	**6,522**
Total financial liabilities			42,988	**42,988**

i Original carrying value differs from that published in the Annual Report and Accounts for the year ended 31 December 2022 following reclassifications.

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

Classification of financial assets and financial liabilities (continued)

The Group accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 1.5. The application of the revised Group accounting policies resulted in the reclassifications set out in the table above and explained below.

- As at 31 December 2022, Loans of £2,114m which have previously been classified as loans and receivables are managed on a fair value basis and are, therefore, measured at FVTPL on the basis of the business model for managing loans under IFRS 9.

The application of IFRS 9 did not have a material impact on the classification and measurement of financial liabilities.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2023.

	31 December 2022 IAS 39 £m	Reclassification £m	Remeasurement £m	1 January 2023 IFRS 9 £m
FVTPL				
Equity securities and pooled investment funds	70,127	—	—	70,127
Loans	1,216	2,114	(96)	3,234
Debt securities	62,821	—	—	62,821
Derivative assets - net of derivative liabilities	(1,335)	—	—	(1,335)
Total FVTPL	132,829	2,114	(96)	134,847

	31 December 2022 IAS 39 £m	Reclassification £m	Remeasurement £m	1 January 2023 IFRS 9 £m
Amortised cost				
Loans	2,114	(2,114)	—	—
Deposits	21,401	—	(2)	21,399
Accrued investment income and other debtors	2,408	—	(4)	2,404
Cash and cash equivalents	4,884	—	—	4,884
Total amortised cost	30,807	(2,114)	(6)	28,687

As at 1 January 2023 the transition to IFRS 9 did not result in reclassification or remeasurement of the carrying amounts of financial liabilities.

Impairment of financial assets

The following table reconciles the closing impairment allowance under IAS 39 as at 31 December 2022 with the opening ECLs under IFRS 9 as at 1 January 2023.

	Impairment allowance under IAS 39 as at 31 December 2022 £m	Remeasurement £m	ECLs under IFRS 9 as at 1 January 2023 £m
Loans	30	(30)	—
Deposits	—	2	2
Accrued investment income and other debtors	37	4	41
Cash and cash equivalents	—	—	—
Total impairment allowances /ECLs	67	(24)	43

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

IFRS 7 includes disclosure requirements at the date of initial application of IFRS 9 (1 January 2023). As the Group has restated comparative balances effective 1 January 2022, the following additional tables have been included to provide the user with additional information about the transition to IFRS 9 and the adjustments to opening balances of retained earnings as at 1 January 2022, in conjunction with the effects of the transition to IFRS 17 on that date.

The table below and accompanying notes compare the original measurement categories and carrying amounts under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities on transition to IFRS 9 on 1 January 2022:

	As at 31 December 2021	As at 1 January 2022	As at 31 December 2021	As at 1 January 2022
	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39[i]	New carrying amount under IFRS 9
			£m	£m
Financial assets				
Equity securities and pooled investment funds	FVTPL designated	FVTPL mandatory	74,069	74,069
Loans	Loans and receivables	FVTPL mandatory	2,534	2,605
Loans	FVTPL designated	FVTPL mandatory	3,275	3,275
Debt securities	FVTPL designated	FVTPL mandatory	81,059	81,059
Derivative assets	FVTPL held for trading	FVTPL mandatory	3,373	3,373
Deposits	Loans and receivables	Amortised cost	17,633	17,632
Accrued investment income and other debtors	Loans and receivables	Amortised cost	2,837	2,833
Cash and cash equivalents	Loans and receivables	Amortised cost	6,908	6,908
Total financial assets			191,688	191,754

	As at 31 December 2021	As at 1 January 2022	As at 31 December 2021	As at 1 January 2022
	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39[i]	New carrying amount under IFRS 9
			£m	£m
Financial liabilities				
Investment contract liabilities without DPF	FVTPL designated	FVTPL designated	14,884	14,884
Third party interest in consolidated funds	FVTPL designated	FVTPL designated	12,636	12,636
Subordinated liabilities and other borrowings	FVTPL designated	FVTPL designated	1,159	1,159
Subordinated liabilities and other borrowings	Amortised cost	Amortised cost	7,771	7,771
Derivative liabilities	FVTPL held for trading	FVTPL mandatory	2,689	2,689
Other financial liabilities	Amortised cost	Amortised cost	2,882	2,882
Accruals, deferred income and other liabilities	FVTPL designated	FVTPL designated	403	403
Accruals, deferred income and other liabilities	Amortised cost	Amortised cost	5,661	5,661
Total financial liabilities			48,085	48,085

i Original carrying value differs from that published in the Annual Report and Accounts for the year ended 31 December 2021 following reclassifications.

The tables above and below explain the reclassifications of assets and liabilities on application of the revised Group accounting policies for classification of financial instruments under IFRS 9 set out in Note 1.5.

As at 31 December 2021, Loans of £2,534m which have previously been classified as loans and receivables under IAS 39, are managed on a fair value basis and are, therefore, measured at FVTPL on the basis of business model for managing loans under IFRS 9.

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2022.

	31 December 2021 IAS 39 £m	Reclassification £m	Remeasurement £m	1 January 2022 IFRS 9 £m
FVTPL				
Equity securities and pooled investment funds	74,069	—	—	74,069
Loans	3,275	2,534	71	5,880
Debt securities	81,059	—	—	81,059
Derivative assets - net of derivative liabilities	684	—	—	684
Total FVTPL	159,087	2,534	71	161,692

	31 December 2021 IAS 39 £m	Reclassification £m	Remeasurement £m	1 January 2022 IFRS 9 £m
Amortised cost				
Loans	2,534	(2,534)	—	—
Deposits	17,633	—	(1)	17,632
Accrued investment income and other debtors	2,837	—	(4)	2,833
Cash and cash equivalents	6,908	—	—	6,908
Total amortised cost	29,912	(2,534)	(5)	27,373

As at 1 January 2022 the transition to IFRS 9 did not result in reclassification or remeasurement of the carrying amounts of financial liabilities.

Impairment of financial assets

The following table reconciles the closing impairment allowance under IAS 39 as at 31 December 2021 with the opening ECLs under IFRS 9 as at 1 January 2022.

	Impairment allowance under IAS 39 as at 31 December 2021 £m	Remeasurement £m	ECLs under IFRS 9 as at 1 January 2022 £m
Loans	18	(18)	—
Deposits	—	1	1
Accrued investment income and other debtors	77	4	81
Cash and cash equivalents	—		—
Total impairment allowances/ECLs	95	(13)	82

1 Basis of preparation and material accounting policies (continued)

1.2 New accounting pronouncements (continued)

1.2.1 New accounting pronouncements adopted by the Group (continued)

Transition to IFRS 9 and IFRS 17

The key impact on main financial statement lines in the Group's consolidated statement of financial position on transition to IFRS 9 and IFRS 17 is presented below:

Financial statement line item	31 December 2021 as previously reported £m	Reclassification due to adoption of IFRS 9 and IFRS 17 £m	Remeasurement due to adoption of IFRS 9 and IFRS 17 £m	1 January 2022 restated £m
IFRS 9				
Equity securities and pooled investment funds	74,069	—	—	74,069
Loans	5,809	—	71	5,880
Debt securities	81,059	—	—	81,059
Derivative assets - net of derivative liabilities	684	—	—	684
Cash and cash equivalents	6,908	—	—	6,908
IFRS 17				
Reinsurance contract assets	1,669	—	46	1,715
Reinsurance contract liabilities	—	—	(546)	(546)
Insurance contract assets	—	—	28	28
Insurance contract liabilities	(63,223)	(99,466)	1,868	(160,821)
Investment contract liabilities with DPF	(82,743)	82,743	—	—
Investment contract liabilities without DPF	(14,884)	—	—	(14,884)
IFRS 9 and IFRS 17				
Accrued investment income and other debtors	2,647	—	186	2,833
Unallocated surplus of the With-Profits Fund	(16,723)	16,723	—	—
Accruals, deferred income and other liabilities	(6,666)	—	153	(6,513)
Other	16,739	—	113	16,852
Total equity	5,345	—	1,919	7,264

Other accounting announcements adopted by the Group

The Group has also adopted the following standards, interpretations and amendments which became effective from 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1), issued in March 2022;
- Definition of Accounting Estimates (Amendments to IAS 8), issued in March 2022;
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12), issued in August 2022; and
- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12), issued in May 2023.

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

1.2.2 New accounting pronouncements not yet effective

In addition to the above, the following new accounting pronouncements have also been issued but are not yet effective or have not yet been adopted for use in the UK:

- Classification of Liabilities as Current or Non-current (Amendments to IFRS 1), issued in January 2020 and effective from 1 January 2024;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – (Amendments to IFRS 10 and IAS 28), issued in December 2015 and effective date pending completion of the research project on equity method accounting;
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), issued in September 2022 and effective from 1 January 2024;
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7), issued in May 2023 and effective from 1 January 2024; and
- Lack of exchangeability (Amendments to IAS 21), issued in August 2023 and effective from 1 January 2025.

The Group has assessed the impact of these pronouncements on the consolidated financial statements, none of which are expected to have a material impact on the Group.

1 Basis of preparation and material accounting policies (continued)

1.3 Judgements in applying accounting policies and sources of estimation uncertainty

A full list of the Group's material accounting policies is provided in Note 1.5. The accounting policies adopted by the Group have not changed materially from those applied in the Group's Annual Report and Accounts for the year ended 31 December 2022, the exceptions being those arising from the application of IFRS 17 and IFRS 9. In applying these accounting policies, the Group has made a number of key judgements which have a significant effect on the amounts recognised in the consolidated financial statements. The impact of climate change has been considered when preparing these consolidated financial statements, particularly in the context of our TCFD disclosures included on pages 69 to 90. Many of the effects arising from climate change are long term in nature, with an inherent degree of uncertainty associated. These have been assessed as having no material impact on the carrying value of assets and liabilities within the next financial year.

The following table sets out the basis of these judgements, and references the associated accounting policy and related note which both give further detail on the specific application.

Financial statement area	Key judgement	Accounting policy	Note
Consolidation of structured entities	IFRS 10 requires entities that the Group controls to be consolidated in the consolidated financial statements. Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Due to the nature of structured entities, judgement is required to determine whether the Group controls and therefore consolidates structured entities. Judgement is also required where certain seed capital investments in structured entities are classified as held for sale investments, and therefore not consolidated on a line-by-line basis.	1.5.1	30
Classification of insurance and investment contracts	IFRS 17 requires that contracts that transfer significant insurance risk are accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk, unless a specific scope exception applies (eg equity release mortgages). Judgement is also required in the case of certain investment contracts which provide an additional benefit in addition to guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features, and therefore accounted for under IFRS 17.	1.5.2	24
Contractual Service Margin measurement model	IFRS 17 requires an assessment of whether contracts meet the conditions for having direct participation features and when this is the case such contracts must use the Variable Fee Approach to measure the CSM. For with-profit and unit-linked contracts, judgement is required to assess whether the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and whether the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The assessment is carried out at the contract level and judgement is also applied to determine the extent to which mutualisation between contracts is allowed for.	1.5.2	24
Underlying items	Underlying items are items that determine some of the amounts payable to a policyholder as part of their with-profit or unit-linked contract and therefore are a component of the insurance contract or investment contracts with DPF liabilities. Judgement is required to define underlying items for with-profits contracts that reflect the mutualisation between contracts and how to split underlying items between current and future policyholders.	1.5.2	24

1 Basis of preparation and material accounting policies (continued)

1.3 Judgements in applying accounting policies and sources of estimation uncertainty (continued)

Financial statement area	Key judgement	Accounting policy	Note
Division of surplus relating to the With-Profits Fund	Judgement is required to determine the amount of surplus that should be divided between current and future with-profits policyholders as well as with the Group and the amount of surplus attributable solely to the Group.	1.5.2	24
Provision of insurance contract services	The amount of CSM recognised in profit or loss in each reporting period is determined by reference to coverage units, which represent the insurance contract services provided in that period. Judgement is required to define the services provided, and the relative weighting if these include both insurance and investment services.	1.5.2	24

The following table sets out the basis of the judgements made specifically for the measurement of the consolidated statement of financial position at the IFRS 17 transition date of 1 January 2022. Further detail on specific application can be found in Note 1.2.1.

Financial statement area	Key judgement
Method of transition approach	Judgement was required to assess for which contracts it would be impracticable to apply the Fully Retrospective Approach (FRA).

1.4 Sources of estimation uncertainty

The preparation of these consolidated financial statements requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. These estimates and assumptions have not changed materially from those applied for the 2022 year end financial statements, except for the measurement of insurance contracts on the application of IFRS 17.

The following table sets out the assumptions and estimates which have a significant risk of resulting in a material adjustment to their carrying value within the next financial year. Details of the nature of the estimate is provided in the related accounting policy and details of the assumptions applied at the statement of financial position date are provided in the related note.

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Insurance contract liabilities	When measuring the insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The areas where the assumptions could have a material impact are: – for with-profits contracts, the assumed future investment returns on the backing assets, the assumptions used in determining the allowance for persistency and maintenance expenses, the policyholders' share of historic and future surpluses, and the illiquidity premium in setting the discount rate; and – for annuity contracts, the assumed rates of policyholder mortality, maintenance expenses, and the selection of the reference portfolio and allowance for credit risk in setting the discount rate. In addition, when measuring the insurance contract liabilities, a risk adjustment is included. The assessment of the risk adjustment requires assumptions about the compensation that the Group requires for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk, the most significant of which is the assumed rates of the policyholder mortality for annuity contracts.	1.5.2	24, 32

1 Basis of preparation and material accounting policies (continued)

1.4 Sources of estimation uncertainty (continued)

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Assets classified as level 3 under the fair value hierarchy	Determination of fair value of financial assets classified as level 3 in the fair value hierarchy involves the use of inputs which are not observable in the market and hence require a high degree of estimation which could result in a significant change in the valuation. This includes the determination of the spread above risk free rate applied to value residential ground rents that are impacted by the recent UK Government consultation which potentially restricts future income on these assets.	1.5.5, 1.5.12	18, 31
Determination of recoverable amount of goodwill	Goodwill is assessed for impairment at least on an annual basis by comparing the recoverable amount of each cash-generating unit or group of cash-generating units to which goodwill has been allocated with its carrying value. Recoverable amount is defined as the higher of fair value less costs to sell and the value in use where the value in use is based on the present value of future cash flows. The determination of the value in use requires the use of various assumptions around future cash flows, future growth rates and appropriate discount rates based on the risks associated with the cash-generating-unit or group of cash-generating units which can have a material impact on the calculation.	1.5.15	13
Defined benefit pension liability	The defined benefit pension scheme liability is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long-term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	1.5.13	17
Recognition of deferred tax asset	IAS 12 requires deferred tax assets to be recognised to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. Judgement is required to determine the extent to which future taxable profits emerge and the corresponding period over which unused tax credits and unused tax losses will be utilised.	1.5.14	10.2

The following table sets out the significant assumptions and estimates made specifically for the measurement of the consolidated statement of financial position at the IFRS 17 transition date of 1 January 2022. Further detail on the specific application can be found in Note 1.2.1.

Financial statement asset or liability	Key estimate and assumptions
Insurance contract liabilities - Estimation of fair value	When determining fair values, a number of assumptions are applied to estimate a market participant's view of the best estimate of the liability and the compensation required for taking on the obligation. The areas where the assumptions could have a material impact are: – the target capital and cost of capital rate; – for with-profits contracts, the assumed future investment returns on the backing assets, the assumptions used in determining the allowance for persistency and maintenance expenses, the level of compensation required to reflect the risk in relation to future shareholder transfers, and the discount rates used; and – for annuity contracts, the assumed rates of policyholder mortality, maintenance expenses, and the discount rates used.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies

1.5.1 Basis of consolidation

The Group has control over an investee if all three of the following conditions are met: (i) it has power over an investee; (ii) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (iii) it has the ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. Where the Group is deemed to control an entity, the entity is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity but does not have control, joint control or significant influence over the entity, the investments are carried at FVTPL within financial investments in the consolidated statement of financial position.

The Group performs a reassessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In these arrangements, the Group's share of the underlying net assets may be lower or higher than 50% but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party, for example, where significant decisions required unanimous approval of all parties, or where all parties have equal voting rights.

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it holds between 20% and 50% of the voting rights of the entity.

Investments in associates and joint ventures held by the Group's insurance or investment funds, including venture capital businesses, mutual funds and unit trusts, are accounted for at FVTPL. All other investments in joint ventures and associates are accounted for using the equity method of accounting. Under the equity method, the Group's share of profit or loss of its joint ventures and associates is recognised in the consolidated income statement and its share of movements in other comprehensive income are recognised in other comprehensive income.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Collective investment vehicles including Open-Ended Investment Companies (OEICs), Authorised Contractual Schemes (ACSs) and Luxembourg-domiciled Sociétés d'Investissement à Capital Variable (SICAVs)
- Limited partnerships
- Collateralised debt obligations
- Mortgage-backed securities
- Similar asset-backed securities.

Collective investment vehicles

The Group invests in OEICs, ACSs, SICAVs and unit trusts, which invest mainly in equities, bonds, cash and cash equivalents, and properties.

The assessment of control over OEICs, ACSs, SICAVs and unit trusts requires judgement. In assessing control, the Group determines whether it is acting as principal or agent. This includes an assessment of the scope of its decision-making authority, including rights held by third parties, which may provide these parties substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power.

In addition, the assessment considers the aggregate economic interest of the Group, which includes both direct holding and expected management fees if the fund manager is a Group company, however, management fees in most cases forms an immaterial part of the aggregate economic interest of the Group.

Holdings in such investments can fluctuate on a daily basis according to the participation of the Group and other investors in them. As a result, in determining control, the Group looks at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the Group's involvement.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.1 Basis of consolidation (continued)

(iii) Structured entities (continued)

Collective investment vehicles (continued)

Consolidation assessment is performed in line with the following principles having taken into account substantial removal rights:

- where the Group manages the assets of the entity, and the aggregate of the Group's ownership holding in the entity exceeds 50%, the Group is judged to have control over the entity;
- where the Group manages the assets of the entity, and the aggregate of the Group's ownership holding in the entity is between 20% and 50%, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity;
- where the Group manages the assets of the entity, and the aggregate of the Group's ownership holding in the entity is less than 20%, the Group is judged to not have control over the entity; or
- where the assets of the entity are managed externally, an assessment is made of whether the Group has existing rights that give it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and unit trusts where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as subsidiaries and are consolidated, with the interests of investors other than entities within the Group being classified as liabilities, presented as third party interest in consolidated funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent), and they do not meet the definition of associates, they are carried at FVTPL within equity securities and pooled investment funds in the consolidated statement of financial position.

Where the Group initially sets up OEICs, ACSs, SICAVs and unit trusts as part of its operations through its investment management business, and invests the initial seed capital which results in a significant holding resulting in control of the fund, the Group assesses whether there is a formal plan in place to divest its holding to below the threshold triggering control within 12 months. In this situation, the vehicle is not consolidated, but classified as held for sale and carried at FVTPL.

Limited partnerships

The Group invests in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity.

Such interests in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities which limited partnerships are engaged in. Accounting for the limited partnerships (including underlying investees) as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the level of shareholdings in the general partners.

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle, including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements, taking into account aggregate economic interest where relevant.

(iv) Qualifying partnerships

Entities consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the 'Partnership Act'). Some of these limited partnerships have taken advantage of the exemption under regulation 7 of the Partnerships Act from the financial statements requirements. This is under regulations 4 to 6, on the basis that these limited partnerships are dealt with on a consolidated basis in these financial statements.

(v) Third party interests

Interests of parties other than the Group in entities which the Group controls are assessed to determine whether they should be classified as financial liabilities or as non-controlling interests in equity on the consolidated statement of financial position. Puttable third party interests such as units held by external investors in unit trusts are classified as financial liabilities. Third party interests in private equity vehicles set up with finite lives are also classified as financial liabilities.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts

(i) Contracts within the scope of IFRS 17

An entity must apply IFRS 17 to determine the requirements for recognition, measurement, presentation and disclosure of:

- Insurance contracts (including reinsurance contracts issued);
- Reinsurance contracts held; and
- Investment contracts with DPF issued, provided the entity also issues insurance contracts.

IFRS 17 defines insurance contracts as contracts under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Reinsurance contracts are insurance contracts issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

The Group judges that a contract transfers significant insurance risk if there is at least one scenario where the amounts that could be payable under the contract represent 10% or more than the amounts payable if the insured event does not occur.

In addition to accepting insurance risk from the insurance contracts issued, the Group is exposed to financial risk from the insurance and investment contracts it issues and reinsurance contracts it holds.

The Group's reinsurance contracts are predominantly contracts held under which risks are transferred to an external third party. The Group has one reinsurance contract under which it accepts risks from with-profits contracts issued by another insurer.

Insurance contracts can be issued and reinsurance contracts can be initiated by the Group, or they can be acquired in a business combination or in a transfer of contracts that do not form a business. All references in these accounting policies to 'insurance contracts' and 'reinsurance contracts' include contracts issued, initiated or acquired by the Group, unless otherwise stated.

Investment contracts with DPF have the legal form of insurance contracts, but do not transfer significant insurance risk and so are classified as financial instruments. Nevertheless such contracts fall within the scope of IFRS 17.

An investment contract with DPF is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:

- that are expected to be a significant portion of the total contractual benefits;
- the timing or amount of which are contractually at the discretion of the issuer; and
- that are contractually based on:
  - the returns on a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the entity or fund that issues the contract.

The Group judges that the additional discretionary benefits are significant when they are expected to be at least 5% of the total contractual benefits.

The Group's investment contracts with DPF comprise the with-profits business that do not transfer significant insurance risk. This includes investments in the PruFund range of funds available to individual investors.

Investment contracts without DPF are not accounted for under IFRS 17 but instead fall within the scope of IFRS 9. For the Group these primarily comprise unit-linked contracts that do not transfer significant insurance risk. Also within the scope of IFRS 9 are contracts issued to corporate bodies to facilitate investment in PruFund, which as a result of cancellation rights included in those contracts, are judged by the Group to not provide significant discretionary benefits.

If several insurance contracts are transacted with the same or a related counterparty and the Group assesses that the contracts are designed to achieve an overall commercial effect, the contracts are combined in order to report the substance of the transactions.

Some investment contracts issued by the Group provide policyholders with the option to invest their premiums in both unit-linked funds and with-profits funds (including access to PruFund). The Group accounts for such contracts as two separate in substance contracts enabling the investment in with-profits and PruFund to be accounted for under IFRS 17 and the investment in unit-linked funds to be accounted for under IFRS 9.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(i) Contracts within the scope of IFRS 17 (continued)

The Group has previously issued and still holds a book of equity release mortgages. These contracts contain a no negative equity guarantee which ensures that, should the policyholder pass away or move into residential care during the term of the instrument and the accrued loan value is in excess of the sale proceeds of the mortgaged property, then the policyholder's beneficiaries would not have to repay any excess. This feature has been assessed to consider whether it gives rise to insurance risk. The Group judges the equity release mortgages meet the definition of an insurance contract, but the compensation for insured events is limited to the amount otherwise required to settle the policyholder's obligation created by the contract. In this circumstance IFRS 17 permits the issuer of contracts to choose whether to account for these contracts under IFRS 17 or IFRS 9. The Group has opted to account for these contracts under IFRS 9.

(ii) Separating components

At inception, the Group must identify and separate the following components from contracts within the scope of IFRS 17 and account for the components as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and where the component issued as a standalone contract is not itself a contract that falls within the scope of IFRS 17; and
- distinct investment components other than investment components with DPF: ie investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Group must separate any promises to transfer to policyholders distinct goods or services other than insurance coverage and investment services and account for them as separate contracts with customers (ie these are accounted for under IFRS 15). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the Group provides a significant level of service by integrating the good or service with the insurance component.

The Group has assessed the contracts it has issued and no contracts were identified as containing embedded derivatives, distinct investment components or distinct goods and non-insurance services that must be separated and accounted for under other IFRS standards.

Certain contracts have been determined to contain non-distinct investment components, rights to a refund of premiums, and other non-insurance components (ie amounts payable to a policyholder that are not contingent on the occurrence of an insured event) which are not required to be separated from the host insurance contract but do require specific treatment under IFRS 17. These payments are excluded from the value of insurance revenue and insurance service expenses presented in profit and loss.

Non-distinct investment components, rights to a refund of premiums, and other non-insurance components typically arise in contracts where there is some form of surrender benefit payable at any time of the policyholder's choosing. The Group has opted as an accounting policy choice to consistently define the surrender value to be net of surrender charges or penalties when determining the amounts to exclude from insurance revenue and insurance service expenses.

(iii) Level of aggregation

Insurance contracts

Insurance contracts issued are aggregated into groups for measurement purposes. Groups of insurance contracts are first determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together.

The Group interprets that, when aggregating contracts by similar risk, all risks must be considered but 'similar risks' is not interpreted to mean 'identical risks'. The Group judges that an appropriate method is to aggregate contracts according to which of the three risk categories of protection, longevity and investment is the dominant risk which the Group is exposed to from writing the contract. These three categories have been chosen as they best represent the risks that the Group is exposed to without unnecessary granularity and subdivision.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(iii) Level of aggregation (continued)

Insurance contracts (continued)

In aggregating contracts that are managed together, the Group considers the following factors:

- the existence of a common pool of assets backing the contracts;
- the approach to risk management, for example hedging strategies or the existence of reinsurance arrangements;
- for business in a with-profits fund, the approach to risk-bearing, profit-sharing and the application of discretion;
- the source of the business, eg UK or overseas; and
- the categorisation of contracts for the segmental reporting reported in the accounts or for internal management information.

Each portfolio is divided into a minimum of:

- a group of contracts that are onerous on initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

The Group does not currently have any groups of contracts that fall into the category that on initial recognition have no significant possibility of becoming onerous subsequently.

Each of these groups must then be further subdivided, if necessary to ensure that each group does not contain contracts that have been issued more than one year apart.

For annuities, unisex pricing may be required under gender neutral pricing regulations, and may, for example, result in policies sold to females being onerous and policies sold to males being non-onerous. As the other elements of the pricing basis are identical, the difference in onerousness is solely due to the legal constraint. IFRS 17 permits such contracts to be included in the same group.

Reinsurance contracts held

Reinsurance contracts held are similarly aggregated into groups for measurement purposes by first identifying portfolios. However, rather than dividing the portfolios into three groups based on profitability, the contracts are grouped according to whether or not there is net gain at initial recognition for a group, that is into a minimum of:

- a group of contracts for which there is a net gain on initial recognition, if any;
- a group of contracts for which, on initial recognition, there is no significant possibility of there being a net gain subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

As for groups of contracts issued, no group may contain contracts that have been issued more than one year apart and so the groups must be further subdivided to meet this requirement as necessary.

The Group does not currently have any groups of contracts that fall into the category of, on initial recognition, having no significant possibility of there being a net gain subsequently.

Some reinsurance contracts provide cover for underlying contracts that are included in different groups. However, the Group concludes that the reinsurance contract's legal form of a single contract reflects the substance of the Group's contractual rights and obligations, considering that the different covers lapse together and are not sold separately. As a result, the reinsurance contract is not separated into multiple insurance components that relate to different underlying groups.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(iv) Recognition

A group of contracts issued by the Group is recognised from the earliest of:

- the beginning of the coverage period of the group (ie the period during which the Group provides services in respect of any premiums within the boundaries of the contracts);
- when the first payment from a policyholder in the group becomes due or, if there is no contractual due date, when it is received from a policyholder; and
- for a group of onerous contracts, when the group becomes onerous.

The Group is required to determine whether any contracts form a group of onerous contracts before the earlier of the first two dates above if facts and circumstances indicate there is such a group.

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

The recognition date of an investment contract with DPF is the date that the entity becomes party to the contract.

A group of reinsurance contracts held is recognised from the earlier of the following:

- the beginning of the coverage period of the group of reinsurance contracts held; and
- the date the Group recognises an onerous group of underlying insurance contracts, if the Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

For groups of reinsurance contracts held that provide proportionate coverage, which for the Group consists of quota share reinsurance contracts, recognition is delayed until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

Reinsurance contracts that are acquired are recognised from the date of acquisition.

(v) Onerous groups of contracts

The Group considers the following factors to identify if a group of contracts is onerous:

- the Group's pricing frameworks;
- profit testing results; and
- calculations for individual contracts.

(vi) Contract boundary

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows:

Insurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The reassessment of risks considers only risks transferred from policyholders to the Group, which may include both insurance and financial risks, but exclude lapse and expense risks.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vi) Contract boundary (continued)

Investment contracts with DPF

Cash flows are within the contract boundary of an investment contract with DPF if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

Reinsurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

In assessing contract boundaries for insurance, investment with DPF and reinsurance contracts the Group makes the following judgements:

Granularity of contract boundary assessment

The contract boundary is assessed at an individual contract level.

Practical ability to set a price or level of benefits that fully reflect the risks

Only policyholder risks (the insurance and financial risks that the insurance contract transfers from the policyholder to the Group) are considered when assessing the Group's ability to set a price or level of benefits that fully reflects the risks. Individual components of a single insurance contract are assessed separately, and the full insurance contract is subject to the same single boundary which is the longest of the individual components.

The Group considers the practical ability to set a price or level of benefits that fully reflects the risks only exists where the Group is not prevented from setting the same price it would for a new contract with the same characteristics. In addition to the constraints that apply in relation to new business, constraints on the Group's ability to set a price or level of benefits that fully reflects the risks also include wider market competitiveness and commercial considerations and contractual, legal or regulatory restrictions.

The constraints must have commercial substance to bind the Group, where commercial substance is defined as having a 'discernible effect on the economics of the transaction'.

Right to terminate the contract

Policyholder behaviour is not relevant in assessing whether a contract binds the Group. The Group includes, within the fulfilment cash flows, the probability-weighted expectation of contract terminations, including allowance for policyholder behaviour.

Adding insurance coverage

Where there is an option to add insurance coverage to the same contract at a future date, then the cash flows arising from the option will only fall outside the contract boundary if the Group has the practical ability to fully reassess the risks for the entire contract (including the option) at the point the option is exercised.

Frequency of assessment

The assessment of the contract boundary is performed and reassessed to include the effect of changes in circumstances on the entity's substantive rights and obligations.

Treatment of non-contractual premium top-ups for accumulating with-profits and PruFund range of funds

The Group judges that, on initial recognition of an accumulating with-profits contract or PruFund range of funds contract, it has no substantive right to any profits associated with future non-contractual premiums and no substantive obligations. Therefore future non-contractual premiums are considered to be outside the contract boundary of the original contract. Non-contractual top-up premiums for these contracts are recognised from the date of payment and are reported as new business in the year of payment.

(vii) Measurement

Insurance contracts – initial measurement

On initial recognition, the Group measures a group of insurance contracts as the total of:

- the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and
- the CSM.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vii) Measurement (continued)

Estimates of future cash flows

The estimated future cash flows are an explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts. For most contracts the cash inflows and outflows primarily consist of premiums, claims and costs relating to the fulfilment of the contracts.

The With-Profits Fund contains surplus assets that have accumulated from a number of sources over a long period. Surpluses may continue to arise, for example if the amounts charged to policies exceed the costs they are intended to cover. These surpluses accrue to the With-Profits Fund and can be utilised to meet deficits arising on other with-profits contracts or to enhance the benefits payable to current or future policyholders. The expression 'mutualisation' is used to refer to the feature whereby the cash flows of some contracts may affect or be affected by the cash flows of other contracts.

This feature of the With-Profits Fund is recognised under IFRS 17 through:

- Adjustments to the estimated future cash flows of each with-profits group of insurance contracts to reflect the policyholders' share of the future surpluses/deficits that are expected to emerge from that group of insurance contracts.
- A liability that is separate to the liabilities for the groups of insurance contracts that reflects the additional amounts expected to be paid to current or future policyholders (in accordance with paragraph B71 of IFRS 17).

Estimating the policyholders' share of the surplus assets is an area requiring significant judgement.

IFRS 17 requires that only costs that are directly attributable to fulfilling the insurance contracts are included in the cash flows. Management considers that the majority of the expenses incurred in relation to contracts within the scope of IFRS 17 meet this requirement. Examples of costs that would typically be excluded are those relating to corporate restructuring, brand marketing, and regulatory failings.

IFRS 17 requires that cash flows within the contract boundary include costs that the entity will incur in providing an investment activity to enhance benefits for the policyholder. The Group's interpretation is that the Investment Management Expenses (IMEs) incurred on assets backing the fulfilment cash flows are included in the fulfilment cash flows for the majority of business, with the exception of non-profit protection contracts. This is on the basis of the effect of the Group's investment activities and expected investment returns on the benefits payable, even if the benefits are contractually fixed at inception (as for annuity contracts). If the Group were to invest the premiums received for annuity contracts in less risky asset classes, a lower level of benefits would then be offered for the same premiums. Therefore, the benefits to the policyholder if an insured event occurs are enhanced by the investment activities performed, and so the associated expenses are included within the fulfilment cash flows.

Where there are cash flows between different components of the reporting entity (such as policyholder funds and shareholder funds) IFRS 17 requires that these are not included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract, provided these cash flows do not change the amount that will be paid to the policyholders.

The Group's interpretation is that expenses will reflect the costs incurred by the Group, which may differ from the internal charges to companies within the Group.

The cash flows of a group of insurance contracts do not reflect the Group's non-performance risk.

Discount rates

Cash flows are discounted using risk-free yield curves adjusted to reflect the liquidity characteristics of the contracts.

The Group determines the adjustment for illiquidity using either a top-down or a bottom-up approach.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vii) Measurement (continued)

Discount rates (continued)

Under the top-down approach a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets is adjusted to eliminate any factors that are not relevant to the insurance contracts, such as cash flow mismatching and credit risk. There is no requirement to adjust the yield curve for differences in the liquidity characteristics of the insurance contracts and the reference portfolio. Judgement is required to choose an appropriate reference portfolio and to determine the element of the yield on the portfolio that is attributable to factors not relevant to the insurance contracts.

Under the bottom-up approach a liquid risk-free yield curve is increased to reflect the differences between the liquidity characteristics of the financial instruments that underlie the risk-free rates observed in the market and the liquidity characteristics of the insurance contracts. Judgement is required to determine the illiquidity premium.

The Group applies the top-down approach for non-profit annuity contracts and the bottom-up approach for all other contracts, including with-profits.

The reference portfolios chosen for non-profit annuities are the Assigned Portfolios used for the Solvency II Matching Adjustment. These are considered to be suitable as reference portfolios for IFRS 17 reporting because their objective is to closely match the liability cash flows and there is strong governance around their management.

The largest adjustment made to reference portfolio yield is in relation to credit risk. IFRS 17 is not prescriptive as to how the adjustment for credit risk is determined other than that it should reflect market risk premiums for credit risk. The Group continues to calculate the credit risk adjustment using the same approach previously used for IFRS 4 reporting. This methodology is considered appropriate for IFRS 17 reporting as it incorporates allowances for expected and unexpected credit events, including internal and external views on the outlook for credit risk, and considers the relationship between credit risk and yield spreads.

For with-profits contracts the illiquidity premium is derived from a portfolio of fixed interest assets, comprising highly liquid government bonds and less liquid corporate bonds, that have similar characteristics and duration to the liabilities. The illiquidity premium for this portfolio is determined as the spread over risk-free rates less an allowance for credit risk. A weighting is then applied to this premium to reflect the relative liquidity characteristics of the with-profits contracts.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation that the Group requires for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk, such as insurance risk, expense risk and lapse risk.

For all lines of business, the Group uses a confidence level technique under which the target confidence level is determined by consideration of the Group's pricing framework for insurance contracts issued and the prices at which the Group has previously transacted reinsurance contracts held. The target confidence level is translated into product-specific non-financial assumptions by reference to the Group's view of the likely risk distributions of non-financial risk events, which have a time horizon of one year. The risk adjustment for non-financial risk is determined as the increase in the discounted value of the future cash flows from using these assumptions instead of unbiased non-financial assumptions.

There is significant overlap in the risks considered between IFRS 17 and Solvency II reporting. The IFRS 17 risk adjustment does not include financial risks or non-financial risks that do not arise from insurance contracts.

The risk adjustment reflects the impact of diversification of non-financial risks within each entity in the Group but not diversification of risks between entities. The risk adjustment is calculated separately gross of reinsurance and for reinsurance contracts held. For reinsurance contracts held, the risk adjustment represents the amount of risk being transferred by the Group to the reinsurer. The same approach is used to determine the risk adjustment, ie as the difference in the discounted value of future cash flows between using best estimate assumptions and assumptions calibrated to the required confidence level.

CSM

The CSM of a group of insurance contracts represents the unearned profit that the Group will recognise as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of (a) the fulfilment cash flows, (b) any cash flows arising at that date and (c) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group is a net inflow, then the group is not onerous. In this case, the CSM is measured as the value of the net inflow, which results in no income or expenses arising on initial recognition.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vii) Measurement (continued)

CSM (continued)

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in profit or loss, or as an adjustment to goodwill or a gain on a bargain purchase if the contracts are acquired in a business combination. A loss component is created to depict the amount of the net outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

Insurance contracts – subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

The method for calculating the CSM for a group of contracts subsequent to initial recognition of the group depends on whether the group consists of contracts that are with or without direct participation features.

A contract within the scope of IFRS 17 is considered to have direct participation features (ie required to be measured applying the Variable Fee Approach) if at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Conversely all contracts that do not meet the definition of being with direct participation features at inception are contracts without direct participation features.

Contracts must be individually assessed to determine whether they are with direct participation features and once classified they are not reassessed unless the contract is modified.

Where contracts are subject to mutualisation, criteria (b) and (c) are assessed allowing for the impact of mutualisation.

The Group's contracts with direct participation features comprise all of the with-profits business and unit-linked contracts accounted for under IFRS 17.

All of the Group's other business that is within the scope of IFRS 17 are contracts without direct participation features. In particular IFRS 17 prescribes that reinsurance contracts, held or issued, can only be contracts without direct participation features.

Underlying items

The underlying items are items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items, for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

For in-force with-profits contracts the Group defines the underlying items to be the assets backing asset shares (which are the accumulated value of all items of income and outgo) and, where applicable, the assets backing the amounts expected to be added to asset shares in the future, for example to reflect miscellaneous surplus that has arisen (such as from some non-profit business written in the With-Profits Fund).

A liability, that is separate to the liabilities for the in-force with-profits contracts (in accordance with paragraph B71 of IFRS 17), is held in the With-Profits Fund that reflects the additional amounts expected to be paid to current or future policyholders. The Group defines the underlying items for these benefits to be:

- the entirety of the assets in the With-Profits Fund;
- less: the underlying items of the in-force with-profits contracts;
- less: the assets held to meet other liabilities of the With-Profits Fund, for example for non-profit contracts.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vii) Measurement (continued)

Underlying items (continued)

For unit-linked contracts the Group defines the underlying items to be the assets backing the units allocated to all contracts in the unit of account (the 'unit fund'). For contracts where actuarial funding is used the underlying items are defined as the funded value of units, that is the face value of units multiplied by the actuarial funding factor.

Insurance contracts without direct participation features

For insurance contracts without direct participation features, the carrying amount of the CSM subsequent to initial recognition is calculated using the General Measurement Model (GMM). Applying GMM, the carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the effect of any new contracts that are added to the group in the reporting period;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates determined on initial recognition;
- changes in fulfilment cash flows that relate to future service, except to the extent that:
  - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised as a loss in profit or loss and creates a loss component; or
  - any decreases in the fulfilment cash flows are allocated to the loss component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the reporting period.

Changes in fulfilment cash flows that relate to future service comprise:

- experience adjustments arising from premiums received in the reporting period that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, measured at the discount rates determined on initial recognition, except for changes that arise from the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the reporting period, determined as the payment expected at the start of the reporting period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the reporting period; and
- changes in the risk adjustment for non-financial risk that relate to future services.

A key aspect of GMM is that adjustments to the CSM resulting from changes to the present value of future cash flows must be measured using the discount rate that applied at inception of the group of contracts. However, the standard does not explicitly state whether this is intended to extend to all financial assumptions. The Group's interpretation is that all financial assumptions must be set at inception but are only 'locked-in' for future years, therefore the estimates of cash flows up to the measurement date reflect the effect of actual historical financial risk experience. For example, for index-linked annuities the estimated future cash flows reflect the actual inflationary increases that have been added to benefits since inception rather than the locked-in assumed inflationary increases.

After recognising a loss on an onerous group of insurance contracts, specified fulfilment cash flows must be allocated on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. For this purpose, the proportion allocated to the loss component is determined as the ratio of the amount of the loss component to the discounted value of the future cash outflows plus the risk adjustment for non-financial risk.

Insurance contracts with direct participation features

Direct participating contracts are contracts under which the Group's obligation to the policyholder is the net of:

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- a variable fee in exchange for future services provided by the contracts, being the amount of the Group's share of the fair value of the underlying items less fulfilment cash flows that do not vary based on the returns on underlying items. The Group provides investment services under these contracts by promising an investment return based on underlying items, in addition to insurance coverage.

In respect of the variable fee for the Group's in-force with-profits contracts, the Group's share of the fair value of the underlying items consists of:

- shareholder transfers, gross of tax; and
- the Group's share of the excess of charges and deductions taken from the asset share (such as annual management charges or surrender penalties) over shareholder transfers, gross of tax, and costs that vary directly with the underlying items.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vii) Measurement (continued)

Insurance contracts with direct participation features (continued)

The fulfilment cash flows that do not vary based on the returns of the underlying items are:

- the Group's share of amounts that are expressed as a monetary amount, such as administration expenses, policy fees and the risk adjustment for non-financial risk. For certain types of cost, such as investment management expenses and additional death benefits in excess of the asset share, some costs vary directly with the underlying items and others do not. The whole amount of these types of cost is included in the fulfilment cash flows that do not vary based on the returns of the underlying items.
- less the fee margin charged by the Group's asset managers for managing the investments backing the with-profits contracts.

There is no variable fee or CSM in relation to the additional amounts expected to be paid to current or future policyholders (that are recognised in accordance with paragraph B71 of IFRS 17).

In respect of the variable fee for the Group's unit-linked contracts, the Group's share of the fair value of the underlying items consists of charges and deductions taken from the unit fund (such as annual management charges or surrender penalties), less costs that vary directly with the underlying items. The fulfilment cash flows that do not vary based on the returns of the underlying items are amounts that are expressed as a monetary amount, such as administration expenses, policy fees and the risk adjustment for non-financial risk. For certain types of cost, such as investment management expenses and additional death benefits in excess of the unit fund, some costs vary directly with the underlying items and others do not. The whole amount of these types of cost is included in the fulfilment cash flows that do not vary based on the returns of the underlying items.

For insurance contracts with direct participation features, the carrying amount of the CSM subsequent to initial recognition is calculated using the Variable Fee Approach (VFA). When measuring a group of direct participating contracts, the Group adjusts the fulfilment cash flows by the whole of the change in the obligation to pay policyholders an amount equal to the fair value of the underlying items. These changes do not relate to future services and are recognised in profit or loss. The Group then adjusts any CSM for changes in the amount of the Group's share of the fair value of the underlying items, which relate to future services, as explained below.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the CSM of any new contracts that are added to the group in the reporting period;
- the change in the amount of the Group's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
  - a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM, giving rise to a loss in profit or loss (included in insurance service expenses) and creating a loss component; or
  - an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future services, is allocated to the loss component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the reporting period.

Changes in fulfilment cash flows that relate to future services include the changes relating to future services specified above for contracts without direct participation features (measured at current discount rates) and changes in the effect of the time value of money and financial risks that do not arise from underlying items eg the effect of financial guarantees.

In determining the change in CSM attributable to the effect of the time value of money and financial risk on the Group's share of the fair value of the underlying items and the fulfilment cash flows, the Group has chosen not to use the risk mitigation option whereby the changes would be adjusted to reflect the use of derivatives, non-derivative financial instruments or reinsurance contracts held to mitigate the effect of financial risk.

After recognising a loss on an onerous group of insurance contracts, specified fulfilment cash flows must be allocated on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. For this purpose, the proportion allocated to the loss component is determined as the ratio of the amount of the loss component to the discounted value of the future cash outflows plus the risk adjustment for non-financial risk.

Reinsurance contracts

To measure a group of reinsurance contracts, the Group applies the same accounting policies as are applied to insurance contracts without direct participation features, with the following modifications.

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset or liability for remaining coverage and the asset or liability for incurred claims. The asset or liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(vii) Measurement (continued)

Reinsurance contracts (continued)

The Group measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts. The present value of the future cash flows for reinsurance contracts held is also adjusted for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance. It is measured as the amount of the total of (a) the fulfilment cash flows, (b) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group, (c) any cash flows arising at that date and (d) any income recognised in profit or loss because of onerous underlying contracts recognised at that date.

However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the reinsurance, then the Group recognises the cost immediately in profit or loss as an expense.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the effect of any new contracts that are added to the group in the reporting period;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates determined on initial recognition;
- income recognised in profit or loss in the reporting period on initial recognition of an onerous group of underlying contracts;
- reversals of a loss-recovery component to the extent that they are not changes in the fulfilment cash flows of the group of reinsurance contracts;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless they result from changes in fulfilment cash flows allocated to a group of underlying contracts that do not adjust the CSM for the group of underlying insurance contracts;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised in profit or loss because of the services received in the reporting period.

Reinsurance of onerous underlying insurance contracts

The Group adjusts the CSM of the group to which a reinsurance contract belongs and as a result recognises income when it recognises a loss on initial recognition of an onerous group of underlying contracts, if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Group expects to recover from the reinsurance contracts.

For reinsurance contracts acquired in a transfer of contracts or a business combination covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying:

- the amount of the loss component that relates to the underlying contracts at the date of acquisition; and
- the percentage of claims on the underlying contracts that the Group expects at the date of acquisition to recover from the reinsurance contracts.

For reinsurance contracts acquired in a business combination, the adjustment to the CSM reduces goodwill or increases a gain on a bargain purchase.

If the reinsurance contract covers only some of the insurance contracts included in an onerous group of contracts, then the Group determines the portion of losses recognised on the onerous group of contracts that relates to underlying contracts covered by the reinsurance contract.

A loss-recovery component is created or adjusted for the group of reinsurance contracts to depict the adjustment to the CSM, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(viii) Derecognition and contract modification

The Group derecognises a contract when it is extinguished – ie when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognises a contract if its terms are modified in a way that would have significantly changed the accounting for the contract had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On derecognition of a contract from within a group of contracts:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised;
- the CSM of the group is adjusted for the change in the fulfilment cash flows, except where such changes are allocated to a loss component; and
- the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group (see 'Release of the CSM' below).

If a contract is derecognised because it is transferred to a third party, then the CSM is also adjusted for the premium charged by the third party, unless the group is onerous.

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the Group entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the Group received the premium that it would have charged less any additional premium charged for the modification.

The Group has applied judgement in determining the appropriate treatment for the modification to the Rothesay reinsurance treaty which occurred when the majority of the underlying contracts that were reinsured by the treaty were transferred to Rothesay via a Part VII transfer on 15 December 2021. The Group judges that the amendment to the treaty to facilitate the continued long-term reinsurance of contracts that were originally intended to be transferred but were removed from the scope of the Part VII, resulted in a significant change to the contract boundary of the treaty. Therefore the appropriate treatment is to derecognise the original treaty and recognise the amended treaty as a new contract. As the amendment occurred shortly before the IFRS 17 transition date, the Group concludes that it is sufficient to determine the premium for the amended treaty as the fair value of the reinsured benefits as at the date of transition.

(ix) Presentation

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the consolidated statement of financial position. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts are included in the carrying amount of the related portfolios of contracts.

The Group disaggregates amounts recognised in the statement of profit or loss into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. The Group has elected to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

The Group excludes from both insurance revenue and insurance service expenses any non-distinct investment components, refunds of premiums and other non-insurance components. The Group has made the accounting policy choice that accounting estimates made in interim financial statements are changed when applying IFRS 17 in the subsequent annual reporting period.

Insurance revenue

The Group recognises insurance revenue as it satisfies its performance obligations ie as it provides services to groups of insurance contracts. The insurance revenue relating to the services provided for each reporting period represents the total of the changes in the liability for remaining coverage that relate to services for which the Group expects to receive consideration, and comprises the following items:

- A release of the CSM, measured based on coverage units provided (see 'Release of the CSM' below);
- Changes in the risk adjustment for non-financial risk relating to current services;

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(ix) Presentation (continued)

Insurance revenue (continued)

- Policyholder tax; and
- Claims and other insurance service expenses incurred in the reporting period, measured as the amounts expected at the beginning of the reporting period.

In addition, the Group allocates a portion of premiums that relate to recovering any insurance acquisition cash flows to each period in a systematic way based on the passage of time. The Group recognises the allocated amount, adjusted for interest accretion at the discount rates determined on initial recognition of the related group of contracts, as insurance revenue and an equal amount as insurance service expenses.

Release of the CSM

The amount of the CSM of a group of insurance contracts that is recognised as insurance revenue in the reporting period is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the reporting period (before any allocation) equally to each coverage unit provided in the current reporting period and expected to be provided in future reporting periods, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the current reporting period. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided and its expected coverage period. The coverage units are reviewed and updated at each reporting date.

Services provided to insurance contracts include insurance coverage and, for all direct participating contracts, investment services for managing underlying items on behalf of policyholders (investment-related services). In addition, insurance contracts without direct participation features may also provide investment services for generating an investment return for the policyholder (investment-return service), but only if:

- an investment component exists or the policyholder has a right to withdraw an amount (eg the policyholder's right to receive a surrender value on cancellation of a contract);
- the investment component or withdrawal amount is expected to include an investment return; and
- the Group expects to perform investment activities to generate that investment return.

The Group defines the coverage units for its contracts as follows:

- Insurance coverage (where the benefit is a single lump sum payment, eg term assurances): the sum assured.
- Insurance coverage (where the benefit is a regular income, eg annuities and income protection): the annualised amount of income, as confirmed by the IFRS Interpretation Committee (IFRIC) in 2022.
- Investment-related service (with-profits and unit-linked): the asset share or unit fund value.
- Investment-return service (eg annuities): the transfer amount (for deferred annuities in the accumulation phase) or the payment of annuity benefits within a guaranteed payment period.

The expected coverage period reflects expectations of lapses and cancellations of contracts, as well as the likelihood of insured events occurring to the extent that they would affect the expected coverage period. The period of investment services ends no later than the date on which all amounts due to current policyholders relating to those services have been paid.

Where a contract provides both insurance coverage and investment services the Group must apply judgement to determine appropriate weightings to assign to the two types of service in order to calculate the coverage units for each reporting period. The weights are not locked-in at inception of the group of contracts and instead are reviewed and updated at each reporting date, consistent with the treatment of the coverage units.

With-profits and unit-linked contracts are predominantly investment contracts but may additionally provide insurance coverage if the contract provides a death benefit in excess of the underlying items. For these contracts weighted coverage units are determined as the maximum of the asset share or unit fund and the amount payable on death.

IFRS 17 does not provide explicit guidance as to whether the assumptions used to project the expected coverage units for future reporting periods should be current or locked-in (ie those that applied at inception of the group of contracts). In addition, the standard does not provide guidance as to whether the future coverage units should be discounted when determining the amount of CSM to be released in the current reporting period.

The Group judges that in regards to the assumptions used for both GMM and VFA CSM it is appropriate to use current assumptions to calculate the coverage units expected to be provided in the future. This is on the basis that it results in the most accurate estimate of the service that will be provided in future.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.2 Insurance contracts (continued)

(ix) Presentation (continued)

Release of the CSM (continued)
In respect of discounting, the Group judges that it is appropriate to discount the future coverage units as that is consistent with the CSM calculation allowing for the time value of money. The discounting approach follows the method applied in the CSM calculation, namely coverage units for GMM CSM are discounted using the rates that applied at inception and coverage units for VFA CSM are discounted using current rates.

Insurance service expenses
Insurance service expenses arising from insurance contracts are recognised in profit or loss as they are incurred. They exclude repayments of non-distinct investment components, rights to a refund of premiums, and other non-insurance components, and comprise the following items:

- Incurred claims and other insurance service expenses.
- Amortisation of insurance acquisition cash flows: This is equal to the amount of insurance revenue recognised in the reporting period that relates to recovering insurance acquisition cash flows.
- Losses on onerous contracts and reversals of such losses.
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.
- Impairment losses on assets for insurance acquisition cash flows and reversals of such impairment losses.

Net expenses from reinsurance contracts
Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Group recognises an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts. The allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage.

Coverage units for reinsurance contracts held are typically consistent with the underlying insurance contracts, adjusted for differences in the services received from the reinsurer. For reinsurance contracts held that provide reinsurance of mortality or morbidity risk, the coverage units are typically defined as the sum at risk reinsured. For longevity swap reinsurance arrangements in relation to non-profit annuity business, the coverage units are based on the proportion of the actual annuity payments made on the underlying contracts that the Group recovers from the reinsurer.

For a group of reinsurance contracts covering onerous underlying contracts, the Group establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of losses recognised:

- on recognition of onerous underlying contracts, if the reinsurance contract covering those contracts is entered into before or at the same time as those contracts are recognised; and
- for changes in fulfilment cash flows of the group of reinsurance contracts relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

The loss-recovery component determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid. It is adjusted to reflect changes in the loss component of the onerous group of underlying contracts, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Group expects to recover from the reinsurance contracts.

Insurance finance income and expenses
Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance contracts arising from the effects of the time value of money, financial risk and changes therein, unless any such changes for groups of direct participating contracts are allocated to a loss component and included in insurance service expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

The Group has opted as an accounting policy choice to recognise all insurance finance income or expenses for the reporting period in profit or loss and to not recognise any part of that income or expenses in other comprehensive income (OCI).

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.3 Investment contracts without discretionary participation features (DPF)

(i) Investment contracts without discretionary participation features (DPF)

Investment contracts without DPF, such as unit-linked savings and similar contracts, are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and recognised directly on the consolidated statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a fair value basis. For unit-linked contracts, the fair value of the liability is equal to the unit value obligation.

(ii) Reinsurance

The Group enters into various reinsurance arrangements in relation to unit-linked savings contracts where there is no transfer of significant insurance risk to the reinsurer (funded reinsurance). Such contracts are classified as a financial instruments and measured at FVTPL and included with Equity securities and pooled investment funds in the consolidated statement of financial position.

(iii) Deferred acquisition costs

The Group incurs various costs in acquiring new investment contracts without DPF. The incremental, directly attributable acquisition costs relating to these contracts are capitalised and amortised in line with the related revenue. If the contracts involve upfront charges, this income is also deferred and amortised through the consolidated income statement, as the service is provided in accordance with IFRS 15.

The recoverability of any deferred acquisition costs is reviewed at each reporting date, and to the extent that these are no longer deemed recoverable from future revenue, the carrying value is written down to the recoverable amount and the related impairment charge recorded in the consolidated income statement.

1.5.4 Business acquisitions

Business acquisitions are accounted for by applying the acquisition method of accounting, where the identifiable assets and liabilities of the acquired business are recorded at fair value on the date of acquisition. The excess of the fair value of acquisition consideration over the recorded value of the assets and liabilities of the acquired entity is recorded on the consolidated statement of financial position as goodwill. Expenses related to acquiring new business are charged to the consolidated income statement in the year in which they are incurred. Income and expenses of acquired entities are included in the consolidated income statement from the date of acquisition.

Acquisitions of entities under common control are accounted for under merger accounting principles. Under merger accounting, the results and statement of financial position for entities acquired are presented as if they had always been combined. Assets and liabilities of the entities acquired are recorded at their carrying values and a fair value measurement is not undertaken. No new goodwill is recognised and the differences between the cost of investment, which is its fair value, and the carrying value of assets and liabilities acquired is recorded within equity.

1.5.5 Financial instruments

(i) Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially recognised on the trade date measured at their fair value.

(ii) Measurement categories

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following:

- Amortised cost
- Fair Value Through Profit or Loss (FVTPL).

(iii) Financial instruments measured at amortised cost

Financial instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows; and
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.5 Financial instruments (continued)

(iv) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Group considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of asset sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business.

(v) The SPPI test

As a second step of its classification process the Group assesses the contractual terms to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(vi) Financial assets measured at FVTPL

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is to collect contractual cash flows.

(vii) Subsequent measurement

After initial measurement, deposits, cash and accrued investment income and other debtors are measured at amortised cost, using the Effective Interest Rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. An Expected Credit Losses (ECL) is recognised in investment return in the consolidated income statement when the investments are impaired.

Financial assets at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in investment return in the consolidated income statement. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rates. Dividend income from equity instruments measured at FVTPL is recorded in investment return in the consolidated income statement when the right to the payment has been established.

(viii) Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which there has been a change in business model.

(ix) Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.5 Financial instruments (continued)

(ix) Derecognition other than for substantial modification (continued)

The Group considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

(x) Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as a derecognition gain or loss. In the case of debt instruments at amortised cost, the newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognise an instrument, among others, the Group considers the following factors:

- Change in currency of the debt instrument
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss.

(xi) Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the appropriate effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For certain instruments with investment grade rating, the Group uses the low credit simplification and consequently, a determination of significant increase in credit risk will not be required and the impairment loss would always be calculated based on a 12-month ECL.

The Group also makes use of a simplified impairment approach for trade receivables and contract assets as allowed under IFRS 9. Under this approach, impairment is calculated using a provisioning matrix that is based on days past due.

(xii) Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

(xiii) Recognition of interest income

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the debt instrument.

If expectations of fixed rate financial assets' cash flows are revised for reasons other than credit risk, the changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference to the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset in the balance sheet with a corresponding increase or decrease in interest income.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.5 Financial instruments (continued)

(xiv) Interest and similar income

Interest income comprises amounts calculated using the effective interest method for assets measured at amortised cost. These are disclosed separately on the face of the consolidated income statement.

Other interest income includes interest on all financial assets measured at FVTPL, using the contractual interest rate.

The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

(xv) Determination of fair value

The Group uses current bid prices to value its investments with quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties. Financial assets measured at fair value are classified into a three-level hierarchy as described in Note 31.

If the market for a financial investment of the Group is not active, the fair value is determined using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement, which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in Note 31.

1.5.6 Fee Income

Revenue arising from contracts with customers consists of investment management and performance fee income from the Group's asset management business, investment contracts without DPF, platform fee and other fees and commissions.

Management fee income is based on investment assets under management and is only recognised when the Group satisfies its performance obligation to provide the asset management services. It is recognised in the year in which the services are rendered and is recognised net of rebates. Since the asset management service the Group provides is a continuous service, it satisfies its performance obligation over time. Therefore, the Group meets the criteria for its revenue to be recognised over time as the client benefits from the asset management services received from the Group.

Performance fee income is based on the achievement of prescribed performance hurdles. It is only recognised when the performance obligations are satisfied or upon the crystallisation event occurring and when it is highly probable that a significant reversal will not occur.

Fees from investment contracts without DPF are recognised over time as the services are provided, which is the point at which the cash is received. Other fees and commissions such as from the provision of financial advice to customers are recognised when performance obligations are satisfied or upon the crystallisation of an event. The price is determined based on the agreed initial or ongoing adviser charge.

Platform fees are recognised as the related services are provided to the customer.

No significant judgements are applied on the timing or transaction price or the determination of the costs incurred to obtain or fulfil a contract.

1.5.7 Investment return

Investment return included in the consolidated income statement comprises interest income, rental income, dividends, foreign exchange gains and losses, realised and unrealised gains and losses on investments designated as FVTPL, and realised gains and losses (including impairment) on items held at amortised cost. Interest income is recognised as it accrues on an effective interest basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

1.5.8 Derivatives and hedge accounting

The primary areas of the Group's operations where derivative instruments are held are in the With-Profits Fund and annuity business. Management designates derivatives on inception and those that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded within investment return in the consolidated income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IFRS 9 and has had no fair value or cash flow hedges for the years ended 31 December 2023 and 31 December 2022.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.9 Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred. Gains and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the consolidated income statement.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

1.5.10 Securities lending and reverse repurchase agreements

The Group is party to various securities-lending agreements and repurchase agreements under which securities are transferred to third parties on a short-term basis. The transferred securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, including cash collateral which is not legally separated from the Group, the collateral and corresponding obligation to return such collateral is recognised as a financial liability on the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments on the consolidated statement of financial position. The right to receive the return of any cash paid as purchase consideration plus interest is recognised as a financial asset on the consolidated statement of financial position.

1.5.11 Subordinated liabilities and other borrowings

Subordinated liabilities include loan notes issued by the Group which are classified as financial liabilities as they have a fixed repayment date and do not represent a residual interest in the net assets of the Company on liquidation. The notes rank junior to all other liabilities of the Group in the event of liquidation, but above share capital.

Borrowings include operational borrowings attributable to shareholder-financed operations and other borrowings attributable to the With-Profits Fund.

Subordinated liabilities and other borrowings are initially recognised at fair value, net of transaction costs. Borrowings, excluding those backing buy-to-let mortgages, which are managed on a fair value basis and designated at FVTPL, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the consolidated income statement to the date of maturity, or for hybrid debt, over the expected life of the instrument.

Borrowings backing buy-to-let mortgages are designated at FVTPL in line with the underlying loan assets.

1.5.12 Investment property

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment property, are carried at fair value, with changes in fair value included in the consolidated income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors' (RICS) valuation standards. Each property is externally valued at least once every three years.

1.5.13 Defined benefit pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation for the relevant scheme exceeds the fair value of the scheme assets, then a liability is recorded on the Group's consolidated statement of financial position in respect of that scheme. By contrast, if the fair value of the assets of the relevant scheme exceeds the present value of the defined benefit obligation then the surplus in respect of that scheme will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the employing entity, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the employing entity to pay deficit funding in respect of schemes where there is no unconditional right to a refund to any surplus, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 Employee Benefits deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.13 Defined benefit pension schemes (continued)

The plan assets of the Group's pension schemes may include several insurance contracts that have been issued by other entities in the Group. These assets are excluded from plan assets in determining the pension surplus or deficit recognised on the consolidated statement of financial position. The plan assets also exclude any reimbursement right assets resulting from buy-in of the scheme liabilities from other entities in the Group. The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit obligation at the start of the year, is charged to the consolidated income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income.

Contributions to the Group's defined contribution pension schemes are expensed when due.

1.5.14 Tax

The Group applies IAS 12 Income Taxes in accounting for taxes on income. Income tax comprises current tax and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offsetting against taxable profits arising in the current or prior periods. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 Income Taxes does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax is also not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

The total tax recorded in the consolidated income statement includes tax attributable to both policyholders and shareholders. The tax attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

The Group is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, the Group considers an uncertain tax position to exist and a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management's judgement and estimate of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management's judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and they have full knowledge of all related information. The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

1.5.15 Goodwill

Goodwill arises when the Group acquires a business and the fair value consideration paid exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the consolidated statement of financial position at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to a group of cash-generating units. Goodwill impairment charges are recognised immediately in the consolidated income statement.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.16 Intangible assets

Intangible assets acquired through business combinations are measured at fair value on acquisition. Separately acquired intangible assets such as licences and software, are recognised at the price paid to acquire them. Intangible assets arising from development costs are capitalised when it has been established that the project is technically and financially feasible and the Group has both the intention and ability to use the completed asset.

Intangible assets are subsequently carried at cost less amortisation and any accumulated impairment losses.

Intangible assets are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels unless the pattern cannot be determined reliably, in which case a straight-line method is applied. Impairment testing is conducted when there is an indication of impairment. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset, cash-generating unit or group of cash-generating units to which it is allocated.

Amortisation and impairment of intangible assets is charged to the consolidated income statement.

1.5.17 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, debt securities and money market funds with less than 90 days' maturity from the date of acquisition.

1.5.18 Dividends

Dividends are recognised when the obligation becomes certain, ie when the dividend is no longer at the discretion of the Company. In the case of interim dividends, this occurs when the dividends are paid. For final dividends, this occurs when they are recommended by the Board and approved by shareholders.

1.5.19 Share capital and share premium

An equity instrument is any contract that evidences a residual interest in the assets of the Group, after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Where the consideration received from the issue or sale of existing shares exceeds the nominal value recorded in share capital, the difference is recorded in share premium. Share premium is recorded net of share issue costs.

1.5.20 Treasury shares

Where any of the Group entities purchase the Company’s share capital, the consideration paid, including any attributable transaction costs, is shown as a deduction from total shareholders’ equity. Any gains and losses arising on treasury shares are included within equity.

1.5.21 Merger reserve

The merger reserve arises from the application of merger accounting principles to acquisitions of entities under common control. It represents the difference between the aggregate capital reserves and value of the entities acquired, which is recognised directly in equity. On disposal of the relevant entity, the related merger reserve is released directly to retained earnings.

1.5.22 Share-based payments

All share-based payments made to employees for services rendered are measured based on the fair value of the equity instrument granted. The fair value takes into account the impact of market-based vesting conditions and non-vesting conditions, but excludes any impact of non-market-based vesting conditions. The related share-based payment expense is recognised over the vesting period. The fair value is determined using an option pricing model such as Black-Scholes or a Monte Carlo simulation where appropriate, taking into account the terms and conditions of the award.

For equity-settled share-based payments, the fair value of service rendered is based on the fair value of the equity instrument at grant date, which is not remeasured subsequently. The share-based payment expense is recognised over the vesting period and is based on the number of equity instruments expected to vest, with the corresponding entry to equity.

For cash-settled share-based payments, the fair value of service rendered is based on the fair value of the liability related to the equity instrument granted. The fair value of the equity instrument granted is remeasured at each reporting date with any changes recognised in the share-based payment expense in the consolidated income statement for the period.

A cancellation of an award without the grant of a replacement equity instrument is accounted for as an acceleration of vesting. Accordingly, any share-based expense that would have been recognised over the remaining vesting period is recognised immediately.

Where replacement equity instruments are granted to employees in place of the cancelled equity instruments, the replacement award is treated as a modification of the original award. At the point of replacement, the awards are remeasured to the fair value at the date of replacement, which forms the basis of recognising the expense over the remaining vesting period.

On vesting or exercise, the difference between the expense charged to the consolidated income statement and the actual cost to the Group is transferred to retained earnings.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.23 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, excluding treasury shares and shares held by the employee benefit trust.

Diluted EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares, excluding treasury shares and shares held by the employee benefit trust, adjusted to take into account the effect of any dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are share options and awards granted to employees. Potential ordinary shares are treated as dilutive when their conversion to ordinary shares results in a decrease in EPS.

1.5.24 Foreign exchange

The Group's consolidated financial statements are presented in million pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries are translated into the presentation currency of the Group from their functional currencies. All assets and liabilities of foreign subsidiaries are converted at year-end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates.

Foreign currency monetary assets and liabilities are translated at the spot exchange rate for the functional currency at the reporting date. Changes resulting from exchange rates are recognised in the consolidated income statement.

Foreign currency transactions are translated into functional currencies at the spot rate prevailing on the date of transactions.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the translation of foreign subsidiaries are recognised in other comprehensive income and taken to other reserves within equity. On disposal of the foreign subsidiary, the related exchange differences are transferred out of this reserve and are recognised in the consolidated income statement as part of the gain or loss on disposal.

The income statements and cash flows, and statements of financial position of Group entities that have a different functional currency from the Group's presentation currency, have been translated using the following principal exchange rates.

	2023		2022	
	Income statement and cash flows (average rate)	**Statement of financial position (closing rate)**	Income statement and cash flows (average rate)	Statement of financial position (closing rate)
Euro (EUR)	**1.15**	**1.15**	1.17	1.13
Indian Rupee (INR)	**102.70**	**106.08**	97.05	99.53
Polish Złoty (PLN)	**5.22**	**5.01**	5.49	5.29
South African Rand (ZAR)	**21.02**	**23.31**	20.17	20.59
Swiss Franc (CHF)	**1.12**	**1.07**	1.18	1.12
US Dollar (USD)	**1.24**	**1.27**	1.24	1.21

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.25 Leases

The Group leases office property to conduct its business. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception, the Group allocates the consideration in a contract to each lease component. However, for the leases of land and buildings, in which the Group acts as lessee, the Group has elected to account for the lease and non-lease components as a single lease component.

Where the Group acts as a lessee, it recognises a 'right of use' asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Group applies the cost model to the right of use assets, except for those that meet the definition of an investment property, to which the fair value model is applied.

The asset is initially measured at cost which comprises the amount of the lease liability, and lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs related to the dilapidation of the asset that would be incurred, less any lease incentives received. Subsequently, the asset is depreciated using the straight-line method from the commencement date to the earlier of (i) the end of the right of use asset's useful life and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's own incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time, the lease liability is re-measured where there is a change in future lease payments for example, where the Group reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right of use asset or an amount is recognised in the consolidated income statement if the carrying amount of the right of use asset has been reduced to zero.

The Group presents the right of use assets that do not meet the definition of investment property in 'Property, plant and equipment' on the consolidated statement of financial position. The corresponding lease liabilities are presented in 'lease liabilities'.

Where the Group acts as lessor, it classifies and accounts for its leases as operating or finance leases. Where the Group acts as an intermediate lessor, as it does with some of its property leases, it accounts for its interests in the head lease and the sub-lease separately. The Group assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. Where substantially all the risks and rewards of ownership are transferred to the lessee, the Group recognises a receivable asset on the consolidated statement of financial position, equal to the present value of the lease payments, within 'Accrued investment income and other debtors'. The Group recognises finance income over the lease term to reflect the rate of return on the net investment in the lease, within 'Other income'. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'Investment return'.

1.5.26 Property, plant and equipment (PPE)

PPE includes Group occupied properties and other tangible assets, such as computer equipment, motor vehicles, leasehold improvements and fixtures and fittings. PPE including owner-occupied property is measured at cost, which represents the original purchase price less any expenses incurred in bringing it to its working conditions, and subsequently measured using the cost model.

Depreciation is charged to the consolidated income statement on a straight-line basis over the assets estimated useful lives* as follows:

Type of asset	Estimated useful life
Group occupied property	20–50 years
Right of use asset	2–50 years
Other tangible assets	2–40 years

* Note that the useful lives stated are inclusive of PPE held by consolidated infrastructure private equity vehicles which typically have longer useful lives than other assets of the Group.

Management determines useful lives and residual values for assets when they are acquired. The Group assesses the useful life, residual value and depreciation method for PPE on an annual basis and any adjustments are made where required.

An impairment review of PPE is carried out whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assesses impairment at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which is the higher of the assets fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the consolidated income statement.

1 Basis of preparation and material accounting policies (continued)

1.5 Accounting policies (continued)

1.5.27 Assets and liabilities held for sale

The Group classifies assets and liabilities as held for sale when the carrying amount is expected to be recovered through a sale transaction, usually within one year, and management is committed to the sale.

Assets and liabilities held for sale are shown separately on the consolidated statement of financial position and are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on an asset which is classified as held for sale.

When the Group is committed to a sale of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Income and expenses of subsidiaries sold during the year are included in the consolidated income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the consolidated income statement under IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

1.5.28 Provisions and contingent assets and liabilities

Provisions are recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation resulting from a past event, it is more probable than not that a loss will be made in settling the obligation and the amounts can be estimated reliably.

Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

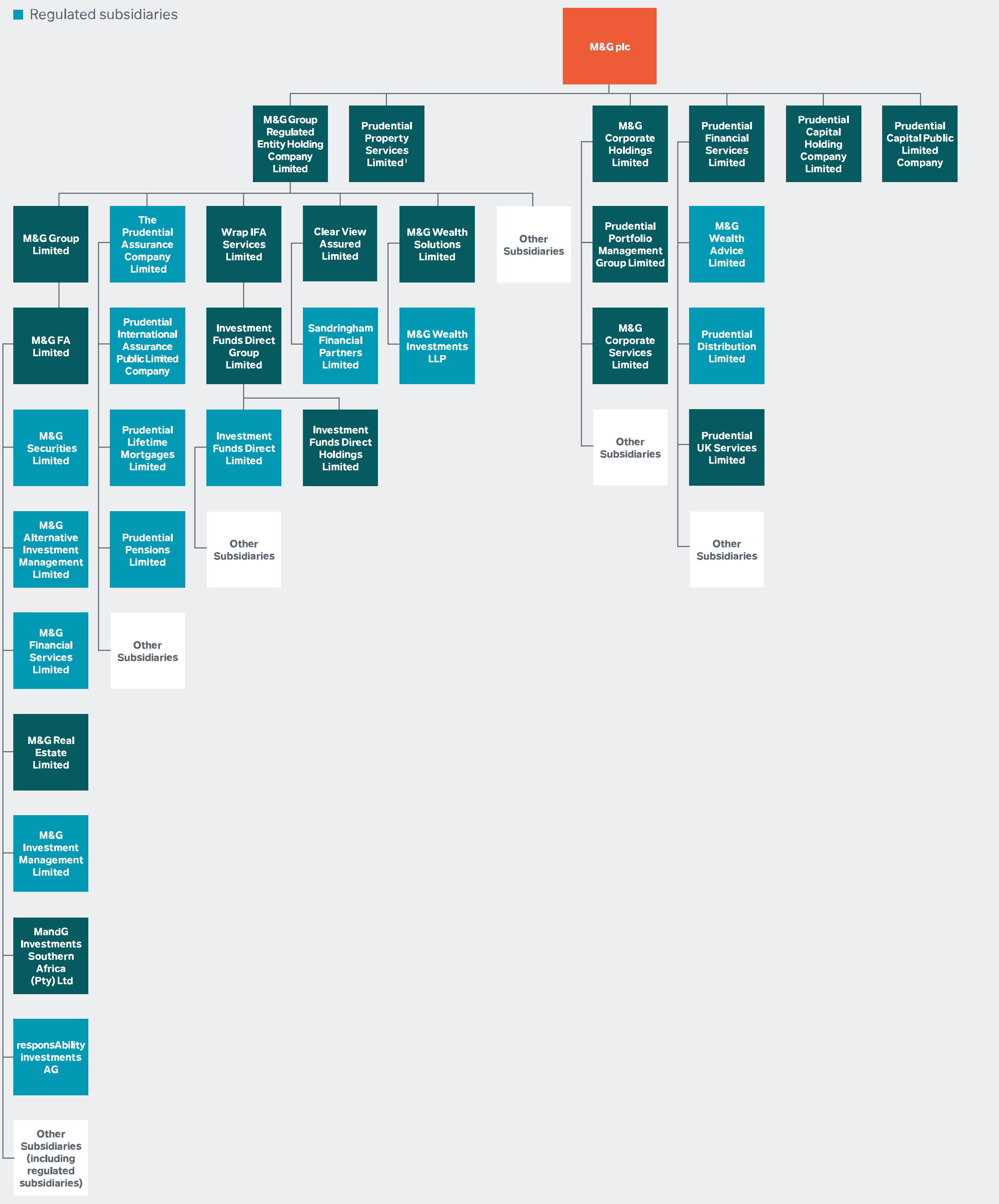
Contingent liabilities are possible obligations of the Group where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured, it is no longer treated as contingent and recognised as a liability.

Contingent assets which are possible benefits to the Group are only disclosed if it is probable that the Group will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the consolidated statement of financial position as an asset.

2 Group structure and products

2.1 Group composition

The following diagram is an extract of the Group structure at 31 December 2023 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.



i In Liquidation.

A list of the Group's related undertakings comprising subsidiaries, joint ventures, associates and other significant holdings is contained within Note 39.

2 Group structure and products (continued)

2.2 Corporate transactions

My Continuum Financial Limited acquisition

On 8 March 2023, M&G Wealth Advice Limited (MGWAL), a wholly owned subsidiary of the Group, acquired a 49.9% holding in My Continuum Financial Limited (MCFL), the holding company of Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW), collectively referred to as 'Continuum', for a purchase consideration of £22m, including an adjustment for capital. The Group acquired a further 25.05% stake on 19 March 2024, with a view to acquiring the remaining stake in March 2025 (see Note 38 for further details).

Continuum is now part of M&G Wealth within our Wealth segment and brings to M&G a fast-growing in-house discretionary Model Portfolio Service as its central investment offering allowing M&G to further grow and build our advisory capability across the UK, and to provide a wider range of investment solutions to more clients. Continuum is based in Plymouth and has more than 60 self-employed advisers operating nationally.

The acquisition of the initial stake in Continuum has been treated as an investment in an associate accounted for under the equity method in the consolidated statement of financial position for the year ended 31 December 2023.

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

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

The Group's with-profits contracts are written in the With-Profits Fund in which policyholders share in the profit of the fund. Up until 1 April 2021 there were three with-profits sub-funds: the With-Profits Sub-Fund (WPSF), the Defined Charge Participating Sub-Fund (DCPSF) and the Scottish Amicable Insurance Fund (SAIF). On 1 April 2021 SAIF merged with the WPSF and the assets and liabilities of SAIF were combined with those of the WPSF.

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

2.3.1 With-profits contracts

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

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

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

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

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

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

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

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

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

2 Group structure and products (continued)

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

2.3.1 With-profits contracts (continued)

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

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

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

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

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

2.3.1.3 SAIF with-profits contracts

SAIF was a ring-fenced with-profits sub-fund which merged with the WPSF on 1 April 2021. No new business was written in SAIF, although regular premiums and top-ups were still being collected on in-force policies. The fund was solely for the benefit of policyholders of SAIF. Shareholders had no entitlement to a proportion of the bonuses declared and this remains the case post-merger with the WPSF. The process of determining policyholder bonuses of SAIF with-profits policies was similar to that for the with-profits policies of the WPSF. In addition, the surplus assets in SAIF were allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.

The Group's main exposure to guaranteed annuity options arises through contracts in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 24.1.3.

2.3.2 Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investments or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 17 (see Note 24.1.4).

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

2.3.3 Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium, and may be immediate or deferred. For immediate annuities, the regular income starts immediately after the premium payment but, for deferred annuities, the regular income is delayed until a specified date in the future. There are various types of annuity contracts written across the Group: level, fixed increase, inflation-linked (all referred to as 'non-profit annuities') and with-profits annuities.

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

During the year, the Group has also re-entered the bulk purchase annuity market where it has transacted with certain pension schemes to secure the annuitant benefits of the immediate and deferred members. In addition, some non-profit annuities have been written in the With-Profits Fund, and profits relating to this business accrue to the With-Profits Fund.

3 Segmental analysis

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

The Group's operating segments have been revised during the year to reflect a change in management structure. Our previous operating segment, 'Retail and Savings' has been replaced with two new operating segments: 'Life' and 'Wealth'. Comparatives for 2022 are re-presented on the new segment basis.

3.1 Operating segments

The Group's operating segments are:

Asset Management

The Group's investment management capability is offered to both wholesale and institutional clients. The Group's wholesale clients invest through either UK domiciled OEICs or Luxembourg domiciled SICAVs and have access to a broad range of actively managed investment products, including Equities, Fixed Income, Multi-Asset and Real Estate. The Group serves these clients 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 Asset Management segment generates revenues by charging fees which are typically based on the level of assets under management. The Asset Management segment also earns investment management revenues from the management of a significant proportion of Life and Wealth assets it manages.

Life

The Life business operates in the savings and pensions market and includes corporate risk, individual and international solutions. The majority of the products in the Life business are closed to new customers but may accept further contributions from existing policyholders[i]. During the year, the Life business re-entered the bulk purchase annuity market and transacted with certain schemes to secure the annuity benefits of immediate and deferred annuity members. The bulk purchase annuities, along with workplace pensions make up our corporate risk solutions.

Individual products include annuity contracts: 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 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 client has the option of taking ad hoc withdrawals, regular income or the option of fully surrendering their bond.

International solutions include our savings businesses based in Ireland (Prudential International Assurance plc) and Poland. The Group's products which give non-UK clients access to the PruFund investment proposition are also included.

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

Wealth

M&G Wealth provides access to a range of retirement, savings and investment management solutions to its clients. These products are distributed to clients through the wrap platform, intermediaries and advisers, 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 UK PruFund investment proposition are included in M&G Wealth. The UK PruFund investment proposition gives 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 Life 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 other reportable segment is:

Corporate Centre

Corporate Centre includes central corporate costs and debt costs.

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

3 Segmental analysis (continued)

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.

The Group's adjusted operating profit before tax methodology has been updated since it was disclosed in the 2022 consolidated financial statements following the adoption of IFRS 17 'Insurance Contracts' (as first reported in the interim reporting for the six months ended 30 June 2023). Where relevant, the principles used to derive adjusted operating profit before tax remain consistent with IFRS 4. Other changes to the methodology have also been made to exclude from adjusted operating profit the foreign exchange movements on non-GBP denominated subordinated debt and the fair value movement on strategic investments since these movements reflect short-term fluctuations in investment return (again, first reported in the interim reporting for the six months ended 30 June 2023). Details of the methodology are presented below:

Fee based business

For the Group's fee based business written by Asset Management, Life and Wealth segments, adjusted operating profit before tax includes fees received from clients 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 Group-wide restructuring and transformation are not included in adjusted operating profit before tax.

Business written in the With-Profits Fund

For the Group's business written in the With-Profits Fund in the Life and Wealth segments, adjusted operating profit before tax includes the release of the risk adjustment and the expected release of the CSM for the period. The expected CSM release for the period is calculated as the CSM at the start of the period updated to reflect long-term expected investment returns multiplied by the expected amortisation factor for the period.

- The long-term expected investment returns are calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held to back the asset shares. In the calculation of the expected CSM release for with-profits business, the long-term expected investment returns for the year ended 31 December 2023 were 8.5% p.a. (4.8% p.a. for the year ended 31 December 2022).
- The expected amortisation factor for the period reflects the expected pattern of release of the CSM for the with-profits business over the life of the contracts. The expected amortisation factor used for the year ended 31 December 2023 was 12.7% p.a. (11.9% p.a. for the year ended 31 December 2022).

Adjusted operating profit before tax for the Group's business written in the With-Profits Fund also includes the expected investment return for the shareholder's share of the IFRS value of the excess assets in the Fund. For the year ended 31 December 2023, the return was 6.0% p.a. (2.4% p.a. for the year ended 31 December 2022).

Adjusted operating profit does not include the impact of any margins on investment management fee earned by other Group entities. These are recognised in the Asset Management segment as they emerge.

The application of IFRS 17 to non-profit contracts in the with-profits funds results in a mismatch due to the difference between their value under the IFRS 17 General Measurement Model accounting for these contracts (primarily annuities) and how these contracts are treated in determining their fair value when assessing current and future with-profits contracts under the Variable Fee Approach (VFA). Although the impact of this mismatch balances over the life of the current and future with-profit contracts as the CSM under the VFA is set up and released, results for the period do not reflect the long-term economics of the transaction. Therefore, the impact of the mismatch has been excluded from adjusted operating profit before tax.

Shareholder annuity business

For the Group's shareholder annuity products written by the Life segment, adjusted operating profit before tax includes the release of the CSM and the risk adjustment for the period. Adjusted operating profit before tax also includes the returns on surplus assets in excess of IFRS 17 liabilities based on long-term expected investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets. For the year ended 31 December 2023 the long-term expected investment returns for shareholder annuities were 6.6% p.a. (2.2% p.a. for the year ended 31 December 2022). The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing, and experience variances are also included in adjusted operating profit before tax.

The results of the intercompany buy-in transaction executed between the trustees of M&G Group Pension Pension Scheme (M&GGPS) and PAC in 2023 are included in adjusted operating profit before tax as this generates economic value for the Group.

Adjusted operating profit before tax for shareholder annuities excludes the impact of the mismatch resulting from the measurement of fulfilment cash flows using current interest rates and any changes to CSM being measured using locked-in rates.

Corporate Centre

For the Corporate Centre adjusted operating profit before tax is the expense incurred to run the head office and the actual investment return on treasury activities.

3 Segmental analysis (continued)

3.2 Adjusted operating profit before tax methodology (continued)

Key adjusting items between IFRS profit before tax and adjusted operating profit before tax

Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit or loss before tax to determine adjusted operating profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, mismatches arising on the application of IFRS 17, impairment and amortisation in respect of acquired intangibles, costs associated with fundamental Group-wide restructuring and transformation, profit or loss arising on corporate transactions and profit or loss before tax from any discontinued operations.

Short-term fluctuations in investment returns

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

- Difference between actual CSM release for the period and expected CSM release for the period for with-profit contracts;
- Movements in the fair value of instruments held to mitigate equity risk in the future with-profits shareholder transfer and to optimise the Group's capital position on a Solvency II basis;
- Difference between actual and long-term expected investment return on surplus assets backing the shareholder annuity capital and shareholders' share of excess assets in the With-Profits Fund measured on an IFRS basis;
- Foreign exchange movements on the US dollar subordinated debt held in the Corporate Centre;
- Fair value movements on strategic investments;
- Impact of short-term credit risk provisioning and experience variances on the measurement of best estimate liabilities, 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 long-term assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring; and
  - The impact of market movements on bond portfolio weightings and the subsequent impact on credit provisions.

Mismatches arising on the application of IFRS 17

The application of IFRS 17 results in the following mismatches in valuation basis being recognised in total profit/loss before tax. For the purposes of calculating adjusted operating profit before tax the impact of the mismatch has been excluded.

- Difference between the value under IFRS 17 General Measurement Model for non-profit contracts (primarily annuities) written in the With-Profits Fund and how these contracts are treated in determining their fair value when assessing current and future with-profits contracts under the VFA; and
- Mismatch resulting from measurement of fulfilment cash flows for shareholder non-profit business (primarily annuities) using current interest rates while related changes to the CSM are measured using locked-in rates.

Amortisation and impairment of intangible assets acquired in business combinations

Amortisation and impairment of intangible assets (including goodwill) acquired in business combinations are excluded from adjusted operating profit before tax.

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

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

Restructuring costs and other

Restructuring costs and other primarily reflect the shareholder allocation of costs associated with the transformation of our business. These costs represent fundamental Group-wide restructuring and transformation and are therefore excluded from adjusted operating profit before tax.

This also includes the elimination on consolidation of the results of the intercompany buy-in transaction executed between the trustees of M&G Group Pension Pension Scheme (M&GGPS) and PAC in 2023.

3 Segmental analysis (continued)

3.3 Analysis of Group adjusted operating profit before tax by segment

On 1 January 2023 we adopted the new accounting standard IFRS 17 Insurance Contracts which has led to changes to our adjusted operating profit methodology. As a result, adjusted operating profit before tax for the year ended 31 December 2022 has been restated from that reported previously. The restatement is driven by the change in profit recognition profile of the annuities and with-profits business in the Life and Wealth segments as a result of the new insurance standard and also other changes to our adjusted operating profit methodology, unrelated to the adoption of IFRS 17, which were implemented at the same time. These unrelated changes to our adjusted operating methodology are to classify foreign exchange movements on non-GBP denominated subordinated debt and fair value movements on strategic investments as non-operating items.

The overall impact of the restatement on adjusted operating profit before tax is summarised in the table below for the year ended 31 December 2022:

Adjusted operating profit/(loss) before tax for the year ended 31 December 2022	As previously reported £m	Changes as a result of IFRS 17 £m	Other AOP methodology changes £m	Restated £m
Asset Management	264	—	—	264
Life[i]	476	(16)	—	460
Wealth[i]	96	62	—	158
Corporate Centre	(307)	—	50	(257)
Adjusted operating profit/(loss) before tax	529	46	50	625

i Life and Wealth were previously reported under Retail and Savings.

Analysis of Group adjusted operating profit/(loss) before tax by segment:

For the year ended 31 December	**2023 £m**	Restated[i] 2022 £m
Asset Management	**242**	264
Life	**586**	460
Wealth	**180**	158
Corporate Centre	**(211)**	(257)
Total segmented adjusted operating profit before tax	**797**	625
Short-term fluctuations in investment returns[ii]	**(171)**	(2,858)
Mismatches arising on application of IFRS 17	**(41)**	(244)
Amortisation of intangible assets acquired in business combinations	**(39)**	(35)
Restructuring costs and other[iii]	**(141)**	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**405**	(2,659)
IFRS profit attributable to non-controlling interests[iv]	**16**	19
IFRS profit/(loss) before tax attributable to equity holders	**421**	(2,640)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Market conditions have led to lower losses from short-term fluctuations in investment returns in the current period with the impact of rising rates for the year ended 31 December 2023 not being as significant as the year to 31 December 2022. The overall losses primarily comprise of a £4m gain (2022: £989m loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates and £159m loss (2022: £1,301m loss) from the difference in actual and long-term expected investment return on surplus assets backing the annuity portfolio, both of which have significantly improved due to the smaller increase in yields in 2023 compared to 2022. There were also losses of £123m (2022: £104m gain) on the hedging instruments held to protect the Solvency II capital position from falling equity markets, which moved to a loss as a result of increases in US and European equity markets.

iii Restructuring costs and other excluded from adjusted operating profit includes costs that relate to the transformation of our business which are allocated to the shareholder. These differ to Restructuring costs incurred in the analysis of administrative and other expenses in Note 7 which include costs allocated to the Policyholder. In the year ended 31 December 2023 restructuring costs and other include £73m (2022: £48m) in relation to operational transformation, £30m (2022: £36m) in respect of investment spend in building out capability in our Asset Management business, and £19m (2022: £32m) in respect of the development of the M&G Wealth platform business.

iv Excludes non-controlling interests in relation to amortisation of intangible assets acquired in business combinations which is presented net within the non-operating line item

3 Segmental analysis (continued)

3.4 Analysis of Group revenue by segment

The following table shows revenue by segment for the Group:

For the year ended 31 December	2023 £m	2022 £m
Life	**3,235**	2,938
Wealth	**652**	387
Total segmented insurance revenue[i]	**3,887**	3,325
Asset Management	**11**	—
Life	**1,663**	1,385
Wealth	**1,391**	1,009
Corporate Centre	**53**	26
Total segmented interest revenue	**3,118**	2,420
Asset Management[ii]	**1,025**	1,051
Life	**37**	42
Wealth	**106**	108
Total segmented fee income	**1,168**	1,201

i Following a review of the Group's presentation of policyholder tax, comparatives for 31 December 2022 have been restated from those previously reported in the 2023 interim financial statements.

ii The Asset Management segmented fee income differs from the fee income in Note 6 due to the netting of certain items that have no profit impact in adjusted operating profit. Asset management fee income includes net inter-segment fee income of £165m (2022: £164m).

The Group has a widely diversified client base. There are no clients whose revenue represents greater than 10% of fee income.

3.5 Total external revenue by geography

The following table provides a geographical segmentation of insurance revenue and other income (includes fee income and other income), as presented in the consolidated income statement:

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
United Kingdom:		
Insurance revenue	**3,765**	3,249
Fee and other income	**450**	525
Total United Kingdom	**4,215**	3,774
Rest of the World:		
Insurance revenue	**122**	76
Fee and other income	**590**	582
Total Rest of the World	**712**	658
Total:		
Insurance revenue	**3,887**	3,325
Fee and other income	**1,040**	1,107
Total	**4,927**	4,432

The geographical analyses of revenues from long-term business are based on the territory of the operating unit assuming the risk. Other income from external customers and clients in Asset Management reflect the domicile of where revenues are generated. The following table provides a segmentation of non-current, non-financial assets as presented in the consolidated statement of financial position:

Total non-current, non-financial assets by geographical location

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
UK	**13,356**	14,308
Rest of the World	**6,256**	6,471
Total	**19,612**	20,779

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Non-current, non-financial assets for this purpose consist of goodwill and intangible assets, deferred acquisition costs, property, plant and equipment, investment property, and investment in joint ventures and associates accounted for using the equity method.

Notes to the consolidated financial statements continued

4 Insurance revenue

The Group's exposure to risks arising from insurance assets and liabilities is different for each component of the Group's business. The Group's Insurance revenue is presented below for the different components of business:

	2023			
For the year ended 31 December	With-profits sub-funds £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
Amounts relating to the changes in the liability for remaining coverage:				
Expected incurred claims and other expenses	**1,609**	**36**	**1,226**	**2,871**
Change in the risk adjustment for non-financial risk for the risk expired	**24**	**1**	**32**	**57**
CSM recognised in profit or loss for the services provided	**499**	**9**	**141**	**649**
Revenue recognised for incurred policyholder tax	**249**	**6**	**—**	**255**
Amounts relating to the recovery of insurance acquisition cash flows:				
Allocation of premium	**26**	**—**	**29**	**55**
Total insurance revenue	**2,407**	**52**	**1,428**	**3,887**

	2022			
For the year ended 31 December	With-profits sub-funds £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
Amounts relating to the changes in the liability for remaining coverage:				
Expected incurred claims and other expenses	1,623	37	1,166	2,826
Change in the risk adjustment for non-financial risk for the risk expired	22	—	41	63
CSM recognised in profit or loss for the services provided	526	11	127	664
Expense recognised for incurred policyholder tax[i]	(243)	(19)	—	(262)
Amounts relating to the recovery of insurance acquisition cash flows:				
Allocation of premium	9	—	25	34
Total insurance revenue	1,937	29	1,359	3,325

i Following a review of the Group's presentation of policyholder tax, comparatives for 31 December 2022 have been restated from those previously reported in the 2023 interim financial statements.

Insurance revenue is recognised as services under the group of insurance contracts are provided to policyholders at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services but excludes investment components.

The amount of CSM recognised in the profit or loss in the period is based on coverage units provided during the current period. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided and its expected coverage period.

Services provided to insurance contracts include insurance coverage and, for all direct participating contracts, investment services for managing underlying items on behalf of policyholders (investment-related services). In addition, insurance contracts without direct participation features may also provide investment services for generating an investment return for the policyholder (investment-return service). The number of coverage units is a quantification of services provided under the contracts in the group.

5 Investment income and insurance finance expenses

An analysis of net investment income and net insurance finance expenses by each component of the Group's business is presented below:

	2023				
For the year ended 31 December	With-profits sub-funds £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Other £m	Total £m
Interest revenue from financial assets not measured at FVTPL	488	69	77	38	672
Interest revenue from financial assets measured at FVTPL	1,675	167	570	34	2,446
Net change in investments contract liabilities without DPF	(122)	(521)	(57)	—	(700)
Net credit impairment (losses)/reversal	2	1	—	(1)	2
Other investment return:					
Dividend income	2,041	333	1	—	2,375
Net gains on financial assets measured at FVTPL	3,222	449	336	55	4,062
Rental income from investment properties	849	35	72	—	956
Net losses on investment properties	(951)	(33)	(69)	—	(1,053)
Foreign exchange (losses)/gains	(137)	(1)	1	11	(126)
Total other investment return	5,024	783	341	66	6,214
Total investment return	7,067	499	931	137	8,634
Insurance finance income/(expenses) from insurance contracts issued					
Due to changes in the value of underlying assets of contracts measured under the VFA	(5,761)	(239)	(22)	—	(6,022)
Interest accreted to insurance contracts measured under GMM	(395)	—	(780)	—	(1,175)
Due to changes in interest rates and other financial assumptions	24	—	(145)	—	(121)
Total insurance finance income/(expenses) from insurance contracts issued	(6,132)	(239)	(947)	—	(7,318)
Reinsurance finance income/(expenses) from reinsurance contracts held					
Interest accreted to reinsurance contracts measured under GMM	—	(2)	40	—	38
Due to changes in interest rates and other financial assumptions	(1)	(1)	3	—	1
Total reinsurance finance income/(expenses) from reinsurance contracts held	(1)	(3)	43	—	39
Total net investment return and insurance finance income/(expenses)	934	257	27	137	1,355

In relation to the business in scope of IFRS 17, the table above provides detail of the total investment income (income and gains) and detail of the resulting or corresponding changes in liabilities included in insurance and reinsurance finance income/(expenses).

The key offsetting movements in liabilities are:

- the offsetting change in liabilities due to changes in the underlying items of contracts measured under the VFA;
- the offsetting changes in liabilities due to changes in interest rates and other financial assumptions; and
- the interest accreted to contracts measured under the GMM.

As a result, the overall net position reflects income and gains on surplus assets.

Notes to the consolidated financial statements continued

5 Investment income and insurance finance expenses (continued)

	2022				
For the year ended 31 December	With-profits sub-funds £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Other £m	Total £m
Interest revenue from financial assets not measured at FVTPL	174	16	18	9	217
Interest revenue from financial assets designated as at FVTPL	1,444	160	580	19	2,203
Net change in investments contract liabilities without DPF	10	1,671	(44)	—	1,637
Net credit impairment (losses)/reversal	30	1	—	—	31
Other investment return:					
Dividend income	1,902	333	—	—	2,235
Net losses on financial assets measured at FVTPL	(10,976)	(2,578)	(6,745)	(16)	(20,315)
Rental income from investment properties	802	10	72	—	884
Net losses on investment properties	(1,225)	(71)	(181)	—	(1,477)
Foreign exchange gains/(losses)	598	32	(7)	(47)	576
Total other investment return	(8,899)	(2,274)	(6,861)	(63)	(18,097)
Total investment return	(7,241)	(426)	(6,307)	(35)	(14,009)
Insurance finance income/(expenses) from insurance contracts issued					
Due to changes in the value of underlying assets of contracts measured under the VFA	5,217	357	14	—	5,588
Interest accreted to insurance contracts measured under GMM	(229)	—	(441)	—	(670)
Due to changes in interest rates and other financial assumptions	1,993	1	4,911	—	6,905
Total insurance finance income/(expenses) from insurance contracts issued	6,981	358	4,484	—	11,823
Reinsurance finance income/(expenses) from reinsurance contracts held					
Interest accreted to reinsurance contracts measured under GMM	—	1	40	—	41
Due to changes in interest rates and other financial assumptions	(2)	8	(519)	—	(513)
Total reinsurance finance income/(expenses) from reinsurance contracts held	(2)	9	(479)	—	(472)
Total net investment return and insurance finance income/(expenses)	(262)	(59)	(2,302)	(35)	(2,658)

Notes to the consolidated financial statements continued

5 Investment income and insurance finance expenses (continued)

The interest revenue, dividend income, net gains or losses at FVTPL and other investment income for each class of financial asset are as follows:

	2023			
	Fair value through profit or loss		Amortised cost	Total
	Designated	Mandatory		
For the year ended 31 December	£m	£m	£m	£m
Interest revenue from financial assets not measured at FVTPL:				
Cash and cash equivalents	—	—	76	76
Deposits with credit institutions	—	—	596	596
	—	—	672	672
Interest revenue from financial assets measured at FVTPL:				
Loans	—	272	—	272
Debt securities	—	2,174	—	2,174
	—	2,446	—	2,446
Dividend income	—	2,375	—	2,375
Net gains/(losses) from financial assets measured at FVTPL:				
Equity securities and pooled investment funds	—	1,779	—	1,779
Loans	—	64	—	64
Debt securities	—	955	—	955
Derivatives	—	1,264	—	1,264
	—	4,062	—	4,062
Net change in investment contract liabilities without DPF	(700)	—	—	(700)
Reversal of previous impairment charges	—	—	2	2
Foreign exchange (losses)	—	—	(126)	(126)
Total interest revenue and investment income from financial assets and liabilities	(700)	8,883	548	8,731

	Restated[i] 2022			
	Fair value through profit or loss		Amortised cost	Total
	Designated	Mandatory		
For the year ended 31 December	£m	£m	£m	£m
Interest revenue from financial assets not measured at FVTPL:				
Cash and cash equivalents	—	—	25	25
Deposits with credit institutions	—	—	192	192
	—	—	217	217
Interest revenue from financial assets measured at FVTPL:				
Loans	—	193	—	193
Debt securities	—	2,010	—	2,010
	—	2,203	—	2,203
Dividend income	—	2,235	—	2,235
Net gains/(losses) from financial assets measured at FVTPL:				
Equity securities and pooled investment funds	—	(2,794)	—	(2,794)
Loans	—	(901)	—	(901)
Debt securities	—	(12,637)	—	(12,637)
Derivatives	—	(3,983)	—	(3,983)
	—	(20,315)	—	(20,315)
Net change in investment contract liabilities without DPF	1,637	—	—	1,637
Reversal of previous impairment charges	—	—	31	31
Foreign exchange gains	—	—	576	576
Total interest revenue and investment income from financial assets and liabilities	1,637	(15,877)	824	(13,416)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Notes to the consolidated financial statements continued

6 Fee income

The following table disaggregates management fee revenue by segment:

For the year ended 31 December	2023 £m	2022 £m
Total Asset Management fee income:		
Management fees	**870**	870
Rebates	**(19)**	(24)
Performance fees and carried interest	**9**	41
	860	887
Total Life fee income:		
Investment contracts without DPF	**37**	42
	37	42
Total Wealth fee income:		
Platform fees	**30**	31
Advice fees	**76**	77
	106	108
Total fee income	**1,003**	1,037

7 Administrative and other expenses

For the year ended 31 December	Note	2023 £m	Restated[i] 2022 £m
Staff and employment costs	8	**874**	791
Acquisition costs incurred:			
Investment contracts without DPF		**14**	9
Other contracts		**144**	138
Acquisition costs deferred:			
Investment contracts without DPF		**—**	—
Other contracts		**(2)**	(6)
Amortisation of deferred acquisition costs:			
Investment contracts without DPF		**5**	4
Other contracts		**5**	6
Impairment of deferred acquisition costs		**—**	1
Depreciation of property, plant and equipment	15	**143**	142
Impairment of property, plant and equipment[ii]	15	**65**	3
Amortisation of intangible assets	13	**33**	34
Impairment of goodwill and intangible assets	13	**17**	25
Restructuring costs		**226**	228
Interest expense		**206**	136
Commission expense		**159**	193
Investment management fees		**128**	132
Property-related costs		**201**	192
Other expenses		**802**	1,064
		3,020	3,092
Less amounts directly attributable to insurance results:			
Expenses attributed to insurance acquisition cash flows incurred during the year		**(142)**	(147)
Other directly attributable expenses		**(637)**	(690)
Administrative and other expenses		**2,241**	2,255

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Includes impairment of certain PPE held by the Group's infrastructure capital private equity vehicles of £75m (2022: £11m). Includes impairment recognised in respect of our future ways of working of £11m (2022: £6m reversal) included in 'restructuring costs and other' within the Segmental Analysis in Note 3.

In addition to the interest expense shown above of £206m (2022: £136m), the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2023 was £160m (2022: £162m). This is shown as finance costs in the consolidated income statement.

8 Staff and employment costs

The average number of staff employed by the Group during the year was:

For the year ended 31 December	2023	2022
Average staff headcount[i]	**8,145**	7,637

i The headcount includes employees of the Group's consolidated infrastructure and private equity funds.

The following table shows the staff costs and other employee-related costs:

For the year ended 31 December	Note	2023 £m	2022 £m
Wages and salaries		**797**	746
Social security costs		**97**	91
Share-based payments	37	**32**	34
Pension costs:			
Defined benefit schemes	17	**13**	25
Defined contribution schemes		**64**	59
Total staff and employment costs		**1,003**	955

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 120 to 150.

The table below provides a breakdown of staff and employment costs charged within administrative and other expenses:

For the year ended 31 December	2023 £m	2022 £m
Staff and employment costs	**874**	791
Acquisition costs	**57**	65
Restructuring costs	**61**	82
Other expenses	**11**	17
Total staff and employment costs	**1,003**	955

9 Fees payable to the auditor

The following table shows the auditor remuneration, excluding VAT:

For the year ended 31 December	2023 £m	2022 £m
Fees payable to the Company's auditor and its associates for audit and assurance services:		
Fees payable to the Company's auditor for the audit of the Company's individual and consolidated financial statements	**8.7**	4.1
Audit of subsidiaries pursuant to legislation	**10.6**	10.1
Audit-related assurance services	**2.1**	2.0
Other assurance services	**0.9**	0.5
Total fees payable to the auditor	**22.3**	16.7

Fees payable to the auditor disclosed above exclude audit and non-audit fees payable to the Group's principal auditor by funds managed by the Group, but which are not controlled by the Group, and therefore are not consolidated in the Group financial statements. The increase in the statutory group audit includes the audit of the IFRS 17 transition of £4.3m.

For more information on non-audit services, refer to the Audit Committee Report on page 117.

10 Tax

10.1 Tax charged/(credited) to the consolidated income statement

The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information. IFRS 17 has a relatively minor impact on the effective tax rate and is described in footnote (iii) of the table in 10.1.2 below. The impact on deferred tax in relation to insurance and investment contract balances is described in footnote (vii) of the table in 10.2.2. The adoption of IFRS 9 has had no impact on tax balances.

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
The total tax charge comprises:		
Current tax:		
Current year	**491**	158
Adjustments in respect of prior years	**7**	(19)
Total current tax	**498**	139
Deferred tax:		
Origination and reversal of temporary differences in the year	**(44)**	(1,103)
Adjustments in respect of prior years	**(14)**	—
Total deferred tax	**(58)**	(1,103)
Total tax charge/(credit)	**440**	(964)

The tax charge/(credit) above, comprising current and deferred tax, can be analysed as follows:

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
UK tax	**498**	(1,148)
Overseas tax	**(58)**	184
Total tax charge/(credit)	**440**	(964)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

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

The profit before tax reflected in the consolidated income statement for the year ended 31 December 2023 of £749m (2022 (Restated): £3,019m loss before tax) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds. This is the formal measure of profit before tax under IFRS but it is not the result attributable to equity holders.

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

The tax charge 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 attributable to policyholders included in the total tax (credit)/charge.

	2023			Restated[i] 2022		
For the year ended 31 December	Equity holders £m	Policyholders £m	Total £m	Equity holders £m	Policyholders £m	Total £m
Profit/(loss) before tax	**421**	**328**	**749**	(2,640)	(379)	(3,019)
Tax (charge)/credit	**(112)**	**(328)**	**(440)**	585	379	964
Profit/(loss) for the year	**309**	**—**	**309**	(2,055)	—	(2,055)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Notes to the consolidated financial statements continued

10 Tax (continued)

10.1 Tax charged/(credited) to the consolidated income statement (continued)

10.1.2 Tax reconciliation

	2023			Restated[i] 2022		
For the year ended 31 December	Equity holders £m	Policyholders £m	Total £m	Equity holders £m	Policyholders £m	Total £m
Profit/(loss) before tax	**421**	**328**	**749**	(2,640)	(379)	(3,019)
Tax charge/(credit) based on the standard UK corporation tax rate of 23.5% (2022: 19.0%)	**99**	**77**	**176**	(502)	(72)	(574)
Impact of (losses)/profits earned in jurisdictions with different statutory rates to the UK	**(2)**	**—**	**(2)**	3	—	3
Recurring items:						
Different basis of taxation - policyholders	**—**	**243**	**243**	—	(283)	(283)
Deductions not allowable for tax purposes[ii]	**39**	**—**	**39**	30	—	30
Differences arising on rate of deferred tax compared to standard UK corporation tax rate[iii]	**(16)**	**—**	**(16)**	13	—	13
Income and gains not taxable or taxable at concessionary rates[iv]	**(1)**	**—**	**(1)**	(8)	—	(8)
Changes in recognition of deferred tax and effect of unrecognised tax losses[v]	**(3)**	**—**	**(3)**	(7)	—	(7)
Other	**5**	**—**	**5**	1	—	1
Non-recurring items:						
Adjustments in relation to prior periods[vi]	**(15)**	**8**	**(7)**	5	(24)	(19)
Impact of deferred tax recognised at 25% on current year movements[vii]	**—**	**—**	**—**	(125)	—	(125)
Impairment of goodwill	**6**	**—**	**6**	5	—	5
Tax charge/(credit)	**112**	**328**	**440**	(585)	(379)	(964)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Of the 2023 amount of £39m, £33m (2022: £22m) relates to the non-taxable adjustment in relation to joint venture agreements in respect of long term assurance business. The remaining amount relates to expenses that are not deductible for tax purposes, primarily in the UK.

iii This represents deferred tax recognised during the period at a rate that differs to the standard UK Corporation tax rate. It primarily represents deferred tax recognised on accounting differences between IFRS and local GAAP which is used for the purposes of preparing statutory corporation tax returns.

iv Predominantly relates to non-taxable dividend income in the UK.

v This represents deferred tax recognised during the period at a rate that differs to the standard UK Corporation tax rate. It primarily represents deferred tax recognised on accounting differences between IFRS and local GAAP which is used for the purposes of preparing statutory corporation tax returns.

vi The equity holders impact of £15m credit (2022: £5m charge) relates to changes in estimates of prior year positions. The policyholders impact of £8m charge primarily also relates to changes in estimates of prior year positions (2022: £24m credit primarily due to changes in estimates to deferred tax assets due to agreement reached with HMRC to amend the application of income allocation methodology within the life insurance business).

vii Benefit arising on deferred tax movements in the period booked at the future rate of corporation tax in the UK of 25% compared to the current period rate of 19%.

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise. The key applicable tax rate for 2023 is the UK Corporation tax rate of 25% (effective from 1 April 2023) (2022: 19.0%) as the majority of the Group's profits are earned and taxed in the UK.

10 Tax (continued)

10.1 Tax charged/(credited) to the consolidated income statement (continued)

10.1.3 Factors that may impact the future tax rate

The majority of the Group's profits are generated in the UK. Taking into account recurring tax adjusting items, the underlying effective tax rate for equity holders' portion of profits is expected to be marginally higher than the statutory rate in the UK of 25% (effective from 1 April 2023).

The Group has unused tax losses carried forward of £548m (2022: £481m), primarily UK capital losses, on which no deferred tax is recognised. Should appropriate capital gains arise in future periods it will result in tax benefits thereby reducing the future effective tax rate in the relevant periods.

During 2023, the UK Government, where the Parent Company is incorporated, enacted the Pillar Two income taxes legislation effective from 1 January 2024. Under the legislation, the Parent Company will be required to pay top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15%. The Group's taxable profits are predominantly in the UK and given the mainstream UK corporation tax rate is 25%, it is not expected that any material top-up tax will be required (see 'Independent auditors' report' for further details of materiality). The Group completed a high-level impact assessment which resulted in an expected immaterial Pillar Two top up tax. The Group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance. On 23 May 2023, the IASB issued amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules', which became effective immediately and were approved for adoption by the UK Endorsement Board on 19 July 2023. The Group has applied the IAS 12 exemption from recognising and disclosing information on associated deferred tax assets and liabilities.

10.1.4 Use of accounting estimates and judgements

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

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

Deferred tax assets are reviewed at each reporting date. In considering their recoverability, the Group assesses the likelihood of them being recovered within the expiry of losses and/or while operating as a going concern. This takes into account the future expected profit profile and business model of each relevant company or country, and any potential legislative restrictions on use. Short-term timing differences are generally recognised ahead of losses and other tax attributes as being likely to reverse more quickly.

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

Not withstanding any origination and reversal of temporary differences in the year, the Group does not consider there to be a significant risk of a material adjustment in the next financial year to the deferred and current tax balances from either recognition and measurement of deferred tax assets or the level of provisioning for uncertain tax positions.

10.1.5 Tax (credited)/charged to other comprehensive income

For the year ended 31 December	**2023 £m**	2022 £m
The tax (credit)/charge booked to other comprehensive income, current and deferred tax, comprises:		
Actuarial (losses)/gains on defined benefit pension schemes	**(28)**	7
Total tax (credit)/charge to other comprehensive income	**(28)**	7

10.1.6 Tax (credited)/charged to equity

For the year ended 31 December	**2023 £m**	2022 £m
The tax credit booked to shareholders' equity, current and deferred tax, comprises:		
Share-based payments	**(7)**	(6)
Total tax credit to equity	**(7)**	(6)

10 Tax (continued)

10.2 Deferred tax

10.2.1 Deferred tax assets and liabilities

Under IAS12, deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period. Deferred tax assets are recognised as recoverable to the extent that, on the basis of all available evidence, it is regarded as probable there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted or tax losses utilised. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

10.2.2 Deferred tax in the statement of financial position

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

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities. On 10 June 2021, the UK Government's proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted into UK law. In line with the changes to the UK rate of corporation tax, the carrying values of our deferred tax assets and liabilities were revalued in 2022, the impact of which was limited primarily due to the majority of the UK deferred tax balances being measured at a policyholder rate of tax which remains unaffected.

	2023										
For the year ended 31 December	Unrealised gains /(losses) on investments[ii] £m	Life tax transitional adjustments[iii] £m	Other short-term timing differences[iv] £m	Deferred acquisition costs[v] £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward[vi] £m	Share-based payments and deferred compensation £m	Other pension £m	Balances relating to insurance and investment contracts[vii] £m	Total £m
Assets	5	—	163	38	—	28	528	26	—	351	1,139
Liabilities	(825)	—	(37)	(1)	(39)	(15)	—	—	—	(572)	(1,489)
As at 1 January 2023	**(820)**	**—**	**126**	**37**	**(39)**	**13**	**528**	**26**	**—**	**(221)**	**(350)**
Income statement	138	—	(8)	(11)	(10)	(5)	(23)	(1)	—	(22)	58
Equity and other comprehensive income	—	—	—	—	28	—	—	(2)	—	—	26
Other movements/ Foreign exchange	9	—	5	—	—	13	—	—	—	—	27
As at 31 December 2023	**(673)**	**—**	**123**	**26**	**(21)**	**21**	**505**	**23**	**—**	**(243)**	**(239)**
Assets	2	—	158	27	—	21	505	23	—	263	999
Liabilities	(675)	—	(35)	(1)	(21)	—	—	—	—	(506)	(1,238)
As at 31 December 2023	**(673)**	**—**	**123**	**26**	**(21)**	**21**	**505**	**23**	**—**	**(243)**	**(239)**

10 Tax (continued)

10.2 Deferred tax (continued)

10.2.2 Deferred tax in the statement of financial position (continued)

	Restated[i] 2022										
For the year ended 31 December	Unrealised gains /(losses) on investments[ii] £m	Life tax transitional adjustments[iii] £m	Other short-term timing differences[iv] £m	Deferred acquisition costs[v] £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward[vi] £m	Share-based payments and deferred compensation £m	Other pension £m	**Balances relating to insurance and investment contracts[vii]** £m	Total £m
Assets	3	—	162	42	8	25	13	20	—	412	685
Liabilities	(1,410)	(26)	(49)	(3)	(48)	(37)	—	—	—	(716)	(2,289)
As at 1 January 2022	(1,407)	(26)	113	39	(40)	(12)	13	20	—	(304)	(1,604)
Income statement	414	26	27	(2)	8	28	515	1	—	86	1,103
Equity and other comprehensive income	—	—	—	—	(7)	—	—	5	—	—	(2)
Other movements/ foreign exchange	173	—	(14)	—	—	(3)	—	—	—	(3)	153
As at 31 December 2022	(820)	—	126	37	(39)	13	528	26	—	(221)	(350)
Assets	5	—	163	38	—	28	528	26	—	386	1,174
Liabilities	(825)	—	(37)	(1)	(39)	(15)	—	—	—	(607)	(1,524)
As at 31 December 2022	(820)	—	126	37	(39)	13	528	26	—	(221)	(350)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Deferred tax on unrealised gains/(losses) on investments primarily arise on two key components. The largest component relates to gains/(losses) on certain investments which are only taxed when realised, ie when an asset is sold. The second component relates to gains/(losses) on certain investments held by life insurance companies, which for UK corporation tax purposes are deemed to have been disposed of and immediately reacquired at market value at the end of each accounting period. Any gain/(loss) arising on the deemed disposal is required to be spread over a seven year period.

iii The UK Government made substantial changes to the rules relating to the taxation of life insurance companies which applied from 1 January 2013. A net deferred tax liability was recognised for the temporary difference that arose on the transition to the new regime. The deferred tax balances were fully reversed at 31 December 2022.

iv The closing balance at 31 December 2023 primarily comprises £77m (2022: £83m) of deferred tax assets on subordinated debt together with a £27m (2022: £33m) of deferred tax liability in relation to customer related intangible assets arising on acquisitions of MGSA, Sandringham & responsAbility. The remaining balance primarily relates to deferred tax assets on employee related compensation.

v The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For UK corporation tax purposes, acquisition expenses incurred until 31 December 2022 in respect of certain life insurance business were required to be spread over a seven year period. A deferred tax asset was recognised for the expected future tax deductions.

vi The tax losses carried forward at 31 December 2022 relate to £1,970m of UK tax losses (2022: £2,024m) and £52m (2022: £82m) of UK capital losses.

vii Deferred tax recognised in relation to differences arising on accounting for insurance contracts between IFRS17 and FRS103 - Insurance Contracts (used for the preparation of the statutory accounts of one of the Group's subsidiaries, The Prudential Assurance Company Limited).

The Group's net deferred tax liability at 31 December 2023 of £239m reduced from the net deferred tax liability at 31 December 2022 of £350m representing an overall net movement of £111m. The movement is predominantly due to a decrease of deferred tax liability (DTL) arising on unrealised losses in the period.

The recognition of a deferred tax asset (DTA) relies on an assessment of the probability of future taxable profits. The Group's expectations of future UK taxable profits require management judgement, and take into account the Group's long-term financial and strategic plans and projected future shareholder transfers.

The DTA on tax losses carried forward at 31 December 2023 of £505m (2022: £528m) comprises of £492m in relation to UK income tax losses (2022: £508m) and £13m (2022: £20m) in respect of UK capital losses. The DTA on UK income tax losses has been recognised in full based upon sufficient future taxable profits arising from shareholder transfers. These transfers are considered a reliable source of profit and are a consistent measure used in the Group's Business Plans and Solvency II calculations. The DTA on UK capital losses has been partially recognised and is based upon expected reversal of the taxable temporary differences recognised on unrealised gains on investments, only a proportion of which are expected to be available for offset against the UK capital losses.

10 Tax (continued)

10.2 Deferred tax (continued)

10.2.2 Deferred tax in the statement of financial position (continued)

Modelling was undertaken to review the recovery period of the DTA on both the income and capital losses. Under current UK tax legislation, there is no time limit on utilisation of both the income and capital losses, however, these tax losses can only be used against 50 per cent of taxable income profits and capital gains in future periods. These restrictions in utilisation mean that the value of the DTA in respect of income tax losses is only expected to be fully recovered by 2038 in the base case forecast. An impaired scenario was also modelled which reflected a 10% reduction of forecast shareholder transfer in each period, this extended the recovery to 2040. The income tax losses arising in 2022 are not expected to be recurring in future periods and given the forecast of future profitability and the Group's commitment to the UK market, in management's judgement it is probable that the value of the DTA on losses will be recovered by the Group while still operating as a going concern. The modelling of future capital gains arising on investments show that the recognised DTA on capital losses is expected to be recovered by 2029. It is possible that future tax law changes could materially affect the timing of recovery and the value of these losses ultimately realised by the Group.

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

	Deferred tax assets		Deferred tax liabilities	
	2023	Restated[i] 2022	2023	Restated[i] 2022
For the year ended 31 December	£m	£m	£m	£m
UK	**430**	388	**(362)**	(480)
Overseas	**13**	57	**(320)**	(315)
As at 31 December	**443**	445	**(682)**	(795)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

10.2.3 Unrecognised deferred tax

Tax losses and temporary differences

At the end of the reporting period, the Group's continuing operations have unused tax losses of £548m (2022: £481m) for which no deferred tax asset is being recognised. The Group's unused tax losses primarily relate to capital losses in the UK of £540m (2022: £472m). No deferred tax asset is recognised on the unused tax losses of £548m (2022: £481m) as it is considered not probable that future taxable UK capital gains or other appropriate profits will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely.

Group investments in subsidiaries, branches and investments

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

10.3 Current tax assets and liabilities

Movements on corporation tax current tax assets and liabilities were as follows:

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
Net corporation tax asset as at 1 January	**197**	44
Income statement	**(498)**	(139)
Reserves movement for the period	**9**	1
Corporation tax paid	**250**	268
Other movements	**12**	23
Net corporation tax (liability)/asset as at 31 December	**(30)**	197
Corporation tax assets:		
UK	**16**	214
Overseas	**51**	41
Corporation tax liabilities:		
UK	**(57)**	(24)
Overseas	**(40)**	(34)
Net corporation tax (liability)/asset as at 31 December	**(30)**	197

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Net corporation tax (liability)/asset consists of £67m current tax assets (2022: £255m) and £97m current tax liabilities (2022: £58m). All corporation tax assets and liabilities are expected to be settled within 12 months.

10 Tax (continued)

10.3 Current tax assets and liabilities (continued)

One of the Group's subsidiaries, The Prudential Assurance Company Limited (PAC), is the lead litigant in a combined group action against HM Revenue and Customs (HMRC) concerning the correct historical tax treatment applying to dividends received from overseas portfolio investments of its With-Profits Fund.

In February 2018, the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court, released in July 2018, upheld the main point of dispute in PAC's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle. The Supreme Court issued its order giving effect to its decision in October 2019, stating any remaining issues of computation be remitted back to the High Court. PAC and HMRC are working through the mechanics of implementing the Supreme Court decisions. To date, this work has led to a reduction in the estimate for policyholder tax credit recoverable, and the associated estimate of interest receivable.

As at 31 December 2023, PAC has recognised a total policyholder tax credit of £114m (2022: £114m) in respect of its claim against HMRC. Of this amount, £40m (2022: £40m) has been paid by HMRC leaving a tax recoverable balance of £74m (2022: £74m) recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. As a result of the COVID pandemic the timing to finalise the issue has been further delayed. It is now expected to be finalised during 2024 at which point PAC expect to receive full and final payment.

11 Earnings per share

Basic earnings per share for the year ended 31 December 2023 was 12.7p (2022: (83.6p)) and diluted earnings per share was 12.4p (2022: (83.6p)). Basic earnings per share is based on the weighted average ordinary shares outstanding after deducting treasury shares and shares held by the employee benefit trust. Diluted EPS is based on the potential future shares outstanding resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares outstanding.

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

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
Profit/(loss) attributable to equity holders of M&G plc	**297**	(2,068)

For the year ended 31 December	2023 Millions	2022 Millions
Weighted average number of ordinary shares outstanding	**2,350**	2,474
Dilutive effect of share options and awards	**46**	—
Weighted average number of diluted ordinary shares outstanding	**2,396**	2,474

For the year ended 31 December	2023 Pence per share	Restated[i] 2022 Pence per share
Basic earnings/(loss) per share	**12.7**	(83.6)
Diluted earnings/(loss) per share	**12.4**	(83.6)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

12 Dividends

For the year ended 31 December	2023 Pence per share	2023 £m	2022 Pence per share	2022 £m
Dividends relating to reporting period:				
First interim dividend - Ordinary	**6.5**	**152**	6.2	154
Second interim dividend - Ordinary	**13.2**	**311**	13.4	310
Total	**19.7**	**463**	19.6	464
Dividends paid in reporting period:				
Prior year's interim dividend - Ordinary	**13.4**	**310**	12.2	311
First interim dividend - Ordinary	**6.5**	**152**	6.2	154
Total	**19.9**	**462**	18.4	465

Subsequent to 31 December 2023, the Board has declared a second interim dividend for 2023 of 13.2 pence per ordinary share and, an estimated £311m in total. The dividend is expected to be paid on 9 May 2024 and will be recorded as an appropriation of retained earnings in the Parent Company's financial statements at the time that it is paid.

13 Goodwill and intangible assets

For the year ended 31 December	2023 Goodwill £m	2023 Other Intangibles £m	2023 Total £m	2022 Goodwill £m	2022 Other Intangibles £m	2022 Total £m
Cost						
At 1 January	**1,580**	**490**	**2,070**	1,411	338	1,749
Transfer to held for sale	**(1)**	**(111)**	**(112)**	—	—	—
Additions:						
Arising on acquisitions	**—**	**—**	**—**	166	69	235
Internally generated	**—**	**—**	**—**	—	7	7
Other purchases	**11**	**36**	**47**	—	76	76
Disposals and transfers	**—**	**(1)**	**(1)**	(4)	(4)	(8)
Foreign exchange differences	**(1)**	**(17)**	**(18)**	7	4	11
At 31 December	**1,589**	**397**	**1,986**	1,580	490	2,070
Accumulated amortisation and impairment						
At 1 January	**(45)**	**(148)**	**(193)**	(20)	(114)	(134)
Transfer to held for sale	**—**	**68**	**68**	—	—	—
Amortisation	**—**	**(33)**	**(33)**	—	(34)	(34)
(Impairment)/reversal of impairment	**(24)**	**8**	**(16)**	(25)	—	(25)
Disposals and transfers	**—**	**1**	**1**	—	4	4
Foreign exchange differences	**(1)**	**3**	**2**	—	(4)	(4)
At 31 December	**(70)**	**(101)**	**(171)**	(45)	(148)	(193)
Net book amount	**1,519**	**296**	**1,815**	1,535	342	1,877

For the year ended 31 December	Note	2023 £m	2022 £m
Goodwill comprises:			
Asset Management		**1,262**	1,287
M&G Wealth Platform		**13**	13
Other		**42**	42
Subsidiaries held by the With-Profits Fund	2	**202**	193
		1,519	1,535

13.1 Impairment assessment

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to a group of cash-generating units for the purposes of impairment testing.

The group of cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

13 Goodwill and intangible assets (continued)

13.1 Impairment assessment (continued)

Goodwill is tested annually for impairment, and where there is an indication of impairment, by comparing the carrying amount of the group of cash-generating units, including any goodwill, with its recoverable amount.

None of the goodwill recognised is expected to be deductible for income tax purposes.

Asset Management cash-generating units

The carrying value of Asset Management goodwill predominantly relates to that arising on the acquisition of M&G Group Limited, split between the Wholesale Asset Management cash-generating unit (excluding MandG Investments Southern Africa (Pty) Limited), the Institutional Asset Management cash-generating unit (excluding responsAbility Investments AG), and the Internal Asset Management cash-generating unit. Goodwill arising on the acquisition of the MandG Investments Southern Africa (Pty) Limited cash-generating unit and the responsAbility Investments AG cash-generating unit is also recognised.

M&G Group Limited

An impairment assessment has been undertaken, which resulted in no impairment charge being recognised.

The recoverable amount of the group of cash-generating units was determined by calculating the value in use. The value in use represents the present value of future cash flows based on the business plan to 2026 approved by management, and relevant assumptions for cash flows for later years.

The future cash flows used in the value in use calculation are based on a set of economic, market and business assumptions. These include the direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, which are considered by management in arriving at the expectations for the final projections for the business plan. The business plan considers the growth in customer preference for ESG products, including those aimed at managing and addressing climate risk, and its impact on projected AUMA flows based on our strategy. M&G Group Limited being an asset manager does not hold material investments on its balance sheet which would directly be impacted by climate risk. Given this is an emerging area, and given the current available data and the sophistication of the models, forecast cash flows may not fully reflect the potential impact of climate risk.

Based on the assessment, the value in use of the group of cash-generating units was higher than the carrying value and no impairment has been recognised as at 31 December 2023 in respect of goodwill arising on the acquisition of M&G Group Limited.

The value in use is particularly sensitive to a number of key assumptions as follows:

- The cash flow forecast has been extrapolated beyond the business plan period to incorporate a five-year value in use assessment, estimating growth rates for 2027 and 2028, tapering the growth expected in 2026 down over the two-year period, to the long-term growth rate (based on long-term inflation and nominal gross domestic product rates for the UK).
- The pre-tax discount rate as at 31 December 2023 was 11% (2022: 11%) and is based on the weighted average cost of capital for M&G Group Limited derived using an estimated cost of equity, under the capital asset pricing model and cost of debt. A 50bps increase in the discount rate would result in the value in use decreasing by £175m (2022: £187m). This would not result in any impairment charge being recorded for goodwill.
- The terminal value was calculated using a standard growth model, using a discount rate of 11% (2022: 11%) as stated above and a long-term growth rate of 2% (2022: 2%). A 50bps decrease in the long-term growth rate would result in the value in use decreasing by £127m (2022: £122m). This would not result in any impairment charge being recorded for goodwill.
- That asset management contracts continue on similar terms.

No reasonable change in assumptions stated above that would result in any impairment being recorded. Furthermore, there would be no impairment recorded even if the individual stresses to assumptions stated above were to apply concurrently which demonstrates the significant headroom available on the carrying value.

responsAbility Investments AG

During the year to 31 December 2023 an impairment of £25m (2022: £nil) has been recognised in respect of the responsAbility Investments AG cash-generating unit to bring the carrying value down to its recoverable amount which is its value in use of £132m (2022: £186m). The change primarily reflects a revised view of timing of revenue synergies, as anticipated at the date of acquisition, being delivered or achieved. The responsAbility Investments AG cash generating unit consists of the net assets and goodwill and other intangibles arising from the acquisition of responsAbility Investments AG in May 2022. All of the impairment has been allocated against goodwill with the expense recorded in administrative expenses in the consolidated income statement. The key assumptions in determining the value in use were a discount rate of 10.5% (2022: 10.0%), a long-term growth rate of 1.6% (2022: 2.0%) and a terminal value earnings before interest, taxation, depreciation and amortisation (EBITDA) margin of 31.6% (2022: 27.7%).

13 Goodwill and intangible assets (continued)

13.1 Impairment assessment (continued)

Acquisition of subsidiaries held by the With-Profits Fund

Goodwill arising on acquisition of subsidiaries held relates to acquisitions made within consolidated infrastructure private equity vehicles which are held by the With-Profits Fund. Management have undertaken an impairment assessment by comparing the fair value of the subsidiaries with their carrying value. As a result of the assessment, no impairment was recognised for the year ended 31 December 2023 (2022: £nil).

13.2 Intangible assets

Intangible assets comprise customer relationships acquired through business combinations, software, service concessions, royalties and licences. All intangibles are amortised on a straight-line basis.

14 Investments in joint ventures and associates

14.1 Investments in joint ventures and associates accounted for using the equity method

For the year ended 31 December	**2023 £m**	2022 £m
Interests in joint ventures	**265**	413
Interests in associates	**22**	—
Investments in joint ventures and associates accounted for using the equity method	**287**	413

A controlling stake was acquired in two joint ventures held in the With-Profits Fund. As a result they are no longer accounted for as investments in joint ventures are are now fully consolidated.

For the year ended 31 December	**2023 £m**	2022 £m
Share of profit from joint ventures	**23**	38
Share of profit from associates	**—**	—
Share of profit from joint ventures and associates accounted for using the equity method	**23**	38

There is no share of other comprehensive income from joint ventures or associates.

14.1.1 Investment in joint ventures accounted for using the equity method

All of the Group's investments in joint ventures which are accounted for using the equity method are property vehicles held in the With-Profits Fund. The results of the Group's joint ventures therefore do not affect shareholders' results.

No joint ventures are considered to be material individually or in aggregate to the Group for the years ended 31 December 2023 and 31 December 2022. None of the Group's joint ventures are listed and financial information of these investments covering the same reporting period as that of the Group has been used for accounting for these investments using the equity method.

14.1.2 Investment in associates accounted for using the equity method

The Group has investments in associates which are accounted for using the equity method in the consolidated financial statements. All of the Group's associates which are accounted for using the equity method are held by the shareholder-backed business. No associates are considered to be material individually or in aggregate to the Group for the years ended 31 December 2023 and 31 December 2022. None of the Group's equity-accounted associates are listed, and the reporting date and reporting period of the Group's associates accounted for using the equity method are the same as the Group.

On 8 March 2023, the Group acquired an initial stake in Continuum. Further details are set out in Note 2.2.

14.2 Interests in joint ventures and associates accounted for at fair value through profit or loss (FVTPL)

The Group has investments in OEICs, unit trusts, property unit trusts and venture capital investments of the With-Profits Fund where the Group has significant influence or joint control. These investments are accounted for on a FVTPL basis and are included within equity securities and pooled investment funds in the consolidated statement of financial position.

14.2.1 Associates accounted for at FVTPL

During the year ended 31 December 2022, M&G European Property Fund (MEP) was deconsolidated from the Group and is now accounted for as an associate on a FVTPL basis. As at 31 December 2023, the Group held 29.4% of MEP (2022: 29.8%) with a fair value of £1,008m (2022: £1,143m). No other associates accounted for at FVTPL are considered individually material to the Group for the years ended 31 December 2023 and 31 December 2022.

The aggregate fair value of associates accounted for at FVTPL, including MEP, at 31 December 2023 was £2,004m (2022: £1,850m).

14.2.2 Joint ventures accounted for at FVTPL

The aggregate fair value of joint ventures accounted for at FVTPL at 31 December 2023 was £209m (2022: £190m). None of the joint ventures accounted for at FVTPL are considered individually material to the Group for the years ended 31 December 2023 and 31 December 2022.

15 Property, plant and equipment

Property, plant and equipment (PPE) comprises right of use assets, properties and land occupied by the Group and other tangible assets. A reconciliation of the carrying amount of these items from the beginning to the end of the year is as follows:

	2023				2022			
	Right of use assets	Group occupied property	Other tangible assets	Total	Right of use assets	Group occupied property	Other tangible assets	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 January	**346**	**106**	**2,140**	**2,592**	306	106	2,695	3,107
Transfer to held for sale	**(11)**	**(102)**	**(73)**	**(186)**	(7)	(1)	(196)	(204)
Additions	**13**	**8**	**488**	**509**	32	—	573	605
Arising on acquisition of subsidiaries	**—**	**—**	**—**	**—**	16	—	5	21
Disposals and transfers	**(53)**	**—**	**(13)**	**(66)**	(4)	(1)	(1,088)	(1,093)
Foreign exchange differences	**(1)**	**—**	**3**	**2**	3	2	151	156
At 31 December	**294**	**12**	**2,545**	**2,851**	346	106	2,140	2,592
Accumulated depreciation and impairment								
At 1 January	**(105)**	**(23)**	**(511)**	**(639)**	(88)	(19)	(464)	(571)
Transfer to held for sale	**2**	**25**	**17**	**44**	1	—	39	40
Depreciation charge for the year	**(24)**	**(2)**	**(117)**	**(143)**	(24)	(3)	(115)	(142)
Arising on acquisition of subsidiaries	**—**	**—**	**—**	**—**	—	—	(2)	(2)
Impairment	**(4)**	**—**	**(61)**	**(65)**	6	—	(9)	(3)
Disposals and transfers	**6**	**—**	**11**	**17**	1	—	52	53
Foreign exchange differences	**1**	**—**	**(1)**	**—**	(1)	(1)	(12)	(14)
At 31 December	**(124)**	**—**	**(662)**	**(786)**	(105)	(23)	(511)	(639)
Net book amount	**170**	**12**	**1,883**	**2,065**	241	83	1,629	1,953

Consideration was given to potential impacts on PPE related estimates and judgements arising from the climate scenario modelling on infrastructure assets within our TCFD disclosures (starting on page 69). The assessment concluded that no impairment indicator is present and no adjustments would be required for useful lives and residual values for the current reporting year.

15.1 Right of use assets

The Group recognises right of use assets for leases of land and buildings which are used as office space across various locations. Some leases include lease break options that are exercisable at the option of the Group.

As at 31 December 2023, £23m (2022: £29m) of right of use assets were held by the With-Profits Fund.

15.2 Other tangible assets

As at 31 December 2023, other tangible assets with a net book value of £1,784m (2022: £1,513m) were held by the With-Profits Fund, of which £174m (2022: £217m) are assets under construction. The other tangible assets within the With-Profits Fund are held by the Group's infrastructure capital private equity vehicles.

During the year £54m (2022: £9m) of impairments, net of reversals, were recognised in respect of tangible assets held by the Group's infrastructure capital private equity vehicles.

16 Investment property

Investment property is primarily held by the With-Profits Fund and is carried at fair value. A reconciliation of the carrying amount of investment property from the beginning of the year to the end of the year is set out below:

For the year ended 31 December	2023 £m	2022 £m
At 1 January	**16,505**	19,698
Transfer (to)/from held for sale	**(172)**	24
Additions:		
Resulting from property acquisitions	**746**	2,279
Resulting from expenditure capitalised	**215**	420
Arising on acquisition of subsidiaries	**76**	—
Disposals and other	**(530)**	(4,643)
Net fair value losses	**(1,053)**	(1,477)
Foreign exchange differences	**(365)**	204
At 31 December	**15,422**	16,505

For the year ended 31 December 2023 rental income from investment property was £956m (2022: £884m). Direct operating expenses, including repairs and maintenance arising from these properties for the year ended 31 December 2023 were £191m (2022: £154m). Direct operating expenses on investment property not generating rental income for the year ended 31 December 2023 was £9m (2022: £13m).

The Group's policy is to let investment property to tenants through operating leases. The leases typically include clauses to enable periodic rent reviews according to prevailing market conditions. In some agreements, the rents might be variable and linked to an index. Certain leases contain options to break before the end of the lease term by either party.

Minimum future rental income to be received on non-cancellable leases of the Group's freehold and leasehold investment property are receivable in the following periods:

For the year ended 31 December	2023 £m	2022 £m
Less than 1 year	**461**	468
After 1 year to 2 years	**407**	419
After 2 years to 3 years	**375**	384
After 3 years to 4 years	**332**	353
After 4 years to 5 years	**298**	321
Over 5 years	**2,100**	2,085
Total minimum future rental income	**3,973**	4,030

17 Defined benefit pension schemes

17.1 Background and summary economic and IAS 19 financial positions

The Group operates three defined benefit pension schemes, which historically have been funded by the Group. The largest defined benefit scheme as at 31 December 2023 is the Prudential Staff Pension Scheme (PSPS), which accounts for 83% (2022: 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 Group Limited (M&GGPS) and Scottish Amicable (SASPS) businesses.

On 18 September 2023, M&GGPS Trustees executed a buy-in transaction with PAC covering all deferred and pensioner member liabilities. A premium of £329m was transferred to PAC as part of the transaction. The assets transferred to PAC as premium are recognised in the relevant line within financial assets in the consolidated statement of financial position. As a result of the buy-in the relevant plan assets transferred were replaced with a single line insurance policy reimbursement right asset which is eliminated on consolidation. This reimbursement right asset, although available to the Scheme does not constitute a plan asset under IAS 19. The value of this insurance policy at 31 December 2023 was £298.1m.

In addition, on 30 September 2023, M&GGPS agreed to transfer the liability related to all active members to the PSPS scheme. This resulted in a premium of £50.4m and related liability £29.0m being transferred to PSPS. This is accounted for as a settlement and accordingly, M&GGPS record a loss of £21.4m on derecognition and PSPS record a corresponding gain which is eliminated on consolidation.

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. The level of the restriction is set out in the table below. Subsequent to the transfer of active members from M&GGPS to PSPS, a portion (23% as at 31 December 2023) of the net economic pension surplus of PSPS is attributable to M&G FA Limited and reflected in M&G FA Limited's financial statements. The remainder is then attributed 70% to the With-Profits Fund and 30% to the Group's shareholders. The remaining policyholder and shareholder allocation of PSPS is reflected in the financial statements of PAC and M&G Corporate Services Limited respectively.

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 31 December 2023 the SASPS scheme is in surplus and the M&GGPS schemes is in deficit based on the IAS 19 valuation.

M&GGPS is in a net economic surplus position but in deficit on an IAS 19 basis as a result of the elimination of the reimbursement right asset recognised in respect of the buy-in of the Scheme by PAC as explained below. The Scheme also has investments in insurance policies issued by Prudential Pensions Limited (PPL), a subsidiary of the Group, through which it invests in certain pooled funds. Under IAS 19, non-transferable insurance policies issued by a related party do not qualify as plan assets and these are eliminated.

The gross economic position of M&GGPS which includes the PPL policies and reimbursement is reflected in the financial statements of M&G FA Limited.

The SASPS net economic pension deficit is attributed 40% to the With-Profits Fund and 60% to the Group's shareholders. Both the policyholder and shareholder allocation of SASPS is reflected in the financial statements of PAC.

We recognise climate change has potential to affect the value of investments within the Schemes. Both PSPS and M&GGPS incorporate climate-related factors when executing their strategic objectives.

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

	2023			
	PSPS	SASPS	M&GGPS	Total
As at 31 December	£m	£m	£m	£m
Fair value of plan assets	4,611	583	314	5,508
Present value of defined benefit obligation	(4,260)	(576)	(298)	(5,134)
Effect of restriction on surplus	(339)	—	—	(339)
Net economic pension surplus[i]	12	7	16	35
Non-qualifying insurance policies	—	—	(12)	(12)
Eliminate of reimbursement right asset on consolidation	—	—	(298)	(298)
Net total pension surplus/(deficit)	12	7	(294)	(275)

17 Defined benefit pension schemes (continued)

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

	2023			
As at 31 December	**PSPS £m**	**SASPS £m**	**M&GGPS £m**	**Total £m**
Attributable to:				
Shareholder-backed business	**6**	**4**	**(294)**	**(284)**
With-Profits Fund	**6**	**3**	**—**	**9**
Net total pension surplus/(deficit)	**12**	**7**	**(294)**	**(275)**

	2022			
As at 31 December	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	4,641	582	442	5,665
Present value of defined benefit obligation	(4,050)	(566)	(313)	(4,929)
Effect of restriction on surplus	(581)	—	—	(581)
Net economic pension surplus[i]	10	16	129	155
Non-qualifying insurance policies	—	—	—	—
Net pension surplus attributable to the Group	10	16	129	155

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.

	2022			
As at 31 December	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Attributable to:				
Shareholder-backed business	3	10	129	142
With-Profits Fund	7	6	—	13
Net total pension surplus	10	16	129	155

17.1.1 Triennial actuarial valuations

A full actuarial valuation is required for defined benefit pension schemes every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high-quality corporate bonds while a more prudent assumption is typically used for the actuarial valuation.

Summary information on the latest completed actuarial valuation for each of the schemes, as at 31 December 2023, is shown in the table below.

17 Defined benefit pension schemes (continued)

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

17.1.1 Triennial actuarial valuations (continued)

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	05 April 2020	31 March 2020	31 December 2020
Funding level at the last valuation	108%	85%	116%
Deficit funding arrangement agreed with the Trustees based on the last completed valuation	No deficit funding required	Deficit funding of £26m per annum from 1 April 2020 until 31 December 2025, or earlier if the scheme's funding level reaches 100% before date. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required
Current level of employer contributions for active members	Are at the minimum level required under the scheme rules (approximately £3m per annum)[i]	Approximately £4.5m per annum	Zero contribution: no active members remaining post-buy-in
Contributions to cover ongoing administration and other expenses	Approximately £7m per annum until April 2023, then falling to approximately £6.25m per annum	Approximately £1.8m per annum	Approximately £1.5m per annum

i Note that this includes the estimate amount in respect of PSPS members at the last triennial valuation plus the expected contribution at the minimum level in respect of members transferred from M&GGPS.

The contributions detailed above broadly represent the Group's current expectation of amounts that will be paid to each respective plan in the next annual reporting period.

The triennial valuations of the schemes are currently being progressed but have not been completed as at 31 December 2023.

17.1.2 Risks to which the defined benefit schemes expose the Group

The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where there is a deficit, the employers of the schemes would agree a deficit recovery plan. Accordingly, the pension schemes expose the Group to a number of risks, the most significant of which are interest rate risk, equity risk, inflation risk, credit risk and mortality risk.

17.1.3 Corporate governance

The Group's pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by the Pensions Regulator in accordance with the Pensions Act 2021. Each scheme has a corporate trustee to which some Directors are appointed by Group employers with the remaining Directors nominated by members in accordance with UK legal requirements. The Trustees have the ultimate responsibility to ensure that each scheme is managed in accordance with its Trust Deed and Rules. The Trustees act in the best interests of the schemes' beneficiaries; this includes taking appropriate account of each employer's legal obligation and financial ability to support the schemes when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored, with the Trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's defined benefit pension schemes are final salary schemes, which are closed to new entrants. The pensionable salaries for most members are capped at the levels as at 30 September 2019. The Trustee of each scheme sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the investment managers. The Trustees consult with the principal employer for each scheme on the investment principles, but the ultimate responsibility for the investment of the assets of the schemes lies with the Trustees.

17 Defined benefit pension schemes (continued)

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

17.1.3 Corporate governance (continued)

The Trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members. For all three schemes, and especially PSPS and SASPS, a significant portion of the scheme assets are invested in liability matching assets such as bonds and gilts, including index-linked gilts, to partially hedge against inflation. In addition, the schemes maintain portfolios of interest rate and inflation swaps to match more closely the duration and inflation profiles of their assets to their liabilities.

As noted above, the Trustees of M&GGPS executed a buy-in transaction with PAC, whereby the longevity and investment risk in respect of all deferred and pensioner members was transferred to PAC. Furthermore, liabilities relating to all active members of the scheme were transferred to PSPS during the year which further de-risks the scheme.

All three schemes have invested in a mix of both return-seeking assets, such as equities and property, and matching assets, including leveraged liability-driven investment portfolios to reflect the liability profile of the scheme. They manage the risks of the return-seeking exposure by investing in a diversified mix of investments.

During 2020 PSPS entered into a longevity swap transaction with Pacific Life Re Limited. This arrangement provides long-term protection for PSPS against costs that could result from unexpected increases in life expectancy relating to the pensions that were in payment on 6 April 2019, excluding any future discretionary increases. As at 31 December 2023, the longevity swap covered £2.0bn (2022: £2.0bn) of current pensioner scheme liabilities, on an IAS 19 basis.

17.2 Assumptions

17.2.1 Demographic assumptions

Post-retirement mortality

The calculation of the defined benefit obligation for the Group's schemes requires assumptions to be set for both current mortality and the allowance for future mortality improvements. The table below sets out the mortality tables and mortality improvement model used for the Group’s schemes, along with the associated life expectancies.

				Expectation of life from retirement at aged 60			
As at	Scheme	Mortality tables (with scaling factors applied to reflect experience)	Mortality improvements model[i]	Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
31 December 2023	**PSPS**	**S2PMA/S2PFA for males/females**	**CMI 2021**	**26.5**	**28.6**	**28.3**	**30.3**
	SASPS	**S1PMA/S1PFA for males/females**	**CMI 2021**	**27.4**	**29.4**	**29.9**	**31.8**
	M&GGPS	**SAPS2 Light**	**CMI 2021**	**28.5**	**30.6**	**30.4**	**32.4**
31 December 2022	PSPS	S3PMA/S3PFA for males/females	CMI 2020	26.7	29.1	28.4	30.6
	SASPS	S3PMA/S3PFA for males/females	CMI 2020	27.5	29.7	30.0	32.1
	M&GGPS	S3PMA/S3PFA Light for males/females	CMI 2020	28.4	30.5	30.2	32.3

i The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2023, this allowance was based on the CMI 2021 mortality improvements model with improvement factors of 1.60% for males (Sk = 7.25 and A parameter varies by age) and 1.60% for females (Sk = 7.75 and A parameter varies by age) (2022: this allowance was based on the CMI 2020 model with improvement factors of 1.60% for males (Sk = 7.25) and 1.60% for females (Sk = 7.75)).

17 Defined benefit pension schemes (continued)

17.2 Assumptions (continued)

17.2.2 Economic assumptions

The actuarial assumptions used in determining defined benefit obligations and the net periodic benefit costs for each of the Group's defined benefit pension schemes are as follows:

	2023			2022		
For the year ended 31 December	PSPS	SASPS	M&GGPS	PSPS	SASPS	M&GGPS
Discount rate[i]	**4.6%**	**4.6%**	**4.6%**	4.9%	4.8%	4.8%
Salary inflation[ii]	**3.4%**	**3.2%**	**N/A**	4.0%	3.2%	3.2%
Retail prices index (RPI)	**3.0%**	**2.9%**	**2.9%**	3.3%	3.2%	3.2%
Consumer prices index (CPI)	**2.7%**	**2.7%**	**2.7%**	3.0%	3.0%	3.0%
Rate of increase of pensions in payment for inflation[iii]						
CPI (maximum 5%)	**2.8%**	**N/A**	**N/A**	3.0%	N/A	N/A
CPI (maximum 2.5%)	**2.5%**	**N/A**	**N/A**	2.5%	N/A	N/A
Discretionary	**2.9%**	**N/A**	**N/A**	2.5%	N/A	N/A
RPI (maximum 5%)	**N/A**	**2.9%**	**2.9%**	N/A	3.2%	2.9%
RPI (maximum 2.5%)	**N/A**	**2.5%**	**2.5%**	N/A	2.5%	2.5%

i The discount rate has been determined using a cash flow matching approach based on an 'AA' corporate bond index. The single equivalent rates in the table above are illustrative as the full yield curve is used in the calculation of the liability.

ii Due to the scheme changes during 2019, a cap to future pensionable salary increase came into effect and, as a result, salary growth inflation is only applied for certain levels of pensionable salary which represent a very small proportion of the total liability.

iii The long-term margin between RPI and CPI reflects expected changes in RPI from 2030 as a result of the UK Statistics Authority stated intention to align RPI with CPI including owner occupiers' housing costs (CPIH). The rate of inflation used reflects the long-term assumption for UK RPI or CPI, depending on the particular tranche of scheme benefits, with caps and floors applied in accordance with the scheme rules. Certain tranches of scheme benefits within PSPS have statutory pension increases in line with the higher of CPI up to a maximum level, or a discretionary level determined by the employer. Other tranches are not guaranteed and determined by the employer on a discretionary basis. The single equivalent rates in the table above are illustrative as the full yield curve is used in the calculation of the liability.

17.2.3 Other assumptions

In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions (GMPs). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2023 and 31 December 2022, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes - comprising £32m for PSPS, £11m for SASPS, and £3m for M&GGPS as at 31 December 2023 (2022: £31m for PSPS, £11m for SASPS and £3m for M&GGPS).

17.2.4 Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date.
The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries, where applicable, and on the rate of increase of pensions in payment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the Group's comprehensive income due to the effect of restriction on surplus for PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the With-Profits Fund as described above. In addition, the sensitivities shown do not include the impact on assets, which for all schemes would significantly offset the impact of the discount rate and inflation sensitivities on the IAS 19 surplus or deficit. For the PSPS scheme, the mortality rate sensitivity impact would also be partially mitigated by the longevity swap asset held.

17 Defined benefit pension schemes (continued)

17.2 Assumptions (continued)

17.2.4 Sensitivity of the pension scheme liabilities to key variables (continued)

		2023 Increase/(decrease) in the present value of the scheme's defined benefit obligation			
		PSPS	SASPS	M&GGPS	Total
As at 31 December	Sensitivity of the change in assumptions	£m	£m	£m	£m
Base position	N/A	**4,260**	**576**	**298**	**5,134**
Discount rate	Decrease by 0.2%	**100**	**20**	**10**	**130**
	Increase by 0.2%	**(97)**	**(19)**	**(10)**	**(126)**
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2% (with consequent reduction in salary increases)	**(55)**	**(9)**	**(7)**	**(71)**
Mortality rate	Increase in life expectancy by 1 year	**146**	**15**	**7**	**168**

		2022 Increase/(decrease) in the present value of the scheme's defined benefit obligation			
		PSPS	SASPS	M&GGPS	Total
As at 31 December	Sensitivity of the change in assumptions	£m	£m	£m	£m
Base position	N/A	4,050	566	313	4,929
Discount rate	Decrease by 0.2%	98	20	12	130
	Increase by 0.2%	(94)	(19)	(11)	(124)
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2% (with consequent reduction in salary increases)	(34)	(13)	(6)	(53)
Mortality rate	Increase in life expectancy by 1 year	142	16	8	166

17.3 Plan assets and other assets of the scheme

	2023				2022			
	PSPS	Other schemes	Total		PSPS	Other schemes	Total	
As at 31 December	£m	£m	£m	%	£m	£m	£m	%
Equities:								
UK	**29**	**—**	**29**	**1%**	47	1	48	1%
Overseas	**10**	**37**	**47**	**1%**	8	70	78	1%
Bonds:[i]								
Government	**3,124**	**559**	**3,683**	**67%**	3,188	848	4,036	71%
Corporate	**1,145**	**3**	**1,148**	**21%**	1,165	4	1,169	21%
Asset-backed securities	**344**	**81**	**425**	**8%**	346	66	412	7%
Derivatives[ii]	**(526)**	**(202)**	**(728)**	**(13)%**	(552)	(168)	(720)	(12)%
Properties	**238**	**118**	**356**	**6%**	263	138	401	7%
Other assets	**247**	**3**	**250**	**4%**	176	65	241	4%
Reimbursement right asset[iii]	**—**	**298**	**298**	**5%**	—	—	—	— %
Total value of assets	**4,611**	**897**	**5,508**	**100%**	4,641	1,024	5,665	100%

i As at 31 December 2023 90% of the bonds were investment grade (2022: 88%).

ii Included within derivatives is a £3m liability in respect of the longevity swap transaction with Pacific Life Re Limited (2022: £10m), valued at fair value as per IAS19 and based on the principles of IFRS13.

iii Although available to the scheme, under IAS 19 the reimbursement right asset does not constitute part of the plan assets.

Notes to the consolidated financial statements continued

17 Defined benefit pension schemes (continued)

17.3 Plan assets and other assets of the scheme (continued)

	2023				2022			
	Quoted in an active market	Other	Total		Quoted in an active market	Other	Total	
As at 31 December	£m	£m	£m	%	£m	£m	£m	%
Equities:								
UK	—	29	29	1%	—	48	48	1%
Overseas	—	47	47	1%	—	78	78	1%
Bonds:								
Government	3,678	5	3,683	67%	4,030	6	4,036	71%
Corporate	889	259	1,148	21%	903	266	1,169	21%
Asset-backed securities	315	110	425	8%	372	40	412	7%
Derivatives	(720)	(8)	(728)	(13)%	(699)	(21)	(720)	(12)%
Properties	—	356	356	6%	—	401	401	7%
Other assets	60	190	250	4%	83	158	241	4%
Reimbursement right asset	—	298	298	5%	—	—	—	— %
Total value of assets	**4,222**	**1,286**	**5,508**	**100%**	4,689	976	5,665	100%

As at 31 December 2023 81% of the total value of the scheme assets, excluding the reimbursement asset, were derived from quoted prices in an active market (2022: 84%), while the value of the remaining assets is derived from the use of various observable and unobservable inputs. None of the scheme assets included property occupied by the Group. The IAS 19 basis plan assets as at 31 December 2023 of £5,496m is different from the economic basis plan assets of £5,508m as shown above due to the exclusion of investment in Group insurance policies by M&GGPS as described in 17.1. Due to the disinvestment in non-qualifying insurance policies by M&GGPS as at 31 December 2022 the economic basis plan assets is the same as the IAS 19 basis plan assets.

17.4 Reconciliation in movement of schemes' surplus/deficit

	Economic basis					
	Fair value of plan and other assets	Present value of benefit obligation	Effect of asset ceiling	Net economic pension surplus/ (deficit)	Other adjustments	Net pension surplus/ (deficit)
	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/(liability) at 1 January 2023	**5,665**	**(4,929)**	**(581)**	**155**	**—**	**155**
Total expense recognised in the income statement:						
Current service cost	—	(8)	—	(8)	—	(8)
Past service costs	—	—	—	—	—	—
Net interest income/(expense)	267	(233)	(28)	6	—	6
Administration expenses	(11)	—	—	(11)	—	(11)
Total expense recognised in the income statement[i]	**256**	**(241)**	**(28)**	**(13)**	**—**	**(13)**
Remeasurement (losses)/gains:						
Return on the scheme assets less amount included in interest income	(185)	—	—	(185)	26	(159)
Gains on changes in demographic assumptions	—	27	—	27	—	27
Losses on changes in financial assumptions	—	(233)	—	(233)	—	(233)
Losses on scheme liabilities	—	(29)	—	(29)	—	(29)
Unrecognisable surplus	—	—	270	270	—	270
Remeasurement (losses)/gains[ii]	**(185)**	**(235)**	**270**	**(150)**	**26**	**(124)**
Benefit payments	(271)	271	—	—	—	—
Employers' contributions	43	—	—	43	—	43
Disinvestment from non-qualifying insurance policies	—	—	—	—	(11)	(11)
Reimbursement right asset[iii]	—	—	—	—	(325)	(325)
Net defined benefit pension asset/(liability) at 31 December 2023	**5,508**	**(5,134)**	**(339)**	**35**	**(310)**	**(275)**

i An expense of £11m is included in the total amount recognised in the consolidated income statement attributable to the Group for the year ended 31 December 2023 relating to the With-Profits Fund (2022: credit of £13m).

17 Defined benefit pension schemes (continued)

17.4 Reconciliation in movement of schemes' surplus/deficit (continued)

ii Included in the share of remeasurement gains and losses for the year ended 31 December 2023 are losses relating to shareholders totalling £109m (2022: gains of £31m) which are recognised in other comprehensive income. The amounts attributable to the With-Profits Fund for the year ended 31 December 2023 amount to losses of £15m (2022: losses of £2m) are recognised in other comprehensive income.

iii As noted above, M&GGPS executed a buy-in transaction with PAC (a Group entity). The reimbursement right asset resulting from the transaction is eliminated on consolidation. However, due to different measurement bases applied for determining the value of this asset and the related liability by PAC for accounting purposes, the premium paid by the scheme exceeded the valuation of the scheme asset recognised by £78.6m. In the table above, this has been recognised as a loss in the actual return on assets.

	Economic basis					
	Fair value of plan and other assets	Present value of benefit obligation	Effect of asset ceiling	Net economic pension surplus/(deficit)	Other adjustments	Net pension surplus/(deficit)
	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/(liability) at 1 January 2022	9,141	(8,084)	(896)	161	(207)	(46)
Total expense recognised in the income statement:						
Current service cost	—	(16)	—	(16)	—	(16)
Past service costs	—	—	—	—	—	—
Net interest	164	(145)	(16)	3	(3)	—
Administration expenses	(9)	—	—	(9)	—	(9)
Total expense recognised in the income statement[i]	155	(161)	(16)	(22)	(3)	(25)
Remeasurement (losses)/gains:						
Return on the scheme assets less amount included in interest income	(3,348)	—	—	(3,348)	58	(3,290)
Gains on changes in demographic assumptions	—	262	—	262	—	262
Gains on changes in financial assumptions	—	2,848	—	2,848	—	2,848
Experience losses on scheme liabilities	—	(122)	—	(122)	—	(122)
Unrecognisable surplus		—	331	331	—	331
Remeasurements gains and (losses)[ii]	(3,348)	2,988	331	(29)	58	29
Benefit payments	(328)	328	—	—	—	—
Employers' contributions	45	—	—	45	—	45
Disinvestment from the Group's insurance policies	—	—	—	—	152	152
Net defined benefit pension asset/(liability) at 31 December 2022	5,665	(4,929)	(581)	155	—	155

17.5 Maturity analysis of benefit obligations

The following table provides an expected maturity analysis of the undiscounted defined benefit obligations:

	All schemes						
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2023	**281**	**1,163**	**1,538**	**1,519**	**1,412**	**4,531**	**10,444**
As at 31 December 2022	269	1,154	1,529	1,515	1,493	4,838	10,798

The weighted average duration of each scheme's defined benefit obligations (in years) are as follows:

	PSPS	SASPS	M&GGPS
As at 31 December 2023	**12**	**17**	**17**
As at 31 December 2022	12	17	18

Notes to the consolidated financial statements continued

18 Classification of financial instruments

18.1 Financial assets

		2023			
		Fair value through profit or loss			
		Designated	Mandatory	Amortised cost	Total
As at 31 December	Note	£m	£m	£m	£m
Equity securities and pooled investment funds	31	—	**66,248**	—	**66,248**
Loans[ii]		—	**3,908**	—	**3,908**
Debt securities	31	—	**70,683**	—	**70,683**
Derivative assets	31	—	**1,693**	—	**1,693**
Deposits	32	—	—	**16,324**	**16,324**
Accrued investment income and other debtors	19	—	—	**2,536**	**2,536**
Cash and cash equivalents	20	—	—	**5,590**	**5,590**
Total financial assets		—	**142,532**	**24,450**	**166,982**

		Restated[i] 2022			
		Fair value through profit or loss			
		Designated	Mandatory	Amortised cost	Total
As at 31 December	Note	£m	£m	£m	£m
Equity securities and pooled investment funds	31	—	70,127	—	70,127
Loans[ii]		—	3,234	—	3,234
Debt securities	31	—	62,821	—	62,821
Derivative assets	31	—	2,850	—	2,850
Deposits	32	—	—	21,399	21,399
Accrued investment income and other debtors	19	—	—	2,404	2,404
Cash and cash equivalents	20	—	—	4,884	4,884
Total financial assets		—	139,032	28,687	167,719

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii Loans consist of Mortgage loans of £1,861m (2022: £1,896m), Policy loans of £1m (2022: £2m) and Other loans of £2,046m (2022: £1,336m).

As at 31 December 2023, 74% of the £1,258m (2022: 71% of £1,307m) of mortgage loans held by the shareholder-backed business related to lifetime (equity release) mortgage business which had an average loan to property value of 39% (2022: 35%). The equity release mortgages are carried at fair value through profit or loss. Sensitivities in relation to the valuation of the equity release mortgages are provided in Note 31.8.

Other loans mainly comprise syndicated and bridge commercial loans.

Financial assets expected to be recovered after one year as at 31 December 2023 are £72,033m (2022: £62,811m).

Notes to the consolidated financial statements continued

18 Classification of financial instruments (continued)

18.2 Financial liabilities

		2023			
		Fair value through profit or loss			
		Designated	Mandatory	Amortised cost	Total
As at 31 December	Note	£m	£m	£m	£m
Investment contract liabilities without DPF	25	**12,535**	**—**	**—**	**12,535**
Third party interest in consolidated funds	31	**9,893**	**—**	**—**	**9,893**
Subordinated liabilities and other borrowings	26	**—**	**—**	**8,089**	**8,089**
Derivative liabilities	31	**—**	**2,910**	**—**	**2,910**
Other financial liabilities		**—**	**—**	**1,186**	**1,186**
Accruals, deferred income and other liabilities		**239**	**—**	**5,844**	**6,083**
Total financial liabilities		**22,667**	**2,910**	**15,119**	**40,696**

		Restated[i] 2022			
		Fair value through profit or loss			
		Designated	Mandatory	Amortised cost	Total
As at 31 December	Note	£m	£m	£m	£m
Investment contract liabilities without DPF	25	11,937	—	—	11,937
Third party interest in consolidated funds	31	10,389	—	—	10,389
Subordinated liabilities and other borrowings	26	—	—	7,537	7,537
Derivative liabilities	31	—	4,185	—	4,185
Other financial liabilities		—	—	2,172	2,172
Accruals, deferred income and other liabilities		246	—	6,403	6,649
Total financial liabilities		22,572	4,185	16,112	42,869

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Other financial liabilities relate to obligations under funding, securities lending and sale and repurchase agreements. Accruals, deferred income and other liabilities exclude items which do not meet the definition of a financial liability.

Financial liabilities expected to be settled in more than one year as at 31 December 2023 were £11,689m (2022: £10,044m).

For financial liabilities designated at FVTPL there was no material impact from movement in credit risk in 2023 and 2022.

18.3 Fair value of underlying items for contracts measured under VFA

The fair value of the assets held by the With-Profits Fund for contracts measured under VFA are as follows:

	2023	2022
	With-Profits Fund	With-Profits Fund
As at 31 December	£m	£m
Investment properties	**5,664**	5,897
Equity securities and pooled investment funds	**80,996**	74,870
Loans	**568**	1,030
Debt securities	**42,322**	48,904
Derivative assets	**1,169**	2,232
Derivative liabilities	**(1,058)**	(2,136)
Cash and cash equivalents	**1,309**	2,285
Total assets	**130,970**	133,082
Non-profit business in the With-Profits Fund	**(6,856)**	(7,290)
Other liabilities	**(7,032)**	(8,097)
Total fair value of VFA underlying items	**117,082**	117,695

In addition to the participating business underlying items detailed above, there are £4,081m of underlying items (unit-linked fund assets) for unit-linked insurance contracts measured under VFA (2022: £4,291m).

19 Accrued investment income and other debtors

As at 31 December	2023 £m	Restated[i] 2022 £m
Interest receivable	**893**	810
Other accrued investment income and prepayments[ii]	**376**	442
Total interest receivable, accrued investment income and prepayments	**1,269**	1,252
Other debtors:		
Outstanding sales of investment securities	**170**	149
Investment management fee debtors	**127**	148
Property related debtors[ii]	**272**	290
Cancellation of units awaiting settlement	**19**	25
Finance leases	**176**	73
Other	**503**	467
Total accrued investment income and other debtors	**2,536**	2,404
Analysed as:		
Expected to be settled within one year	**2,303**	2,167
Expected to be settled after one year	**233**	237
Total accrued investment income and other debtors	**2,536**	2,404

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii The comparative amounts have been restated by £164m as rent smoothing balances have reclassified between Other accrued investment income and prepayments and Property related debtors.

Income from subleasing right-of-use assets amounted to £3m (2022: £1m). Finance income from the net investment in the leases amounted to £8m (2022: £63m).

The table below presents a maturity analysis of undiscounted lease receipts due on these leases:

For the year ended 31 December	2023 £m	2022 £m
Less than 1 year	**9**	4
After 1 year to 2 years	**12**	4
After 2 years to 3 years	**17**	5
After 3 years to 4 years	**17**	5
After 4 years to 5 years	**18**	5
Over 5 years	**502**	397
	575	420
Unearned finance income	**(399)**	(347)
Net investment in finance leases	**176**	73

20 Cash and cash equivalents

As at 31 December	2023 £m	2022 £m
Cash	**4,084**	4,148
Cash equivalents	**1,506**	736
Total cash and cash equivalents	**5,590**	4,884

Cash equivalents consist of short-term, highly liquid investments that are readily convertible into known amounts of cash subject to insignificant risk of changes in value.

21 Issued share capital and share premium

Issued shares of 5p fully paid	2023 Number of ordinary shares	2023 Share capital £m	2023 Share premium £m	2022 Number of ordinary shares	2022 Share capital £m	2022 Share premium £m
At 1 January	**2,374,712,121**	**119**	**370**	2,599,906,866	130	370
Shares cancelled following buy-back	**—**	**—**	**—**	(225,194,745)	(11)	—
Shares issued to settle employee share option schemes	**7,345,996**	**—**	**9**	—	—	—
At 31 December	**2,382,058,117**	**119**	**379**	2,374,712,121	119	370

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.

In 2023, 2,253,878 treasury shares and 7,345,996 newly issued shares were used to satisfy obligations under the SAYE scheme. Further details are outlined in Note 37.2. The newly issued shares resulted in an increase in share capital of £0.4m and share premium of £9.1m.

In March 2022, the Group commenced a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m, and the programme concluded on 27 October 2022 for a total consideration, including expenses and stamp duty, of £503m. Shares with a nominal value of £11m were cancelled, with the recognition of an £11m capital redemption reserve. Further details can be found in Note 22.2.

22 Shares held by employee benefit trusts and other treasury shares

The Group buys and sells its own shares in relation to its employee share schemes, via transactions undertaken by authorised investment funds that the Group is deemed to control and through the share buy-back programme. These authorised investment funds undertake transactions in the Group's shares as part of their investment decisions. The cost of own shares of £47m as at 31 December 2023 (2022: £117m) is deducted from equity.

22.1 Shares held by employee benefit trust

The M&G Employee Share Trust (the Trust) was created on 20 September 2019 to facilitate the procurement, holding and distribution of M&G plc shares under the various employee incentive schemes in operation. The Trust is funded by M&G plc. In addition, there is a separate trust that holds shares in respect of Share Incentive Plan (SIP) schemes.

The movement in the M&G plc shares held in employee benefit trusts are detailed below:

For the year ended 31 December	2023 Number of shares	2022 (Restated)[i] Number of shares
At 1 January	**46,767,653**	58,333,111
Shares acquired and transferred from treasury shares during the period	**16,635,485**	2,815,549
Shares awarded during the period	**(41,906,547)**	(14,381,007)
At 31 December	**21,496,591**	46,767,653

i Restated to include all SIP shares.

The Trust holds 12,016,528 shares at 31 December 2023 (2022: 38,480,430) while a further 9,480,063 shares are held by the trustee of the SIP scheme at 31 December 2023 (2022 restated: 8,287,223).

The cost of shares held in the employee benefit trusts own shares of £26m as at 31 December 2023 (2022: £70m) is deducted from equity.

22.2 Other treasury shares

In March 2022, the Group commenced a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m. As at 31 December 2022, ordinary shares bought back but not cancelled were 26,867,908 with a carrying value of £47m. During 2023, 2,253,878 shares with a carrying value of £4m have been distributed in relation to employee share schemes. An additional 11,200,000 shares with a carrying value of £22m were transferred to the employee benefit trust. As at 31 December 2023, the remaining 13,414,030 treasury shares with a carrying value of £21m are disclosed as a deduction to Shareholders equity within the Treasury shares reserve.

All share transactions were made on an exchange.

Notes to the consolidated financial statements continued

23 Other reserves

	Equity-settled share-based payment reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Capital redemption reserve £m	Total Other reserves £m
As at 1 January 2023	**101**	**(11,732)**	**7**	**11**	**(11,613)**
Exchange movements arising on foreign operations	**—**	**—**	**(8)**	**—**	**(8)**
Total items recognised in comprehensive income	**—**	**—**	**(8)**	**—**	**(8)**
Vested employee share-based payments	**(42)**	**—**	**—**	**—**	**(42)**
Expense recognised in respect of share-based payments	**32**	**—**	**—**	**—**	**32**
Tax effect of items recognised directly in equity	**(2)**	**—**	**—**	**—**	**(2)**
Shares purchased in buy-back	**—**	**—**	**—**	**—**	**—**
Net decrease in equity	**(12)**	**—**	**(8)**	**—**	**(20)**
As at 31 December 2023	**89**	**(11,732)**	**(1)**	**11**	**(11,633)**

	Equity-settled share-based payment reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Capital redemption reserve £m	Total other reserves £m
As at 1 January 2022	85	(11,732)	(13)	—	(11,660)
Exchange movements arising on foreign operations	—	—	20	—	20
Total items recognised in comprehensive income	—	—	20	—	20
Vested employee share-based payments	(23)	—	—	—	(23)
Expense recognised in respect of share-based payments	34	—	—	—	34
Tax effect of items recognised directly in equity	5	—	—	—	5
Shares purchased in buy-back	—	—	—	11	11
Net increase in equity	16	—	20	11	47
As at 31 December 2022	101	(11,732)	7	11	(11,613)

The merger reserve arises from the application of merger accounting principles to the acquisition of entities under common control. It represents the difference between the aggregate capital reserves and the value of the entities acquired. On disposal of the relevant entity, the related merger reserve is released directly to retained earnings.

24 Insurance liabilities

24.1 Determination of insurance, investment with DPF and reinsurance contract balances for different components of business

Note 2.3 describes the different types of insurance and investment contracts across the business. A description relating to the determination of the policyholder and reinsurance contract balances with the key assumptions for each component of business is set out in the notes below. The sensitivity of IFRS profit after tax to the key economic and non-economic assumptions is shown in Note 32.7.

24.1.1 Discount rates

Cash flows relating to insurance and reinsurance contracts issued and reinsurance contracts held are discounted using risk-free yield curves adjusted to reflect the liquidity characteristics of the contracts. As described in Note 1.5, the Group determines the adjustment for illiquidity using either a top-down approach (for non-profit annuity contracts) or a bottom-up approach (for all other contracts, including with-profits).

For with-profits contracts, the illiquidity premium is determined at each reporting date by applying a weighting of 75% to the illiquidity premium for the reference portfolio of fixed interest assets. The illiquidity premium included in the discount rate as at 31 December 2023 was 47bps (2022: 55bps). The assumed investment returns are consistent with the discount rates applied to the cash flows. The volatility of investment returns is set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

The unit-linked contracts are considered to be highly liquid as they can be surrendered at any time by the policyholder for a surrender value which is the value of the units less any surrender charge. Therefore the cash flows are discounted using rates derived from the risk-free yield curve without addition of an illiquidity premium. The assumed unit fund growth rates are consistent with the discount rates applied to the cash flows.

For non-profit annuity contracts, the illiquidity premium is derived from the yield of a reference portfolio of assets which is adjusted to eliminate any factors that are not relevant to the annuity contracts. It is not required to adjust the yield curve for any differences in the liquidity characteristics of the insurance contracts and the reference portfolio. The reference portfolios chosen for in-force annuities are the assigned portfolios used to determine the SII matching adjustment. These are considered to be suitable as reference portfolios for IFRS 17 reporting because their objective is to closely match the liability cash flows and there is strong governance around their management. The discount rates at the inception of each contract are based on the yields within a reference portfolio of assets which the Group expects to acquire to back the portfolio of new insurance contracts (the 'target portfolio'). A weighted average of these discount rate curves is determined for the purpose of locking-in and calculating movements in the CSM relating to each group of contracts. The point of sale discount rate curves are weighted by the premiums in each group. On subsequent measurement of the fulfilment cash flows the yield at the valuation date on the reference portfolio is adjusted, where necessary, in respect of new contracts incepting in the period to allow for a period of transition from the actual asset holdings to the target portfolio. Typically, this period of transition can be up to 12 months but may be dependent on the volume of new business.

The largest adjustment made to reference portfolio yield is in relation to credit risk. IFRS 17 is not prescriptive as to how the adjustment for credit risk should be determined other than that it should reflect market risk premiums for credit risk. The Group continues to calculate the credit risk adjustment using the same approach previously used for IFRS 4 reporting. This methodology is considered appropriate for IFRS 17 reporting as it incorporates allowances for expected and unexpected credit events, including internal and external views on the outlook for credit risk, and considers the relationship between credit risk and yield spreads. 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 overlay to reflect the prospective outlook for experience over the coming period, including uncertainty in the outlook. The allowance for credit risk within the discount rate for shareholder-backed annuities as at 31 December 2023 was 56bps (2022: 50bps). The allowance for credit risk within the discount rate for annuities in the With-Profits Fund as at 31 December 2023 was 57bps (2022: 50bps). Due to the uncertainty of credit outlook in the UK and given that the credit spreads have widened, primarily during the first half of 2023, the short-term overlay has been increased for reporting as at 31 December 2023.

The derivation of the discount rates includes the impact of the UK Government consultation on residential ground rents (further explained in note 31.8.1) and the resulting impact on the portfolio yield and the credit risk allowances.

The tables below show the discount rates used as at 31 December 2023 and 31 December 2022.

24 Insurance liabilities (continued)

24.1 Determination of insurance, investment with DPF and reinsurance contract balances for different components of business (continued)

24.1.1 Discount rates (continued)

Discount rates as at 31 December 2023

	1 year	5 years	10 years	15 years	20 years	25 years	30 years
With-profits contracts	**5.20%**	**3.82%**	**3.75%**	**3.86%**	**3.90%**	**3.88%**	**3.82%**
Unit-linked contracts	**4.74%**	**3.35%**	**3.28%**	**3.40%**	**3.43%**	**3.41%**	**3.35%**
Annuities – shareholder-backed	**6.41%**	**5.03%**	**4.96%**	**5.08%**	**5.11%**	**5.09%**	**5.03%**
Annuities – in the With-Profits Fund	**6.34%**	**4.96%**	**4.89%**	**5.00%**	**5.04%**	**5.02%**	**4.96%**

Discount rates as at 31 December 2022

	1 year	5 years	10 years	15 years	20 years	25 years	30 years
With-profits contracts	5.01%	4.61%	4.26%	4.17%	4.08%	4.00%	3.90%
Unit-linked contracts	4.46%	4.06%	3.71%	3.62%	3.54%	3.45%	3.35%
Annuities – shareholder-backed	6.16%	5.76%	5.41%	5.32%	5.24%	5.15%	5.05%
Annuities – in the With-Profits Fund	5.91%	5.51%	5.16%	5.07%	4.98%	4.90%	4.80%

The tables below show the credit risk allowances for annuity business as at 31 December 2023 and 31 December 2022.

Credit risk allowances as at 31 December 2023

	Shareholder-backed annuities	Annuities in the With-Profits Fund
Credit risk allowance	**56 bps**	**57 bps**
Credit risk allowance as proportion of spread over swaps	**24.57%**	**24.73%**
Net of reinsurance credit reserve (£m)[i]	**516**	**199**

Credit risk allowances as at 31 December 2022

	Shareholder-backed annuities	Annuities in the With-Profits Fund
Credit risk allowance	50 bps	50 bps
Credit risk allowance as proportion of spread over swaps	22.10%	23.60%
Net of reinsurance credit reserve (£m)	450	193

24.1.2 Persistency and expense assumptions

The table below summarises the range of lapse rate assumptions used as at 31 December 2023 and 31 December 2022. These exclude assumptions related to retirement rates for pension contracts, which may be as high as 100% at certain ages.

Lapse rate assumptions

	31 December 2023	31 December 2022
With-profits contracts	**0% - 30%**	0% - 45%
Unit-linked contracts	**0% - 16%**	0% - 20%
Annuities - shareholder-backed	**N/A**	N/A
Annuities - in the With-Profits Fund	**N/A**	N/A

The table below summarises the range of maintenance expense assumptions used as at 31 December 2023 and 31 December 2022, before allowance for future inflationary increases:

Maintenance expense assumptions (per policy)

	31 December 2023	31 December 2022
	£ p.a.	£ p.a.
With-profits contracts	**7 - 239**	7 - 200
Unit-linked contracts	**43 - 239**	45 - 200
Annuities - shareholder-backed	**35 - 57**	35
Annuities - in the With-Profits Fund	**36**	36

24 Insurance liabilities (continued)

24.1 Determination of insurance, investment with DPF and reinsurance contract balances for different components of business (continued)

24.1.3 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 with-profits contracts are a combination of insurance contracts, investment contracts with discretionary participation features (DPF) and investment contracts without DPF. The investment contracts without DPF are within the scope of IFRS 9 and are presented in Note 25.

For the with-profits contracts the insurance contract liability is the sum of the liability for incurred claims and the liability for remaining coverage, which comprises:

- the fair value of the underlying items for in-force contracts, ie the value of the asset shares and the expected future additions to asset shares, plus the present value of future costs less charges;
- the allowance for 'mutualisation' on in-force business;
- the risk adjustment for non-financial risk;
- the CSM; and
- the historical allowance for 'mutualisation' (based on the underlying items for the additional amounts expected to be paid to current or future policyholders).

These items are described further below.

Future costs less charges

The future costs include a market-consistent valuation of the costs of guarantees, options and smoothing and this amount is determined using stochastic modelling techniques. The main assumptions used to value the future costs less charges are listed below:

- Assumptions relating to persistency (see Note 24.1.2) and the take-up of options offered on certain with-profits contracts are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business, and supplemented by expert judgement within the business. In line with legislative changes, including pension freedoms, the Group expects all policyholders of pension contracts to choose alternative post-vesting options;
- 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 (see Note 24.1.2). They are set based on forecast expense levels, including an allowance for ongoing investment management expenses, and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. They reflect the costs incurred by the Group which may differ from the internal charges to companies within the Group;
- 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. Mortality experience over 2020 and 2021 was significantly higher than previous years as a result of the COVID-19 pandemic. In line with broader industry approach, no weight has been given to pandemic experience; and
- Future investment return assumptions and discount rates are set at a risk-free yield curve plus an illiquidity premium (as set out in Notes 1.5 and 24.1.1).

Allowances for mutualisation

The allowance for mutualisation on in-force business is the policyholders' share, which is assumed to be 90% (consistent with the division of profits permitted by the Articles of Association), of the expected future surpluses arising from with-profits contracts, which are determined as:

- the discounted value of the amounts that will be charged to policies;
- less: the discounted value of future shareholder transfers, gross of tax;
- less: the discounted value of other costs directly attributable to the group of insurance contracts; and
- less: the amount of any additional tax attributable to the above items.

The allowance for mutualisation on in-force business is included in the liabilities of the groups of insurance contracts.

24 Insurance liabilities (continued)

24.1 Determination of insurance, investment with DPF and reinsurance contract balances for different components of business (continued)

24.1.3 With-profits business (continued)

Allowances for mutualisation (continued)

The historical allowance for mutualisation is the policyholders' share of the surpluses that have arisen in the past, which are determined as the policyholders' share of the fair value of the underlying items for the additional amounts expected to be paid to current or future policyholders less, if required, an allowance for any further tax balances that should be apportioned between policyholders and shareholders. The policyholders' share is assessed on a prospective basis and is assumed to be 90%, consistent with the division of profits permitted by the Articles of Association. The fair value of the underlying items reflects inter alia the fair value of the annuity contracts in the With-Profits Fund, which is determined using the fair value methodology outlined in Note 1.2.1 but using current estimates of the expected cash flows and discount rate.

The historical allowance for mutualisation is separate from the liabilities of the groups of insurance contracts (in accordance with IFRS 17 paragraph B71) and the Group has chosen to present this as part of the liability for remaining coverage.

With-profits options and guarantees

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

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

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

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

Risk adjustment for non-financial risk

The table below shows the confidence level used to determine the risk adjustment for with-profits contracts:

	As at 31 December	
	2023	2022
Confidence level (percentile of the Group's one year risk distributions)	**75th**	75th
Confidence level (percentile of the risk distributions over the remaining lifetime)	**60th**	60th

CSM

The VFA is used to measure the CSM for with-profits business.

For contracts that provide both insurance coverage and investment-related services the amount of the services provided in any given period is measured as the greater of the asset shares and the amounts payable on death during that period.

24 Insurance liabilities (continued)

24.1 Determination of insurance, investment with DPF and reinsurance contract balances for different components of business (continued)

24.1.4 Unit-linked business

Only unit-linked contracts that transfer significant insurance risk are within the scope of IFRS 17. For these contracts the insurance contract liability is the sum of the liability for incurred claims and the liability for remaining coverage, which comprises:

- the fair value of the underlying items, ie the value of the unit funds, plus the present value of future costs less charges;
- the risk adjustment for non-financial risk; and
- the CSM.

Future cash flows

The present value of future costs less charges is determined using best estimate assumptions for the non-financial risks of mortality, on a basis that is appropriate for the policyholder profile, expenses and persistency (see Note 24.1.2). The assumed unit fund growth rates are consistent with the discount rates applied to the cash flows (see Note 24.1.1).

Certain parts of the unit-linked business are reinsured externally by way of fund reinsurance. Where this is the case, the fair value of the underlying asset and liability is equal to the unit value obligation.

Risk adjustment for non-financial risk

The table below shows the confidence level used to determine the risk adjustment for unit-linked contracts:

	As at 31 December	
	2023	2022
Confidence level (percentile of the Group's one year risk distributions)	**75th**	75th
Confidence level (percentile of the risk distributions over the remaining lifetime)	**60th**	60th

CSM

The VFA is used to measure the CSM for unit-linked business.

The amount of the services provided in any given period is measured as the greater of the unit funds and the amounts payable on death during that period.

24.1.5 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 insurance contract liabilities are calculated as the sum of the liability for incurred claims and the liability for remaining coverage, which comprises:

- the expected value of future annuity payments and expenses;
- the risk adjustment for non-financial risk; and
- the CSM.

Future cash flows

The key assumptions used to value the future cash flows for annuity contracts, both insurance contracts issued and reinsurance contracts held, are described below.

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 insurance liabilities. The assumptions used reference recent England & Wales population mortality data, consistent with the CMI mortality projections model with specific risk factors applied on a per policy basis to reflect the features of the Group's portfolio.

An increase in mortality rates was observed over 2020 and 2021 due to the COVID-19 pandemic. Higher mortality experience may be expected to continue to some extent over the short-term, with significant excess deaths observed in the population over 2022. However, there is significant uncertainty and the longer-term implications for mortality rates among the annuitant population are unknown at this stage. In line with broader industry approach, zero weight has been given to pandemic experience. This is an area that will continue to be monitored by the Group.

No changes have been made to best-estimate assumptions for current mortality in the year ended 31 December 2023. The 2023 mortality improvements assumption is expressed in terms of the CMI 2021 model, updated from the CMI 2020 used in 2022 while the parameters of the model have been maintained. A full review of the best estimate assumptions was carried out in 2022 including a bottom-up review of the mortality improvements assumption following the COVID-19 pandemic.

24 Insurance liabilities (continued)

24.1 Determination of insurance, investment with DPF and reinsurance contract balances for different components of business (continued)

24.1.5 Annuities and other long-term business (continued)

The mortality improvement assumptions used are summarised in the table below, with all other assumptions reflecting the core CMI projection:

Period ended	Model version[i]	Long-term improvement rate[ii]	Smoothing parameter (Sk)[iii]
31 December 2023	**CMI 2021**	**For males: 1.60% pa** **For females: 1.60% pa**	**For males: 7.25** **For females: 7.75**
31 December 2022	CMI 2020	For males: 1.60% pa For females: 1.60% pa	For males: 7.25 For females: 7.75

i A parameter in the model to reflect socio-economic differences between the portfolio and population experience is also utilised. This adjusts initial mortality improvement rates, varying by age and gender. This is unchanged at all ages relative to 31 December 2022.

ii The tapering of improvements to zero is set to occur between ages 90-110 at 31 December 2023 which is unchanged from 31 December 2022.

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

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

Valuation interest rates

See Note 24.1.1. The same approach is also used to derive the discount rates applied to reinsurance cash flows.

Expenses

Maintenance expense assumptions are expressed as per policy amounts (see Note 24.1.2). They are set based on forecast expense levels, including an allowance for ongoing investment management expenses and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. They reflect the costs incurred by the Group which may differ from the internal charges to companies within the Group. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. These assumptions therefore take recent increases in inflation into account, and allow for the market-driven long-term view of future inflation. Increases in costs that are expected to follow an inflation index are considered by the Group to relate to financial risk.

Risk adjustment for non-financial risk

The table below shows the confidence level used to determine the risk adjustment for annuities and other long-term business:

	As at 31 December	
	2023	2022
Confidence level (percentile of the Group's one year risk distributions)	**75th**	75th
Confidence level (percentile of the risk distributions over the remaining lifetime)	**60th**	60th

CSM

The General Measurement Model is used to measure the CSM for annuities and other long-term business. For annuities in payment the amount of the services provided in any given period is the annualised amount of income.

24.2 Movements in insurance, investment with DPF and reinsurance contract balances

The breakdown of groups of insurance, investment with DPF and reinsurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

As at 31 December	2023			
		Shareholder-backed funds and subsidiaries		
	With-profits sub-funds[i]	Unit-linked liabilities	Annuity and other long-term business	Total
	£m	£m	£m	£m
Insurance contract liabilities				
Insurance contract liabilities	31,017	4,404	13,892	49,313
Investment contracts with DPF liabilities	92,579	—	243	92,822
	123,596	4,404	14,135	142,135
Insurance contract assets				
Insurance contract assets	—	—	44	44
	—	—	44	44
Reinsurance contracts				
Reinsurance contract assets	11	7	1,081	1,099
Reinsurance contract liabilities	1	21	335	357

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

As at 31 December	Restated[ii] 2022			
		Shareholder-backed funds and subsidiaries		
	With-profits sub-funds[i] £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
Insurance contract liabilities				
Insurance contract liabilities	31,911	4,598	13,967	50,476
Investment contracts with DPF liabilities	91,266	—	234	91,500
	123,177	4,598	14,201	141,976
Insurance contract assets				
Insurance contract assets	—	—	39	39
	—	—	39	39
Reinsurance contracts				
Reinsurance contract assets	8	5	1,069	1,082
Reinsurance contract liabilities	1	22	325	348

i Includes the With-Profits Sub-Fund and the Defined Charge Participating Sub-Fund, including the non-profit business written within these funds.

ii The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

The following table sets out the carrying amounts of insurance, investment with DPF and reinsurance contracts expected to be recovered or settled more than 12 months after the reporting date.

As at 31 December	**2023 £m**	2022 £m
Insurance contract assets	**50**	44
Insurance contract liabilities	**(44,056)**	(43,715)
Investment contracts with DPF liabilities	**(83,488)**	(82,218)
Reinsurance contract assets	**1,053**	1,048
Reinsurance contract liabilities	**(371)**	(365)

The following reconciliations show how the net carrying amounts of insurance, investment with DPF and reinsurance contracts in each group of insurance contracts issued, and reinsurance contracts held, changed during the year as a result of cash flows and amounts recognised in the statement of profit or loss.

For insurance contracts issued and reinsurance contracts held, tables are presented that analyse changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM and separate tables that analyse movements in the liabilities for remaining coverage and liabilities for incurred claims, reconciling these movements to the line items in the statement of profit or loss.

For insurance contracts issued, these analysis tables are then presented for each line of business. For reinsurance contracts held 98% (2022: 99%) relates to annuity and other long-term business contracts and so separate tables for each line of business are not presented.

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.1 Total insurance contract liabilities

Insurance contracts

Analysis by remaining coverage and incurred claims

	2023				2022			
	Liabilities for remaining coverage				Liabilities for remaining coverage			
	Excluding loss component	Loss component	Liabilities for incurred claims	Total	Excluding loss component	Loss component	Liabilities for incurred claims	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	**140,841**	**106**	**1,029**	**141,976**	159,729	143	949	160,821
Opening insurance contract assets	**(43)**	**—**	**4**	**(39)**	(31)	—	3	(28)
Net opening balance	**140,798**	**106**	**1,033**	**141,937**	159,698	143	952	160,793
Insurance revenue								
Contracts under the modified retrospective transition approach	**(337)**	**—**	**—**	**(337)**	(25)	—	—	(25)
Contracts under the fair value transition approach	**(3,239)**	**—**	**—**	**(3,239)**	(3,118)	—	—	(3,118)
New contracts and contracts under the fully retrospective transition approach	**(311)**	**—**	**—**	**(311)**	(182)	—	—	(182)
	(3,887)	**—**	**—**	**(3,887)**	(3,325)	—	—	(3,325)
Insurance service expenses								
Incurred claims and other insurance service expenses	**—**	**(7)**	**2,859**	**2,852**	—	(7)	2,910	2,903
Amortisation of insurance acquisition cash flows	**56**	**—**	**—**	**56**	26	—	—	26
Adjustments to liability for incurred claims	**—**	**—**	**(54)**	**(54)**	—	—	3	3
Losses and reversals of losses on onerous contracts	**—**	**(20)**	**—**	**(20)**	—	17	—	17
	56	**(27)**	**2,805**	**2,834**	26	10	2,913	2,949
Insurance service result	**(3,831)**	**(27)**	**2,805**	**(1,053)**	(3,299)	10	2,913	(376)
Finance expense/(income) from insurance contracts issued	**7,329**	**1**	**(12)**	**7,318**	(11,774)	(47)	(2)	(11,823)
Total changes in income statement	**3,498**	**(26)**	**2,793**	**6,265**	(15,073)	(37)	2,911	(12,199)
Investment components and premium refunds	**(10,924)**	**—**	**10,924**	**—**	(10,287)	—	10,287	—
Cash flows								
Premiums received	**7,748**	**—**	**—**	**7,748**	6,622	—	—	6,622
Incurred claims paid and other insurance service expenses paid including investment component	**—**	**—**	**(13,696)**	**(13,696)**	—	—	(13,117)	(13,117)
Insurance acquisition cash flows	**(163)**	**—**	**—**	**(163)**	(162)	—	—	(162)
Total cash flows	**7,585**	**—**	**(13,696)**	**(6,111)**	6,460	—	(13,117)	(6,657)
Net closing balance	**140,957**	**80**	**1,054**	**142,091**	140,798	106	1,033	141,937
Closing insurance contract liabilities	**141,007**	**80**	**1,048**	**142,135**	140,841	106	1,029	141,976
Closing insurance contract assets	**(50)**	**—**	**6**	**(44)**	(43)	—	4	(39)
Net closing balance	**140,957**	**80**	**1,054**	**142,091**	140,798	106	1,033	141,937

Notes to the consolidated financial statements continued

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.1 Total insurance contract liabilities (continued)

Insurance contracts

Analysis by measurement component

	2023						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening insurance contract liabilities	135,373	624	2,041	3,694	244	5,979	141,976
Opening insurance contract assets	(76)	3	—	11	23	34	(39)
Net opening balance	135,297	627	2,041	3,705	267	6,013	141,937
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(221)	(383)	(45)	(649)	(649)
Change in the risk adjustment for non-financial risk for the risk expired	—	(57)	—	—	—	—	(57)
Expense recognised for incurred policyholder tax	(255)	—	—	—	—	—	(255)
Experience adjustments	(18)	—	—	—	—	—	(18)
	(273)	(57)	(221)	(383)	(45)	(649)	(979)
Changes that relate to future services							
Contracts initially recognised in the period	(181)	16	—	—	165	165	—
Changes in estimates reflected in the CSM	46	31	(194)	93	24	(77)	—
Changes in estimates that result in onerous contract losses or reversal of those losses	(20)	—	—	—	—	—	(20)
	(155)	47	(194)	93	189	88	(20)
Changes that relate to past services							
Adjustments to liabilities for incurred claims	(54)	—	—	—	—	—	(54)
	(54)	—	—	—	—	—	(54)
Insurance service result	(482)	(10)	(415)	(290)	144	(561)	(1,053)
Finance expense/(income) from insurance contracts issued	6,941	19	121	206	31	358	7,318
Total changes in income statement	6,459	9	(294)	(84)	175	(203)	6,265
Cash flows							
Premiums received	7,748	—	—	—	—	—	7,748
Incurred claims paid and other insurance service expenses paid including investment component	(13,696)	—	—	—	—	—	(13,696)
Insurance acquisition cash flows	(163)	—	—	—	—	—	(163)
Total cash flows	(6,111)	—	—	—	—	—	(6,111)
Net closing balance	135,645	636	1,747	3,621	442	5,810	142,091
Closing insurance contract liabilities	135,738	632	1,747	3,609	409	5,765	142,135
Closing insurance contract assets	(93)	4	—	12	33	45	(44)
Net closing balance	135,645	636	1,747	3,621	442	5,810	142,091

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.1 Total insurance contract liabilities (continued)

Insurance contracts (continued)

Analysis by measurement component (continued)

	2022						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening insurance contract liabilities	154,698	980	1,696	3,337	110	5,143	160,821
Opening insurance contract assets	(58)	3	—	10	17	27	(28)
Net opening balance	154,640	983	1,696	3,347	127	5,170	160,793
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(229)	(411)	(24)	(664)	(664)
Change in the risk adjustment for non-financial risk for the risk expired	—	(63)	—	—	—	—	(63)
Expense recognised for incurred policyholder tax[i]	262	—	—	—	—	—	262
Experience adjustments	63	—	—	—	—	—	63
	325	(63)	(229)	(411)	(24)	(664)	(402)
Changes that relate to future services							
Contracts initially recognised in the period	(80)	3	—	—	78	78	1
Changes in estimates reflected in the CSM	(1,425)	93	556	694	83	1,333	1
Changes in estimates that result in onerous contract losses or reversal of those losses	16	(1)	—	—	—	—	15
	(1,489)	95	556	694	161	1,411	17
Changes that relate to past services							
Adjustments to liabilities for incurred claims	9	—	—	—	—	—	9
	9	—	—	—	—	—	9
Insurance service result	(1,155)	32	327	283	137	747	(376)
Finance expense/(income) from insurance contracts issued[i]	(11,531)	(388)	18	75	3	96	(11,823)
Total changes in income statement	(12,686)	(356)	345	358	140	843	(12,199)
Cash flows							
Premiums received	6,622	—	—	—	—	—	6,622
Incurred claims paid and other insurance service expenses paid including investment component	(13,117)	—	—	—	—	—	(13,117)
Insurance acquisition cash flows	(162)	—	—	—	—	—	(162)
Total cash flows	(6,657)	—	—	—	—	—	(6,657)
Net closing balance	135,297	627	2,041	3,705	267	6,013	141,937
Closing insurance contract liabilities	135,373	624	2,041	3,694	244	5,979	141,976
Closing insurance contract assets	(76)	3	—	11	23	34	(39)
Net closing balance	135,297	627	2,041	3,705	267	6,013	141,937

i Following a review of the Group's presentation of policyholder tax, comparatives for 31 December 2022 have been restated from those previously reported in the 2023 interim financial statements.

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.1 Total insurance contract liabilities (continued)

Reinsurance contracts

Analysis by remaining coverage and incurred claims

	2023				2022			
	Assets for remaining coverage				Assets for remaining coverage			
	Excluding loss recovery component	Loss recovery component	Recoverable for incurred claims	Total	Excluding loss recovery component	Loss recovery component	Recoverable for incurred claims	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Opening reinsurance contract liabilities	363	—	(15)	348	549	—	(3)	546
Opening reinsurance contract assets	(931)	(52)	(99)	(1,082)	(1,519)	(92)	(104)	(1,715)
Net opening balance	(568)	(52)	(114)	(734)	(970)	(92)	(107)	(1,169)
Net expenses from reinsurance contracts held								
Allocation of reinsurance premiums paid	493	—	—	493	472	—	—	472
Amounts recoverable from reinsurers								
Recoveries of incurred claims and other insurance service expenses	—	—	(463)	(463)	—	—	(493)	(493)
Recoveries and reversals of recoveries of losses on onerous underlying contracts	—	11	—	11	—	40	—	40
Adjustments to assets for incurred claims	—	—	54	54	—	—	(4)	(4)
	—	11	(409)	(398)	—	40	(497)	(457)
Effect of changes in the risk of reinsurers non-performance	—	—	—	—	—	—	—	—
	493	11	(409)	95	472	40	(497)	15
Finance expenses/(income) from reinsurance contracts held	(39)	—	—	(39)	472	—	—	472
Total changes in income statement	454	11	(409)	56	944	40	(497)	487
Cash flows	—	—	—	—	—	—	—	—
Premiums and similar expenses paid	(516)	—	—	(516)	(543)	—	—	(543)
Amounts recovered	—	—	452	452	—	—	491	491
Total cash flows	(516)	—	452	(64)	(543)	—	491	(52)
Net closing balance	(630)	(41)	(71)	(742)	(569)	(52)	(113)	(734)
Closing reinsurance contract liabilities	369	—	(12)	357	363	—	(15)	348
Closing reinsurance contract assets	(999)	(41)	(59)	(1,099)	(932)	(52)	(98)	(1,082)
Net closing balance	(630)	(41)	(71)	(742)	(569)	(52)	(113)	(734)

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.1 Total insurance contract liabilities (continued)

Reinsurance contracts (continued)

Analysis by measurement component

	2023						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening reinsurance contract liabilities	567	(95)	—	(123)	(1)	(124)	348
Opening reinsurance contract assets	(855)	(54)	(6)	(5)	(162)	(173)	(1,082)
Net opening balance	(288)	(149)	(6)	(128)	(163)	(297)	(734)
Changes that relate to current services							
CSM recognised in profit or loss for the services received	—	—	1	11	4	16	16
Change in the risk adjustment for non-financial risk for the risk expired	—	10	—	—	—	—	10
Experience adjustments	4	—	—	—	—	—	4
	4	10	1	11	4	16	30
Changes that relate to future services							
Contracts initially recognised in the period	—	—	—	—	—	—	—
Changes in estimates reflected in the CSM	44	(4)	—	(17)	(22)	(39)	1
Changes in the fulfilment cash flows that do not adjust the CSM for the group of underlying contracts	10	—	—	—	—	—	10
	54	(4)	—	(17)	(22)	(39)	11
Changes that relate to past services							
Asset for incurred claims	54	—	—	—	—	—	54
	54	—	—	—	—	—	54
Insurance service result	112	6	1	(6)	(18)	(23)	95
Net finance income from reinsurance contracts	(26)	(6)	—	(3)	(4)	(7)	(39)
Total changes in the income statement	86	—	1	(9)	(22)	(30)	56
Cash flows							
Premiums and similar expenses paid	(516)	—	—	—	—	—	(516)
Amounts recovered	452	—	—	—	—	—	452
Total cash flows	(64)	—	—	—	—	—	(64)
Net closing balance	(266)	(149)	(5)	(137)	(185)	(327)	(742)
Closing reinsurance contract liabilities	581	(94)	—	(129)	(1)	(130)	357
Closing reinsurance contract assets	(847)	(55)	(5)	(8)	(184)	(197)	(1,099)
Net closing balance	(266)	(149)	(5)	(137)	(185)	(327)	(742)

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.1 Total insurance contract liabilities (continued)

Reinsurance contracts (continued)

Analysis by measurement component (continued)

	2022						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening reinsurance contract liabilities	748	(161)	—	(41)	—	(41)	546
Opening reinsurance contract assets	(1,488)	(132)	(4)	(3)	(88)	(95)	(1,715)
Net opening balance	(740)	(293)	(4)	(44)	(88)	(136)	(1,169)
Changes that relate to current services							
CSM recognised in profit or loss for the services received	—	—	2	10	2	14	14
Change in the risk adjustment for non-financial risk for the risk expired	—	16	—	—	—	—	16
Experience adjustments	(17)	—	—	—	—	—	(17)
	(17)	16	2	10	2	14	13
Changes that relate to future services							
Changes in estimates reflected in the CSM	185	(12)	(4)	(92)	(77)	(173)	—
Changes in the fulfilment cash flows that do not adjust the CSM for the group of underlying contracts	6	—	—	—	—	—	6
	191	(12)	(4)	(92)	(77)	(173)	6
Changes that relate to past services							
Asset for incurred claims	(4)	—	—	—	—	—	(4)
	(4)	—	—	—	—	—	(4)
Insurance service result	170	4	(2)	(82)	(75)	(159)	15
Net finance income from reinsurance contracts	334	140	—	(2)	—	(2)	472
Total changes in the income statement	504	144	(2)	(84)	(75)	(161)	487
Cash flows							
Premiums and similar expenses paid	(543)	—	—	—	—	—	(543)
Amounts recovered	491	—	—	—	—	—	491
Total cash flows	(52)	—	—	—	—	—	(52)
Net closing balance	(288)	(149)	(6)	(128)	(163)	(297)	(734)
Closing reinsurance contract liabilities	567	(95)	—	(123)	(1)	(124)	348
Closing reinsurance contract assets	(855)	(54)	(6)	(5)	(162)	(173)	(1,082)
Net closing balance	(288)	(149)	(6)	(128)	(163)	(297)	(734)

Notes to the consolidated financial statements continued

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.2 With-profits sub-funds

Insurance contracts

Analysis by remaining coverage and incurred claims

	2023				2022			
	Liabilities for remaining coverage				Liabilities for remaining coverage			
For the year ended 31 December	Excluding loss component and liability for incurred claims £m	Loss component £m	Liabilities for incurred claims £m	Total £m	Excluding loss component and liability for incurred claims £m	Loss component £m	Liabilities for incurred claims £m	Total £m
Opening insurance contract liabilities	122,807	7	363	123,177	135,311	—	349	135,660
Opening insurance contract assets	—	—	—	—	—	—	—	—
Net opening balance	122,807	7	363	123,177	135,311	—	349	135,660
Insurance revenue								
Contracts under the modified retrospective transition approach	(331)	—	—	(331)	(19)	—	—	(19)
Contracts under the fair value transition approach	(1,863)	—	—	(1,863)	(1,820)	—	—	(1,820)
New contracts and contracts under the fully retrospective transition approach	(213)	—	—	(213)	(98)	—	—	(98)
	(2,407)	—	—	(2,407)	(1,937)	—	—	(1,937)
Insurance service expenses								
Incurred claims and other insurance service expenses	—	—	1,597	1,597	—	(4)	1,657	1,653
Amortisation of insurance acquisition cash flows	26	—	—	26	8	—	—	8
Adjustments to liability for incurred claims	—	—	—	—	—	—	—	—
Losses and reversals of losses on onerous contracts	—	4	—	4	—	11	—	11
	26	4	1,597	1,627	8	7	1,657	1,672
Insurance service result	(2,381)	4	1,597	(780)	(1,929)	7	1,657	(265)
Finance expense/(income) from insurance contracts issued	6,144	—	(12)	6,132	(6,977)	—	(4)	(6,981)
Total changes in income statement	3,763	4	1,585	5,352	(8,906)	7	1,653	(7,246)
Investment components and premium refunds	(10,391)	—	10,391	—	(9,790)	—	9,790	—
Cash flows								
Premiums received	7,157	—	—	7,157	6,331	—	—	6,331
Incurred claims paid and other insurance service expenses paid including investment component	—	—	(11,951)	(11,951)	—	—	(11,429)	(11,429)
Insurance acquisition cash flows	(139)	—	—	(139)	(139)	—	—	(139)
Total cash flows	7,018	—	(11,951)	(4,933)	6,192	—	(11,429)	(5,237)
Net closing balance	123,197	11	388	123,596	122,807	7	363	123,177
Closing insurance contract liabilities	123,197	11	388	123,596	122,807	7	363	123,177
Closing insurance contract assets	—	—	—	—	—	—	—	—
Net closing balance	123,197	11	388	123,596	122,807	7	363	123,177

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.2 With-profits sub-funds (continued)

Insurance contracts (continued)

Analysis by measurement component

	2023						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening insurance contract liabilities	118,740	221	2,041	1,986	189	4,216	123,177
Opening insurance contract assets	—	—	—	—	—	—	—
Net opening balance	118,740	221	2,041	1,986	189	4,216	123,177
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(221)	(244)	(34)	(499)	(499)
Change in the risk adjustment for non-financial risk for the risk expired	—	(24)	—	—	—	—	(24)
Revenue recognised for incurred policyholder tax	(249)	—	—	—	—	—	(249)
Experience adjustments	(12)	—	—	—	—	—	(12)
	(261)	(24)	(221)	(244)	(34)	(499)	(784)
Changes that relate to future services							
Contracts initially recognised in the period	(124)	5	—	—	119	119	—
Changes in estimates reflected in the CSM	177	19	(194)	(19)	17	(196)	—
Changes in estimates that result in onerous contract losses or reversal of those losses	4	—	—	—	—	—	4
	57	24	(194)	(19)	136	(77)	4
Changes that relate to past services							
Adjustments to liabilities for incurred claims	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
Insurance service result	(204)	—	(415)	(263)	102	(576)	(780)
Finance expense/(income) from insurance contracts issued	5,832	1	121	154	24	299	6,132
Total changes in income statement	5,628	1	(294)	(109)	126	(277)	5,352
Cash flows							
Premiums received	7,157	—	—	—	—	—	7,157
Incurred claims paid and other insurance service expenses paid including investment component	(11,951)	—	—	—	—	—	(11,951)
Insurance acquisition cash flows	(139)	—	—	—	—	—	(139)
Total cash flows	(4,933)	—	—	—	—	—	(4,933)
Net closing balance	119,435	222	1,747	1,877	315	3,939	123,596
Closing insurance contract liabilities	119,435	222	1,747	1,877	315	3,939	123,596
Closing insurance contract assets	—	—	—	—	—	—	—
Net closing balance	119,435	222	1,747	1,877	315	3,939	123,596

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.2 With-profits sub-funds (continued)

Insurance contracts (continued)

Analysis by measurement component (continued)

	2022						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening insurance contract liabilities	131,811	274	1,694	1,792	89	3,575	135,660
Opening insurance contract assets	—	—	—	—	—	—	—
Net opening balance	131,811	274	1,694	1,792	89	3,575	135,660
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(229)	(279)	(18)	(526)	(526)
Change in the risk adjustment for non-financial risk for the risk expired	—	(22)	—	—	—	—	(22)
Expense recognised for incurred policyholder tax	243	—	—	—	—	—	243
Experience adjustments	23	—	—	—	—	—	23
	266	(22)	(229)	(279)	(18)	(526)	(282)
Changes that relate to future services							
Contracts initially recognised in the period	(49)	1	—	—	49	49	1
Changes in estimates reflected in the CSM	(1,109)	56	558	427	68	1,053	—
Changes in estimates that result in onerous contract losses or reversal of those losses	10	—	—	—	—	—	10
	(1,148)	57	558	427	117	1,102	11
Changes that relate to past services							
Adjustments to liabilities for incurred claims	6	—	—	—	—	—	6
	6	—	—	—	—	—	6
Insurance service result	(876)	35	329	148	99	576	(265)
Finance expense/(income) from insurance contracts issued	(6,958)	(88)	18	46	1	65	(6,981)
Total changes in income statement	(7,834)	(53)	347	194	100	641	(7,246)
Cash flows							
Premiums received	6,331	—	—	—	—	—	6,331
Incurred claims paid and other insurance service expenses paid including investment component	(11,429)	—	—	—	—	—	(11,429)
Insurance acquisition cash flows	(139)	—	—	—	—	—	(139)
Total cash flows	(5,237)	—	—	—	—	—	(5,237)
Net closing balance	118,740	221	2,041	1,986	189	4,216	123,177
Closing insurance contract liabilities	118,740	221	2,041	1,986	189	4,216	123,177
Closing insurance contract assets	—	—	—	—	—	—	—
Net closing balance	118,740	221	2,041	1,986	189	4,216	123,177

Notes to the consolidated financial statements continued

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.3 Unit-linked liabilities

Insurance contracts

Analysis by remaining coverage and incurred claims

	2023				2022			
	Liabilities for remaining coverage				Liabilities for remaining coverage			
	Excluding loss component	Loss component	Liabilities for incurred claims	Total	Excluding loss component	Loss component	Liabilities for incurred claims	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	4,139	13	446	4,598	4,941	—	377	5,318
Opening insurance contract assets	—	—	—	—	—	—	—	—
Net opening balance	4,139	13	446	4,598	4,941	—	377	5,318
Insurance revenue								
Contracts under the modified retrospective transition approach	—	—	—	—	—	—	—	—
Contracts under the fair value transition approach	(52)	—	—	(52)	(28)	—	—	(28)
New contracts and contracts under the fully retrospective transition approach	—	—	—	—	(1)	—	—	(1)
	(52)	—	—	(52)	(29)	—	—	(29)
Insurance service expenses								
Incurred claims and other insurance service expenses	—	(2)	66	64	—	—	62	62
Amortisation of insurance acquisition cash flows	1	—	—	1	(6)	—	—	(6)
Adjustments to liability for incurred claims	—	—	—	—	—	—	—	—
Losses and reversals of losses on onerous contracts	—	(11)	—	(11)	—	13	—	13
	1	(13)	66	54	(6)	13	62	69
Insurance service result	(51)	(13)	66	2	(35)	13	62	40
Finance expense/(income) from insurance contracts issued	239	—	—	239	(360)	—	2	(358)
Total changes in income statement	188	(13)	66	241	(395)	13	64	(318)
Investment components and premium refunds	(456)	—	456	—	(420)	—	420	—
Cash flows								
Premiums received	38	—	—	38	13	—	—	13
Incurred claims paid and other insurance service expenses paid including investment component	—	—	(473)	(473)	—	—	(415)	(415)
Insurance acquisition cash flows	—	—	—	—	—	—	—	—
Total cash flows	38	—	(473)	(435)	13	—	(415)	(402)
Net closing balance	3,909	—	495	4,404	4,139	13	446	4,598
Closing insurance contract liabilities	3,909	—	495	4,404	4,139	13	446	4,598
Closing insurance contract assets	—	—	—	—	—	—	—	—
Net closing balance	3,909	—	495	4,404	4,139	13	446	4,598

Notes to the consolidated financial statements continued

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.3 Unit-linked liabilities (continued)

Insurance contracts (continued)

Analysis by measurement component

	2023						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening insurance contract liabilities	4,557	6	—	35	—	35	4,598
Opening insurance contract assets	—	—	—	—	—	—	—
Net opening balance	4,557	6	—	35	—	35	4,598
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	—	(9)	—	(9)	(9)
Change in the risk adjustment for non-financial risk for the risk expired	—	(1)	—	—	—	—	(1)
Revenue recognised for incurred policyholder tax	(6)	—	—	—	—	—	(6)
Experience adjustments	29	—	—	—	—	—	29
	23	(1)	—	(9)	—	(9)	13
Changes that relate to future services							
Contracts initially recognised in the period	—	—	—	—	—	—	—
Changes in estimates reflected in the CSM	(19)	1	—	18	—	18	—
Changes in estimates that result in onerous contract losses or reversal of those losses	(11)	—	—	—	—	—	(11)
	(30)	1	—	18	—	18	(11)
Changes that relate to past services							
Adjustments to liabilities for incurred claims	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
Insurance service result	(7)	—	—	9	—	9	2
Finance expense/(income) from insurance contracts issued	234	—	—	5	—	5	239
Total changes in income statement	227	—	—	14	—	14	241
Cash flows							
Premiums received	38	—	—	—	—	—	38
Incurred claims paid and other insurance service expenses paid including investment component	(473)	—	—	—	—	—	(473)
Insurance acquisition cash flows	—	—	—	—	—	—	—
Total cash flows	(435)	—	—	—	—	—	(435)
Net closing balance	4,349	6	—	49	—	49	4,404
Closing insurance contract liabilities	4,349	6	—	49	—	49	4,404
Closing insurance contract assets	—	—	—	—	—	—	—
Net closing balance	4,349	6	—	49	—	49	4,404

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.3 Unit-linked liabilities (continued)

Insurance contracts (continued)

Analysis by measurement component (continued)

	2022						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	5,274	7	—	37	—	37	5,318
Opening insurance contract assets	—	—	—	—	—	—	—
Net opening balance	5,274	7	—	37	—	37	5,318
Changes that relate to current services	—	—	—	—	—	—	—
CSM recognised in profit or loss for the services provided	—	—	—	(11)	—	(11)	(11)
Change in the risk adjustment for non-financial risk for the risk expired	—	—	—	—	—	—	—
Expense recognised for incurred policyholder tax	19	—	—	—	—	—	19
Experience adjustments	19	—	—	—	—	—	19
	38	—	—	(11)	—	(11)	27
Changes that relate to future services	—	—	—	—	—	—	—
Contracts initially recognised in the period	(2)	—	—	—	2	2	—
Changes in estimates reflected in the CSM	(6)	(1)	—	9	(2)	7	—
Changes in estimates that result in onerous contract losses or reversal of those losses	13	—	—	—	—	—	13
	5	(1)	—	9	—	9	13
Changes that relate to past services	—	—	—	—	—	—	—
Adjustments to liabilities for incurred claims	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
Insurance service result	43	(1)	—	(2)	—	(2)	40
Finance expense/(income) from insurance contracts issued	(358)	—	—	—	—	—	(358)
Total changes in income statement	(315)	(1)	—	(2)	—	(2)	(318)
Cash flows							
Premiums received	13	—	—	—	—	—	13
Incurred claims paid and other insurance service expenses paid including investment component	(415)	—	—	—	—	—	(415)
Insurance acquisition cash flows	—	—	—	—	—	—	—
Total cash flows	(402)	—	—	—	—	—	(402)
Net closing balance	4,557	6	—	35	—	35	4,598
Closing insurance contract liabilities	4,557	6	—	35	—	35	4,598
Closing insurance contract assets	—	—	—	—	—	—	—
Net closing balance	4,557	6	—	35	—	35	4,598

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.4 Annuity and other long-term business

Insurance contracts

Analysis by remaining coverage and incurred claims

	2023				2022			
	Liabilities for remaining coverage				Liability for remaining coverage			
	Excluding loss component	Loss component	Liabilities for incurred claims	Total	Excluding loss component	Loss component	Liabilities for incurred claims	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	13,895	86	220	14,201	19,477	143	223	19,843
Opening insurance contract assets	(43)	—	4	(39)	(31)	—	3	(28)
Net opening balance	13,852	86	224	14,162	19,446	143	226	19,815
Insurance revenue								
Contracts under the modified retrospective transition approach	(6)	—	—	(6)	(6)	—	—	(6)
Contracts under the fair value transition approach	(1,324)	—	—	(1,324)	(1,270)	—	—	(1,270)
New contracts and contracts under the fully retrospective transition approach	(98)	—	—	(98)	(83)	—	—	(83)
	(1,428)	—	—	(1,428)	(1,359)	—	—	(1,359)
Insurance service expenses								
Incurred claims and other insurance service expenses	—	(5)	1,196	1,191	—	(3)	1,191	1,188
Amortisation of insurance acquisition cash flows	29	—	—	29	24	—	—	24
Adjustments to liability for incurred claims	—	—	(54)	(54)	—	—	3	3
Losses and reversals of losses on onerous contracts	—	(13)	—	(13)	—	(7)	—	(7)
	29	(18)	1,142	1,153	24	(10)	1,194	1,208
Insurance service result	(1,399)	(18)	1,142	(275)	(1,335)	(10)	1,194	(151)
Finance expense/(income) from insurance contracts issued	946	1	—	947	(4,437)	(47)	—	(4,484)
Total changes in income statement	(453)	(17)	1,142	672	(5,772)	(57)	1,194	(4,635)
Investment components and premium refunds	(77)	—	77	—	(77)	—	77	—
Cash flows								
Premiums received	553	—	—	553	278	—	—	278
Incurred claims paid and other insurance service expenses paid including investment component	—	—	(1,272)	(1,272)	—	—	(1,273)	(1,273)
Insurance acquisition cash flows	(24)	—	—	(24)	(23)	—	—	(23)
Total cash flows	529	—	(1,272)	(743)	255	—	(1,273)	(1,018)
Net closing balance	13,851	69	171	14,091	13,852	86	224	14,162
Closing insurance contract liabilities	13,901	69	165	14,135	13,895	86	220	14,201
Closing insurance contract assets	(50)	—	6	(44)	(43)	—	4	(39)
Net closing balance	13,851	69	171	14,091	13,852	86	224	14,162

Notes to the consolidated financial statements continued

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.4 Annuity and other long-term business (continued)

Insurance contracts (continued)

Analysis by measurement component

	2023						
			Contractual service margin				
For the year ended 31 December	Estimates of present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contracts under modified retrospective transition approach £m	Contracts under the fair value transition approach £m	Other contracts £m	Total CSM £m	Total £m
Opening insurance contract liabilities	12,076	397	—	1,673	55	1,728	14,201
Opening insurance contract assets	(76)	3	—	11	23	34	(39)
Net opening balance	**12,000**	**400**	**—**	**1,684**	**78**	**1,762**	**14,162**
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	—	(130)	(11)	(141)	(141)
Change in the risk adjustment for non-financial risk for the risk expired	—	(32)	—	—	—	—	(32)
Experience adjustments	(35)	—	—	—	—	—	(35)
	(35)	(32)	—	(130)	(11)	(141)	(208)
Changes that relate to future services							
Contracts initially recognised in the period	(57)	11	—	—	46	46	—
Changes in estimates reflected in the CSM	(112)	11	—	94	7	101	—
Changes in estimates that result in onerous contract losses or reversal of those losses	(13)	—	—	—	—	—	(13)
	(182)	22	—	94	53	147	(13)
Changes that relate to past services							
Adjustments to liabilities for incurred claims	(54)	—	—	—	—	—	(54)
	(54)	—	—	—	—	—	(54)
Insurance service result	**(271)**	**(10)**	**—**	**(36)**	**42**	**6**	**(275)**
Finance expense/(income) from insurance contracts issued	875	18	—	47	7	54	947
Total changes in income statement	**604**	**8**	**—**	**11**	**49**	**60**	**672**
Cash flows							
Premiums received	553	—	—	—	—	—	553
Incurred claims paid and other insurance service expenses paid including investment component	(1,272)	—	—	—	—	—	(1,272)
Insurance acquisition cash flows	(24)	—	—	—	—	—	(24)
Total cash flows	**(743)**	**—**	**—**	**—**	**—**	**—**	**(743)**
Net closing balance	**11,861**	**408**	**—**	**1,695**	**127**	**1,822**	**14,091**
Closing insurance contract liabilities	11,954	404	—	1,683	94	1,777	14,135
Closing insurance contract assets	(93)	4	—	12	33	45	(44)
Net closing balance	**11,861**	**408**	**—**	**1,695**	**127**	**1,822**	**14,091**

24 Insurance liabilities (continued)

24.2 Movements in insurance, investment with DPF and reinsurance contract balances (continued)

24.2.4 Annuity and other long-term business (continued)

Insurance contracts (continued)

Analysis by measurement component (continued)

	2022						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	17,613	699	2	1,508	21	1,531	19,843
Opening insurance contract assets	(58)	3	—	10	17	27	(28)
Net opening balance	17,555	702	2	1,518	38	1,558	19,815
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	—	(121)	(6)	(127)	(127)
Change in the risk adjustment for non-financial risk for the risk expired	—	(41)	—	—	—	—	(41)
Experience adjustments	21	—	—	—	—	—	21
	21	(41)	—	(121)	(6)	(127)	(147)
Changes that relate to future services							
Contracts initially recognised in the period	(29)	2	—	—	27	27	—
Changes in estimates reflected in the CSM	(310)	38	(2)	258	17	273	1
Changes in estimates that result in onerous contract losses or reversal of those losses	(7)	(1)	—	—	—	—	(8)
	(346)	39	(2)	258	44	300	(7)
Changes that relate to past services							
Adjustments to liabilities for incurred claims	3	—	—	—	—	—	3
	3	—	—	—	—	—	3
Insurance service result	(322)	(2)	(2)	137	38	173	(151)
Finance expense/(income) from insurance contracts issued	(4,215)	(300)	—	29	2	31	(4,484)
Total changes in income statement	(4,537)	(302)	(2)	166	40	204	(4,635)
Cash flows							
Premiums received	278	—	—	—	—	—	278
Incurred claims paid and other insurance service expenses paid including investment component	(1,273)	—	—	—	—	—	(1,273)
Insurance acquisition cash flows	(23)	—	—	—	—	—	(23)
Total cash flows	(1,018)	—	—	—	—	—	(1,018)
Net closing balance	12,000	400	—	1,684	78	1,762	14,162
Closing insurance contract liabilities	12,076	397	—	1,673	55	1,728	14,201
Closing insurance contract assets	(76)	3	—	11	23	34	(39)
Net closing balance	12,000	400	—	1,684	78	1,762	14,162

24 Insurance liabilities (continued)

24.3 Effect of contracts initially recognised in the year

The following tables summarise the effect on the measurement components arising from the initial recognition of insurance contracts in the year.

For the year ended 31 December	2023 Profitable contracts Issued £m	2022 Profitable contracts Issued £m
With-profits sub-funds:		
Contracts initially recognised in current year		
Claims and other insurance service expenses payable	**6,223**	5,686
Insurance acquisition cash flows	**137**	135
Estimates of the present value of future cash outflows	**6,360**	5,821
Estimates of the present value of future cash inflows	**(6,484)**	(5,870)
Risk adjustment for non-financial risk	**5**	1
CSM	**119**	49
Losses recognised on initial recognition	**—**	1
Unit-linked liabilities:		
Contracts initially recognised in current year		
Claims and other insurance service expenses payable	**—**	21
Insurance acquisition cash flows	**—**	—
Estimates of the present value of future cash outflows	**—**	21
Estimates of the present value of future cash inflows	**—**	(23)
Risk adjustment for non-financial risk	**—**	—
CSM	**—**	2
Losses recognised on initial recognition	**—**	—
Annuity and other long-term business:		
Contracts initially recognised in current year		
Claims and other insurance service expenses payable	**303**	75
Insurance acquisition cash flows	**25**	27
Estimates of the present value of future cash outflows	**328**	102
Estimates of the present value of future cash inflows	**(385)**	(131)
Risk adjustment for non-financial risk	**11**	2
CSM	**46**	27
Losses recognised on initial recognition	**—**	—
Total:		
Contracts initially recognised in current year		
Claims and other insurance service expenses payable	**6,526**	5,782
Insurance acquisition cash flows	**162**	162
Estimates of the present value of future cash outflows	**6,688**	5,944
Estimates of the present value of future cash inflows	**(6,869)**	(6,024)
Risk adjustment for non-financial risk	**16**	3
CSM	**165**	78
Losses recognised on initial recognition	**—**	1

In the years ended 31 December 2023 and 31 December 2022, there were no new reinsurance contracts recognised.

24 Insurance liabilities (continued)

24.4 Expected recognition of the contractual service margin

	2023				2022			
	Insurance contracts issued				Insurance contracts issued			
As at 31 December	With-profits sub-funds £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m	With-profits sub-funds £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
Number of years until expected to be recognised:								
0 to 1 year	**428**	**8**	**114**	**550**	462	4	102	568
1 to 2 years	**379**	**6**	**110**	**495**	407	4	100	511
2 to 3 years	**343**	**5**	**106**	**454**	368	4	98	470
3 to 4 years	**309**	**5**	**103**	**417**	332	4	95	431
4 to 5 years	**279**	**4**	**99**	**382**	299	3	92	394
5 to 10 years	**1,019**	**13**	**435**	**1,467**	1,088	9	415	1,512
10 to 15 years	**570**	**5**	**331**	**906**	608	4	327	939
15 to 20 years	**301**	**2**	**227**	**530**	321	2	231	554
20 to 25 years	**155**	**1**	**138**	**294**	164	1	142	307
Over 25 years	**156**	**—**	**159**	**315**	167	—	160	327
Total	**3,939**	**49**	**1,822**	**5,810**	4,216	35	1,762	6,013

The insurance contracts issued represents the run off of the net of insurance assets and insurance liabilities CSM. The amounts presented in the table represent the current discounted value of the CSM amortisation expected to be recognised in the insurance service result in future periods. The actual CSM amortisation in future periods will differ from that presented due to the impacts of future new business, recalibrations of the CSM, changes in estimates reflected in the CSMs and changes in the future coverage units.

As at 31 December	2023 Reinsurance contracts held £m	2022 Reinsurance contracts held £m
Number of years until expected to be recognised:		
0 to 1 year	**(9)**	(8)
1 to 2 years	**(9)**	(8)
2 to 3 years	**(9)**	(9)
3 to 4 years	**(10)**	(9)
4 to 5 years	**(10)**	(9)
5 to 10 years	**(55)**	(50)
10 to 15 years	**(56)**	(50)
15 to 20 years	**(50)**	(44)
20 to 25 years	**(40)**	(35)
Over 25 years	**(79)**	(75)
Total	**(327)**	(297)

For reinsurance contracts held 98% (2022: 98%) relates to annuity and other long-term business contracts. The reinsurance contracts held represents the run off of the net of reinsurance assets and reinsurance liabilities CSM.

Notes to the consolidated financial statements continued

25 Investment contract liabilities without discretionary participation features

Investment contract liabilities without DPF comprise unit-linked contracts that contain little or no insurance risk and certain contracts invested in PruFund with a low level of discretion (see following paragraph). For the former, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability, and the deferred acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Deferred acquisition costs and deferred income are recognised in line with the level of service provision.

Certain contracts invested in PruFund which are sold via wholesale distribution agreements with certain European financial institutions and that are not considered to have DPF are also included in investment contract liabilities without DPF. Accordingly, the contracts are measured at FVTPL under IFRS 9. The carrying value of these liabilities as at 31 December 2023 is £294m (31 December 2022: £164m).

The table below presents the analysis of change in investment contract liabilities without DPF:

	2023 £m	2022 £m
As at 1 January 2022 / 2023	**11,937**	14,884
Net Flows:		
Premiums	**695**	741
Surrenders	**(770)**	(1,941)
Maturities/deaths	**(133)**	(47)
Net flows	**(208)**	(1,247)
Corporate transactions	**—**	—
Switches	**19**	—
Changes in reserving basis	**—**	30
Investment-related items and other movements[i]	**859**	(1,758)
Foreign exchange differences	**(72)**	28
As at 31 December 2022 / 2023	**12,535**	11,937

i Investment-related items and other movements, foreign exchange differences and change in reserving basis closely align to the net change in investment contract liabilities without DPF income statement amount. The difference between the values relates to policyholder tax, reclassifications and annual management charges.

Certain parts of the unit-linked business are reinsured externally by way of fund reinsurance. Where this is the case, the fair value of the underlying asset and liability is equal to the unit value obligation.

26 Subordinated liabilities and other borrowings

As at 31 December	**2023 £m**	2022 £m
Subordinated liabilities	**3,676**	3,729
Operational borrowings	**92**	50
Borrowings attributable to the With-Profits Fund	**4,321**	3,758
Total subordinated liabilities and other borrowings	**8,089**	7,537

26 Subordinated liabilities and other borrowings (continued)

26.1 Subordinated liabilities

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

	2023		2022	
	Principal amount	**Carrying value**	Principal amount	Carrying value
As at 31 December		**£m**		£m
5.625% sterling fixed rate due 20 October 2051	**£750m**	**831**	£750m	839
6.25% sterling fixed rate due 20 October 2068	**£500m**	**602**	£500m	604
6.50% US dollar fixed rate due 20 October 2048	**$500m**	**434**	$500m	466
6.34% sterling fixed rate due 19 December 2063	**£700m**	**841**	£700m	845
5.56% sterling fixed rate due 20 July 2055	**£600m**	**667**	£600m	672
3.875% sterling fixed rate due 20 July 2049	**£300m**	**301**	£300m	303
Total subordinated liabilities		**3,676**		3,729

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 31 December 2023 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]	3 October 2018	3 October 2018	3 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 originally issued by Prudential plc rather than by the Company.

As at 31 December 2023, the principal amount of all subordinated liabilities has a contractual maturity of more than 12 months and accrued interest of £42m (2022: £43m) is expected to be settled within 12 months.

26 Subordinated liabilities and other borrowings (continued)

26.1 Subordinated liabilities (continued)

26.1.1 Movement in subordinated liabilities

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

For the year ended 31 December	2023 £m	2022 £m
At 1 January	**3,729**	3,706
Amortisation	**(29)**	(28)
Foreign exchange movements	**(24)**	51
At 31 December	**3,676**	3,729

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

26.2 Other borrowings

26.2.1 Operational borrowings attributable to shareholder-financed operations

In March 2019, the Group entered into revolving credit facilities of £1.5bn with several banks and financial institutions, and these are due to mature in 2026. As at 31 December 2023, these remain undrawn.

26.2.2 Borrowings attributable to the With-Profits Fund

As at 31 December	2023 £m	2022 £m
Non-recourse borrowings of consolidated investment funds[i]	**3,950**	3,608
Bank loans and overdrafts	**371**	150
Total	**4,321**	3,758

i In all instances, the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds.

26.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's other borrowings as recognised in the consolidated statement of financial position:

	Operational borrowings							
	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	No stated maturity £m	Total £m
As at 31 December 2023	**91**	**—**	**—**	**—**	**—**	**—**	**1**	**92**
As at 31 December 2022	49	1	—	—	—	—	—	50

	Borrowings attributable to the With-Profits Fund							
	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	No stated maturity £m	Total £m
As at 31 December 2023	**883**	**601**	**267**	**1,219**	**531**	**820**	**—**	**4,321**
As at 31 December 2022	401	1,117	285	163	268	1,524	—	3,758

27 Lease liabilities

The Group leases various land and buildings which it utilises as office space and also sublets to other organisations. Information about leases for which the Group is a lessee is presented below.

For the year ended 31 December	2023 £m	2022 £m
At 1 January	**420**	413
Transfers[i]	**(8)**	(7)
Additions	**8**	53
Disposals	**(8)**	(9)
Interest expense	**13**	14
Lease repayments	**(38)**	(44)
At 31 December	**387**	420

i For the year ended 31 December 2023, transfers out of £8m relates to lease liabilities held for sale in relation to the Group's consolidated infrastructure capital private equity vehicles (2022: £7m).

As at 31 December 2023, £73m (2022 (Restated[i]): £85m) of the lease liabilities are attributable to the With-Profits Fund.

The table below presents a maturity analysis of lease liabilities:

As at 31 December	2023 £m	Restated[i] 2022 £m
Expected to be settled within one year	**29**	33
Expected to be settled after one year	**358**	387
Total lease liabilities	**387**	420

i Following a review of the Group's presentation of lease liabilities, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the year or net assets.

The table below presents a maturity analysis of lease payments showing the undiscounted lease payments to be paid on an annual basis on these leases:

As at 31 December	2023 £m	Restated[i] 2022 £m
Future minimum lease payments falling due in:		
Less than 1 year	**46**	46
1 to 5 years	**139**	145
Over 5 years	**939**	1,432

i Following a review of the Group's presentation of lease liabilities, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the year or net assets.

For the year ended 31 December 2023 there are no lease break options exercisable by the Group (2022: None).

28 Provisions

	2023 £m	2022 £m
Regulatory	**1**	1
Staff Benefits	**52**	48
Restructuring	**4**	11
Other	**25**	30
Total provisions	**82**	90

For the year ended 31 December	2023 £m	2022 £m
At 1 January	**90**	138
Charged to consolidated income statement:		
Additional provisions	**13**	20
Unused amounts released	**(7)**	(8)
Used during the year	**(13)**	(58)
Foreign exchange difference	**(1)**	(2)
At 31 December	**82**	90

Staff benefits

Staff benefits primarily relates to performance-related bonuses expected to be paid to staff over the next three years.

Restructuring

Included in restructuring provisions is £Nil as at 31 December 2023 (2022: £10m) related to change in control costs arising from the demerger of the Group from Prudential plc in 2019. The change in control costs were expected to be incurred in the four years following separation and the remaining provisions were released during 2023. The remaining £4m restructuring provisions as at 31 December 2023 (2022: £1m) are in relation to other transformation costs.

Other

Included within other provisions as at 31 December 2022 is the Group's obligation under the call option arrangement to purchase the remaining shareholding of responsAbility. The Group acquired the remaining shares on 21 February 2023.

29 Accruals, deferred income and other liabilities

As at 31 December	2023 £m	Restated[i] 2022 £m
Outstanding purchases of investment securities	**3,943**	4,607
Accruals and deferred income	**1,230**	1,344
Deferred consideration	**239**	246
Interest payable	**97**	80
Creation of units awaiting settlement	**40**	32
Property related creditors	**20**	17
Other	**657**	442
Total accruals, deferred income and other liabilities	**6,226**	6,768
Analysed as:		
Expected to be settled within one year	**5,993**	6,449
Expected to be settled after one year	**233**	319
Total accruals, deferred income and other liabilities	**6,226**	6,768

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

30 Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group invests in structured entities such as:

- Pooled investment vehicles, including OEICs, unit trusts, SICAVs and limited partnerships.
- Debt securitisation vehicles, including collateralised debt obligations, mortgage-backed securities and other similar asset-backed securities.

Structured entities which the Group is deemed to control are consolidated in the consolidated financial statements. As at 31 December 2023 and 31 December 2022, the Group has not provided, and has no intention to provide, non-contractual financial or other support to consolidated or unconsolidated structured entities that could expose the Group to a loss.

30.1 Investments in unconsolidated structured entities

The table below shows aggregate carrying amounts of the investments in unconsolidated structured entities reported in the consolidated statement of financial position:

As at 31 December	2023 £m	2022 £m
Statement of financial position line item:		
Equity securities and pooled investment funds	**12,146**	13,497
Debt securities	**2,174**	2,134
Total	**14,320**	15,631

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments. Further details on risks associated with financial assets and how they are managed are provided in Note 32.

Included in equity investments and pooled investment funds as at 31 December 2023 were £4,170m (2022: £6,858m) of investments in structured entities managed by the Group. Investment management fees for the year end 31 December 2023 of £414m (2022: £416m) were recognised from managing these entities.

The maximum exposure to loss for unconsolidated structured entities in which the Group holds an investment is the carrying value of the Group's investment and the loss of future fees.

The Group also has interests in structured entities managed by the Group in which it holds no investment through the collection of investment management fees. The maximum exposure to loss for these interests is loss of future fees.

Investment management fees recognised for the year end 31 December 2023 from managing these entities were £151m (2022: £168m). The comparative has been restated following a review of the entities within the scope of the disclosure. There is no impact on the fees earned by the Group.

31 Fair value methodology

31.1 Determination of fair value hierarchy

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

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

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

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

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

31.2 Valuation approach for level 2 assets and liabilities

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

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

31.3 Level 3 assets and liabilities

31.3.1 Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions eg 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.

Exposure to climate risk is mitigated as part of the acquisition and asset management of real estate properties through careful assessment of potential acquisitions and regularly monitoring the energy intensity and carbon emissions of our existing portfolio. Where relevant, we procure independent third party advice to assess our portfolio's potential and cost of retrofitting to minimise carbon emissions and energy intensity.

31 Fair value methodology (continued)

31.3 Level 3 assets and liabilities (continued)

31.3.1 Valuation approach for level 3 (continued)

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

Certain debt securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower and allocating an internal credit rating which is unobservable. The internal credit rating implicitly incorporates Environmental, Social and Governance (ESG) considerations through the analysts' views of the industry and issuer. Under matrix pricing, these debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt securities, factoring in a specified liquidity premium. The selection of comparable quoted public debt securities used to determine the credit spread is based on a credit spread matrix that takes into account the internal credit rating, maturity and currency of the debt security. During the year, the methodology for valuing the securities was further enhanced to place focus on the use of comparable instruments or a comparable basket of securities to derive a credit spread for each in scope private debt investment. This approach aligns to views of best practice and considers key features of the investment being valued.

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

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

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

31 Fair value methodology (continued)

31.3 Level 3 assets and liabilities (continued)

31.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 31 December 2023 were £7,878m (2022 (Restated): £8,630m), representing 6.0% of the total fair-valued financial assets net of financial liabilities (2022: 6.7%).

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

- Debt securities of £7,278m as at 31 December 2023 (2022: £7,083m), of which £5,746m (2022: £5,885m) were valued using discounted cash flow models with an internally developed discount rate.These include senior and junior notes backed by residential ground rents with a carrying value of £1,241m (2022: £1,423m). Please see notes 31.8.1 and 31.8.2 for more information on these assets. 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 £325m as at 31 December 2023 (2022: £497m), of which investments of £325m (2022: £497m) 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, internally derived 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 £928m as at 31 December 2023 (2022: £934m) and a corresponding liability of £239m (2022: £246m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the internally derived discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yields.
- Other commercial loans of £1,417m as at 31 December 2023 (2022: £1,114m) were valued using discounted cash flow models with an internally developed discount rate.
- Liabilities of £2,967m as at 31 December 2023 (2022: £1,688m), 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.

31.3.3 Governance of level 3

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

31 Fair value methodology (continued)

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

The tables below present the Group's assets measured at fair value by level of the fair value hierarchy for each component of business as set out in Note 32.

		2023			
		Level 1	Level 2	Level 3	Total
As at 31 December	Note	£m	£m	£m	£m
With-profits:					
Investment property		—	—	14,423	14,423
Equity securities and pooled investment funds		38,863	1,660	14,080	54,603
Loans		—	747	1,860	2,607
Debt securities		17,966	29,837	4,436	52,239
Derivative assets		222	1,082	—	1,304
Total with-profits		57,051	33,326	34,799	125,176
Unit-linked:					
Investment property		—	—	310	310
Equity securities and pooled investment funds		10,642	473	43	11,158
Debt securities		1,796	2,841	14	4,651
Derivative assets		18	12	—	30
Total unit-linked		12,456	3,326	367	16,149
Annuity and other long-term business:					
Investment property		—	—	689	689
Equity securities and pooled investment funds		177	88	4	269
Loans		—	—	1,301	1,301
Debt securities		2,631	5,851	4,275	12,757
Derivative assets		—	195	32	227
Total annuity and other long-term business		2,808	6,134	6,301	15,243
Other:					
Equity securities and pooled investment funds		151	—	67	218
Debt securities		678	358	—	1,036
Derivative assets		—	132	—	132
Total other		829	490	67	1,386
Group:					
Investment property	32	—	—	15,422	15,422
Equity securities and pooled investment funds	32	49,833	2,221	14,194	66,248
Loans	32	—	747	3,161	3,908
Debt securities	32	23,071	38,887	8,725	70,683
Derivative assets	32	240	1,421	32	1,693
Total assets at fair value		73,144	43,276	41,534	157,954

31 Fair value methodology (continued)

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

		Restated[i] 2022			
		Level 1	Level 2	Level 3	Total
As at 31 December	Note	£m	£m	£m	£m
With-profits:					
Investment property		—	—	15,132	15,132
Equity securities and pooled investment funds		40,155	5,322	13,087	58,564
Loans		—	507	1,366	1,873
Debt securities		13,685	26,380	4,725	44,790
Derivative assets		52	2,350	1	2,403
Total with-profits		53,892	34,559	34,311	122,762
Unit-linked:					
Investment property		—	—	497	497
Equity securities and pooled investment funds		10,788	515	33	11,336
Debt securities		1,378	3,069	19	4,466
Derivative assets		5	2	—	7
Total unit-linked		12,171	3,586	549	16,306
Annuity and other long-term business:					
Investment property		—	—	876	876
Equity securities and pooled investment funds		5	—	2	7
Loans		—	—	1,361	1,361
Debt securities		1,617	6,616	4,166	12,399
Derivative assets		—	265	25	290
Total annuity and other long-term business		1,622	6,881	6,430	14,933
Other:					
Equity securities and pooled investment funds		162	—	58	220
Debt securities		686	440	40	1,166
Derivative assets		—	150	—	150
Total other		848	590	98	1,536
Group:					
Investment property	32	—	—	16,505	16,505
Equity securities and pooled investment funds	32	51,110	5,837	13,180	70,127
Loans	32	—	507	2,727	3,234
Debt securities	32	17,366	36,505	8,950	62,821
Derivative assets	32	57	2,767	26	2,850
Total assets at fair value		68,533	45,616	41,388	155,537

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Notes to the consolidated financial statements continued

31 Fair value methodology (continued)

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

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

	2023			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£m
Investment contract liabilities without DPF	**—**	**12,535**	**—**	**12,535**
Third party interest in consolidated funds	**6,584**	**342**	**2,967**	**9,893**
Derivative liabilities	**76**	**2,821**	**13**	**2,910**
Accruals, deferred income and other liabilities	**—**	**—**	**239**	**239**
Total liabilities at fair value	**6,660**	**15,698**	**3,219**	**25,577**

	2022			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£m
Investment contract liabilities without DPF	—	11,937	—	11,937
Third party interest in consolidated funds	7,372	1,329	1,688	10,389
Derivative liabilities	95	4,081	9	4,185
Accruals, deferred income and other liabilities	—	—	246	246
Total liabilities at fair value	7,467	17,347	1,943	26,757

31.6 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.

	2023 Transfers between levels				
	Equity securities and pooled investment funds	Loans	Debt securities	Derivatives	Total
As at 31 December	£m	£m	£m	£m	£m
From level 1 to level 2[i]	**—**	**—**	**3,127**	**—**	**3,127**
From level 1 to level 3[ii]	**39**	**—**	**45**	**—**	**84**
From level 2 to level 1[iii]	**—**	**—**	**3,301**	**—**	**3,301**
From level 2 to level 3[ii]	**632**	**50**	**310**	**3**	**995**
From level 3 to level 1	**—**	**—**	**5**	**—**	**5**
From level 3 to level 2	**—**	**1**	**171**	**—**	**172**

	2022 Transfers between levels				
	Equity securities and pooled investment funds	Loans	Debt securities	Derivatives	Total
As at 31 December	£m	£m	£m	£m	£m
From level 1 to level 2[iv]	7	—	14,099	—	14,106
From level 1 to level 3	1	—	4	—	5
From level 2 to level 1	17	—	220	—	237
From level 2 to level 3	—	2	582	—	584
From level 3 to level 1	9	—	—	—	9
From level 3 to level 2	137	42	555	—	734

i The transfers in debt securities from level 1 to 2 (and level 1 to 3) are in line with the Group's levelling policy during the year ended 31 December 2023.

ii During the year additional information has been identified in relation to a number of collective investment holdings (within equity securities and pooled investment funds) with a value of £658m now reflected within level 3.

iii The transfers in debt securities from level 2 to level 1 are primarily driven by increased liquidity in the bond markets towards the end of December 2023, compared to a fall in liquidity towards the end of December 2022, and refinements made to our levelling methodology.

iv Movements arising from refinements made to the Group's levelling policy during the year ended 31 December 2022.

Notes to the consolidated financial statements continued

31 Fair value methodology (continued)

31.7 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 those held for sale) are analysed in the tables below:

	2023										
	At 1 Jan	Total gains/ (losses) recorded in income statement	Foreign exchange	Purchases	Sales	Transfer (to) / from 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	**16,505**	**(1,053)**	**(365)**	**1,037**	**(530)**	**(172)**	**—**	**—**	**—**	**—**	**15,422**
Equity securities and pooled investment funds	**13,180**	**(784)**	**(142)**	**2,632**	**(1,212)**	**(151)**	**—**	**—**	**671**	**—**	**14,194**
Loans	**2,727**	**21**	**(19)**	**968**	**(585)**	**—**	**—**	**—**	**50**	**(1)**	**3,161**
Debt securities	**8,950**	**107**	**(20)**	**853**	**(1,280)**	**(64)**	**—**	**—**	**355**	**(176)**	**8,725**
Derivative assets	**26**	**8**	**—**	**—**	**—**	**—**	**(5)**	**—**	**3**	**—**	**32**
Total level 3 assets	**41,388**	**(1,701)**	**(546)**	**5,490**	**(3,607)**	**(387)**	**(5)**	**—**	**1,079**	**(177)**	**41,534**
Level 3 liabilities:											
Third party interest in consolidated funds	**1,688**	**(223)**	**(18)**	**—**	**—**	**—**	**(9)**	**617**	**949**	**(37)**	**2,967**
Borrowings and subordinated liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Derivative liabilities	**9**	**4**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**13**
Other financial liabilities	**246**	**—**	**—**	**—**	**—**	**—**	**(7)**	**—**	**—**	**—**	**239**
Total level 3 liabilities	**1,943**	**(219)**	**(18)**	**—**	**—**	**—**	**(16)**	**617**	**949**	**(37)**	**3,219**

	Restated[i] 2022										
	At 1 Jan	Total gains/ (losses) recorded in income statement	Foreign exchange	Purchases	Sales	Transfer (to) / from 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	19,698	(1,477)	204	2,699	(4,643)	24	—	—	—	—	16,505
Equity securities and pooled investment funds	10,968	419	128	3,683	(1,873)	—	—	—	1	(146)	13,180
Loans	5,227	(901)	4	579	(786)	—	(1,356)	—	2	(42)	2,727
Debt securities	12,370	(3,401)	8	760	(818)	—	—	—	586	(555)	8,950
Derivative assets	58	(31)	—	2	—	—	(3)	—	—	—	26
Total level 3 assets	48,321	(5,391)	344	7,723	(8,120)	24	(1,359)	—	589	(743)	41,388
Level 3 liabilities:											
Third party interest in consolidated funds	1,241	(22)	16	—	—	—	(89)	542	—	—	1,688
Borrowings and subordinated liabilities	1,159	—	—	—	—	—	(1,159)	—	—	—	—
Derivative liabilities	4	—	—	5	—	—	—	—	—	—	9
Other financial liabilities	403	(148)	—	—	—	—	(9)	—	—	—	246
Total level 3 liabilities	2,807	(170)	16	5	—	—	(1,257)	542	—	—	1,943

31 Fair value methodology (continued)

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

31.8.1 Level 3 assets inputs

Where possible, the Group assesses the sensitivity of the fair value of level 3 assets to reasonably possible changes in the most significant unobservable inputs.

The most significant unobservable inputs in determining the fair value of level 3 assets are presented within the tables below.

Real estate:

As at 31 December	Property type	Geographical location	Average estimated rental value[i] 2023	Average estimated rental value[i] 2022	Average equivalent yield 2023	Average equivalent yield 2022
Investment property	Industrial	UK	**£12**	£9	6.33%	6.31%
		Asia/Pacific	**$126**	$96	5.72%	6.31%
	Office	UK	**£36**	£39	7.32%	6.18%
		Asia/Pacific	**$437**	$442	5.57%	5.48%
		North America	**$50**	$45	7.75%	5.75%
	Residential	UK	**£37**	£37	5.24%	3.96%
		Europe[ii]	**€239**	€370	5.14%	3.62%
		Asia/Pacific	**$249**	$258	4.55%	5.32%
	Retail	UK	**£25**	£27	7.08%	6.51%
		Asia/Pacific[iii]	**$786**	$755	7.25%	6.92%
	Other	UK	**£41**	£38	5.73%	5.77%
		Asia/Pacific	**$196**	$195	8.50%	8.50%

i The average estimated rental value for the UK and North America is quoted per square foot, while the average estimated rental value for Europe and Asia/Pacific is quoted per square metre in line with local practice.

ii The 31 December 2022 average estimated rental value for Residential - Europe has been restated following a review of the assets included within the calculation of the average.

iii The 31 December 2022 average estimated rental value for Retail - Asia/Pacific has been restated following a review of the assets included within the calculation of the average.

Other assets:

As at 31 December	Unobservable input	2023	2022
Retail income strips	Discount rate	**1.1% to 5.94%**	1.06% to 5.00%
Equity release mortgages	Discount rate	**2.76%**	2.07%
	Total portfolio property value	**c. £3.0bn**	c. £3.4bn
	Assumed property growth rate	**Risk free + 0.7%**	2.65%
	Property rental yield	**2.25%**	2.00%
Other commercial loans	*Credit risk premium:*		
	AAA to A	**0.58% to 5.87%**	0.60% to 1.81%
	BBB to BB	**1.09% to 6.65%**	1.45% to 5.86%
Private placement loans[i]	*Credit risk premium:*		
	AAA to A	**0.58% to 5.87%**	0.60% to 1.81%
	BBB to BB	**1.09% to 6.65%**	1.45% to 5.86%
Infrastructure fund investments	Discount rate	**8.5% to 12%**	7.75% to 12%

i Note on residential ground rent assets

Included within private placement loans are senior and junior notes backed by residential ground rents with a carrying value of £1,241m (2022: £1,423m), of which £859m are held in the shareholder-backed fund (2022: £994m). In November 2023, the Department for Levelling up, Housing and Communities, a department of the UK Government, issued a consultation titled, "Modern leasehold: restricting residential ground rent for existing leases" . The consultation, which is now closed to comments, included five options for capping ground rents in existing leases. One of the potential options is to cap ground rents in existing leases at the nominal value of a peppercorn (peppercorn cap), which would eliminate materially the full value of the asset. We have been engaging with the UK Government and, together with other industry participants, have provided constructive responses to the consultation. However, the outcome of the consultation in terms of any proposed change in legislation is still uncertain.

The impact of the potential outcomes of the consultation have been reflected in the valuation through a ratings downgrade to all senior notes impacted from AA- to A+ and the application of an incremental illiquidity spread of 0.60% above the comparable spread implied by the rating to reflect the compensation that a market participation would require at reporting date due to the uncertainty in future values. Consequently, the risk premium on the residential ground rents as at 31 December 2023 ranges between 1.80% and 2.69% on the senior notes and between 3.81% and 4.49% on the junior notes. The impact of these assumption changes is a decline in the value of the residential ground rent portfolio of £170m, of which £121m relates to assets held in the shareholder-backed fund. The corresponding impact to insurance contract liabilities and profit after tax is disclosed in note 32.7.3.

31 Fair value methodology (continued)

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

31.8.2 Level 3 asset sensitivities

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

	2023						
As at 31 December	Fair value £m	Held in shareholder-backed fund £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vii] £m
Investment property							
Property in use	**14,414**	**994**	Income capitalisation	Equivalent yield	Increase by 50bps	**(1,277)**	**(67)**
					Decrease by 50bps	**1,535**	**81**
				Estimated rental value	Increase by 10%	**(1,240)**	**(65)**
					Decrease by 10%	**1,286**	**68**
Property under development	**1,008**	**5**		Development cost	Increase by 10%	**101**	**—**
					Decrease by 10%	**(101)**	**—**
Loans							
Equity-release mortgages[i]	**928**	**928**	Discounted cash flow[ii]	Illiquidity premium	Increase by 50bps	**(61)**	**(47)**
					Decrease by 50bps	**66**	**51**
				Current property value	Increase by 10%	**44**	**33**
					Decrease by 10%	**(54)**	**(41)**
				Assumed annual property growth rate	Increase by 100bps	**109**	**84**
					Decrease by 100bps	**(154)**	**(118)**
				Assumed annual property rental yield	Increase by 100bps	**(77)**	**(59)**
					Decrease by 100bps	**72**	**55**
Other mortgages and retail loans	**816**	**—**	Broker quotes[iii]	Broker quotes	Increase by 10%	**82**	**—**
					Decrease by 10%	**(82)**	**—**
Other commercial loans	**1,417**	**373**	Broker quotes[iii]	Broker quotes	Increase by 10%	**142**	**29**
					Decrease by 10%	**(142)**	**(29)**
Equity securities and pooled investment funds[iv]	**14,090**	**104**	Net asset statements	Net asset value	Increase by 10%	**1,409**	**8**
					Decrease by 10%	**(1,409)**	**(8)**
Infrastructure fund investments	**325**	**—**	Discounted cash flow[v]	Discount rate	Increase by 10%	**72**	**—**
					Decrease by 10%	**(62)**	**—**
Debt securities[iv]							
Private placement loans[viii]	**5,523**	**3,242**	Discounted cash flow[vi]	Discount rate	Increase by 40bps	**(236)**	**(106)**
					Decrease by 40bps	**256**	**115**
Retail income strips	**224**	**188**	Discounted cash flow[vi]	Discount rate	Increase by 50bps	**(12)**	**(7)**
					Decrease by 50bps	**13**	**9**
Unquoted corporate bonds	**2,757**	**859**	Broker quotes, enterprise valuation, estimated recovery	Broker quotes	Increase by 10%	**276**	**66**
					Decrease by 10%	**(276)**	**(66)**
Derivative assets	**32**	**32**	Discounted cash flow[vi]	Discount rate	Increase by 50bps	**—**	**—**
					Decrease by 50bps	**—**	**—**
Total level 3	**41,534**	**6,725**					

Notes to the consolidated financial statements continued

31 Fair value methodology (continued)

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

31.8.2 Level 3 asset sensitivities (continued)

	Restated 2022						
As at 31 December	Fair value £m	Held in shareholder-backed fund £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vii] £m
Investment property:							
Property in use	15,371	1,368	Income capitalisation	Equivalent yield	Increase by 50bps	(1,419)	(102)
					Decrease by 50bps	1,715	125
				Estimated rental value	Increase by 10%	(1,260)	(69)
					Decrease by 10%	1,316	70
Property under development	1,134	5		Development cost	Increase by 10%	113	—
					Decrease by 10%	(113)	—
Loans							
Equity-release mortgages[i]	934	934	Discounted cash flow[ii]	Illiquidity premium	Increase by 50bps	(67)	(83)
					Decrease by 50bps	73	90
				Current property value	Increase by 10%	44	54
					Decrease by 10%	(53)	(65)
				Assumed annual property growth rate	Increase by 100bps	127	157
					Decrease by 100bps	(177)	(219)
				Assumed annual property rental yield	Increase by 100bps	(81)	(100)
					Decrease by 100bps	77	96
Other mortgages and retail loans	680	—	Broker quotes[iii]	Broker quotes	Increase by 10%	68	—
					Decrease by 10%	(68)	—
Other Commercial loans	1,113	427	Broker quotes[iii]	Broker quotes	Increase by 10%	111	42
					Decrease by 10%	(111)	(42)
Equity securities and pooled investment funds[iv]	12,967	93	Net asset statements	Net asset value	Increase by 10%	1,297	7
					Decrease by 10%	(1,297)	(7)
Infrastructure fund investments	497	—	Discounted cash flow[v]	Discount rate	Increase by 10%	(75)	—
					Decrease by 10%	88	—
Debt securities[iv]							
Private placement loans[viii]	5,649	3,225	Discounted cash flow[vi]	Discount rate	Increase by 40bps	(278)	(223)
					Decrease by 40bps	268	184
Retail income strips	236	199	Discounted cash flow[vi]	Discount rate	Increase by 50bps	(15)	(16)
					Decrease by 50bps	17	18
Unquoted corporate bonds	2,781	800	Broker quotes, enterprise valuation, estimated recovery	Broker quotes	Increase by 10%	278	97
					Decrease by 10%	(278)	(97)
Derivative assets	26	26	Discounted cash flow[vi]	Discount rate	Increase by 50bps	(1)	(1)
					Decrease by 50bps	1	1
Total level 3	41,388	7,077					

i The equity release mortgages have a no-negative equity guarantee (NNEG) that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against. The value of the NNEG, which is recognised as a deduction from the value of the loans, is based on a Black-Scholes option pricing valuation utilising a real-world approach and is estimated using assumptions, including future property growth rate and property price volatility.

ii The equity release mortgage loans of £928m as at 31 December 2023 (2022: £934m) and a corresponding liability of £239m (2022: £246m), which were valued internally using discounted cash flow models. Future cash flows are estimated based on assumptions, including prepayment, death and entry into long-term care, and discounted using an appropriate discount rate, which references market rates for equity release mortgage loans.

iii Quotes received from an external pricing service.

31 Fair value methodology (continued)

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

31.8.2 Level 3 asset sensitivities (continued)

iv Infrastructure fund investments comprises £104m (31 December 2022: £213m) of equity securities and pooled investment funds and £220m (31 December 2022: £284m) of debt securities. These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2022). Valuations are also benchmarked against comparable infrastructure fund transactions. The discount rate is made up of cash flows from dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

v These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2019). Valuations are also benchmarked against comparable infrastructure transactions. The discount rate is made up of cash flows from dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

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

vii Of the £6,725m (31 December 2022: £7,077m) of level 3 assets held in shareholder-backed funds, £367m (2022: £549m) is held by unit-linked business. These assets are included in the analysis presented however, as the investment risk is borne by the unit-linked policyholders, there is no impact on IFRS profit after tax and shareholder's equity.

viii Included within private placement loans is senior and junior notes backed by residential ground rent assets with a carrying value of £1,241m of which £859m were held in the shareholder-backed fund (2022: £1,423m of which £994m in the shareholder-backed fund) which are subject to the UK Government consultation mentioned in note 31.8.1. An increase in the illiquidity spread of 50bps would result in the value of the assets decreasing by £100m, of which £70m would relate to the assets held in the shareholder-backed fund. In the event of a 'peppercorn cap', the assets would have a value of close to Nil. The corresponding impact to insurance contract liabilities and profit after tax is disclosed in note 32.7.3.

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

Unrealised gains and losses recognised in the consolidated income statement in respect of assets and liabilities classified as level 3 that are held at the end of the year are analysed as follows:

As at 31 December	2023 £m	Restated[i] 2022 £m
Investment property	**(1,124)**	(1,538)
Equity securities and pooled investment funds	**(605)**	452
Loans	**11**	(899)
Debt securities	**(106)**	(3,350)
Third party interest in consolidated funds	**223**	9
Derivatives	**—**	(33)
Other financial liabilities	**—**	148
Total	**(1,601)**	(5,211)

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

31.10 Fair value of assets and liabilities at amortised cost

The tables below show the assets and liabilities carried at amortised cost on the 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:

	2023				
As at 31 December	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Liabilities:					
Subordinated liabilities and other borrowings	—	7,264	260	7,524	8,089

31 Fair value methodology (continued)

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

	Restated[i] 2022				
As at 31 December	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Liabilities:					
Subordinated liabilities and other borrowings	—	6,416	6	6,422	7,537

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

The estimated fair value of subordinated liabilities are based on the quoted market offer price. The fair value of the 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.

32 Risk management and sensitivity analysis

32.1 Risk overview

The Group's business involves the acceptance and management of risk. The Group's risk management process is governed by the Risk Management Framework (RMF). The RMF is designed to manage risk within agreed appropriate levels, aligned to delivering its strategy and creating long-term value for clients and shareholders. Risk management is the process of identifying, assessing, managing and reporting current and emerging risks, supported by embedded risk culture and strong governance. Effective risk management enables better decision-making and safeguards its ability to meet commitments to its shareholders, customers and clients, comply with regulation, manage disruption and protects its reputation. For more information on the RMF, please refer to page 58.

Risk appetite is the amount and type of risk that the Group is willing to accept in pursuit of its business objectives, and is approved by the Board. The risk appetite statements and limits specify the risk appetite and tolerance to take on risk. The statements and thresholds are aligned to the business model and strategy and cover significant financial and non-financial risks. For more information on risk appetite and limits please refer to page 59.

A number of risk factors affect the Group's results and financial position. The financial risk categories affecting the Group's financial instruments and insurance assets and liabilities are set out below:

Risk type	Definition
Market risk	The risk of loss or adverse change in the financial situation of the business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event, such as downgrade or spread widening.
Insurance risk	The risk of loss, or of adverse change in the financial situation of the business, or that of the Group's customers and clients, resulting from changes in the level, trend or volatility of the following: – Morbidity/Mortality risk: the risk of unexpected impact resulting from adverse morbidity and/or mortality experience. – Persistency risk: the risk of unexpected impact resulting from an adverse persistency experience. – Expenses and margin pricing: the risk of unexpected impact resulting from adverse expense experience. – Longevity: the risk of unexpected impact resulting from adverse longevity experience.
Liquidity risk	The risk that the Group and/or its business are unable to meet financial obligations (eg claims, creditors and collateral calls) as they fall due because they do not have or are unable to generate sufficient liquid assets. Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

These risks are described in more detail in the following sections.

The Group's exposure to risks arising from financial instruments and insurance assets and liabilities is different for each component of the Group's business. The Group's consolidated statement of financial position is presented below for the different components of business.

32 Risk management and sensitivity analysis (continued)

32.1 Risk overview (continued)

Analysis of consolidated statement of financial position by component of business

	2023				
		Shareholder-backed funds			
	With-profits	Unit-linked	Annuity and other long-term business	Other	Total
As at 31 December	£m	£m	£m	£m	£m
Assets:					
Goodwill and intangible assets	360	—	11	1,444	1,815
Deferred acquisition costs	—	5	4	14	23
Defined benefit pension asset	9	—	4	6	19
Investment in joint ventures and associates accounted for using the equity method	265	—	—	22	287
Property, plant and equipment	1,826	—	13	226	2,065
Investment property	14,423	310	689	—	15,422
Deferred tax assets	79	3	193	168	443
Insurance contract assets	—	—	44	—	44
Reinsurance contract assets	11	7	1,081	—	1,099
Equity securities and pooled investment funds	54,603	11,158	269	218	66,248
Loans	2,607	—	1,301	—	3,908
Debt securities	52,239	4,651	12,757	1,036	70,683
Derivative assets	1,304	30	227	132	1,693
Deposits	12,253	1,808	2,255	8	16,324
Current tax assets	9	15	41	2	67
Accrued investment income and other debtors	1,620	206	290	420	2,536
Assets held for sale	1,112	105	1	138	1,356
Cash and cash equivalents	3,394	592	555	1,049	5,590
Total assets	**146,114**	**18,890**	**19,735**	**4,883**	**189,622**
Liabilities:					
Insurance contract liabilities	123,596	4,404	14,135	—	142,135
Reinsurance contract liabilities	1	21	335	—	357
Investment contract liabilities without DPF	1,805	10,723	7	—	12,535
Third party interest in consolidated funds	7,617	2,271	5	—	9,893
Subordinated liabilities and other borrowings	4,321	91	1	3,676	8,089
Defined benefit pension liability	—	—	—	294	294
Deferred tax liabilities	619	11	38	14	682
Lease liabilities	73	—	11	303	387
Current tax liabilities	51	7	37	2	97
Derivative liabilities	1,129	4	1,514	263	2,910
Other financial liabilities	961	—	30	195	1,186
Provisions	—	—	12	70	82
Accruals, deferred income and other liabilities	4,371	495	792	568	6,226
Liabilities held for sale	665	—	—	—	665
Total liabilities	**145,209**	**18,027**	**16,917**	**5,385**	**185,538**
Total equity					**4,084**
Total equity and liabilities					**189,622**

Notes to the consolidated financial statements continued

32 Risk management and sensitivity analysis (continued)

32.1 Risk overview (continued)

Analysis of consolidated statement of financial position by component of business (continued)

	Restated[i] 2022				
		Shareholder-backed funds			
As at 31 December	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangible assets	364	—	25	1,488	1,877
Deferred acquisition costs	—	9	5	17	31
Defined benefit pension asset	13	—	10	132	155
Investment in joint ventures and associates accounted for using the equity method	413	—	—	—	413
Property, plant and equipment	1,630	—	16	307	1,953
Investment property	15,132	497	876	—	16,505
Deferred tax assets	55	21	233	136	445
Insurance contract assets	—	—	39	—	39
Reinsurance contract assets	8	5	1,069	—	1,082
Equity securities and pooled investment funds	58,564	11,336	7	220	70,127
Loans	1,873	—	1,361	—	3,234
Debt securities	44,790	4,466	12,399	1,166	62,821
Derivative assets	2,403	7	290	150	2,850
Deposits	17,755	1,623	2,021	—	21,399
Current tax assets	133	18	78	26	255
Accrued investment income and other debtors	1,507	200	329	368	2,404
Assets held for sale	447	79	—	158	684
Cash and cash equivalents	2,857	586	555	886	4,884
Total assets	147,944	18,847	19,313	5,054	191,158
Liabilities:					
Insurance contract liabilities	123,431	4,598	13,947	—	141,976
Reinsurance contract liabilities	1	22	325	—	348
Investment contract liabilities without DPF	155	11,782	—	—	11,937
Third party interest in consolidated funds	8,217	2,086	5	81	10,389
Subordinated liabilities and other borrowings	3,757	45	1	3,734	7,537
Defined benefit pension liability	—	—	—	—	—
Deferred tax liabilities	758	10	27	—	795
Lease liabilities	85	—	15	320	420
Current tax liabilities	13	17	8	20	58
Derivative liabilities	2,213	9	1,748	215	4,185
Other financial liabilities	1,928	—	89	155	2,172
Provisions	—	—	11	79	90
Accruals, deferred income and other liabilities	4,242	791	1,192	543	6,768
Liabilities held for sale	172	—	—	—	172
Total liabilities	144,972	19,360	17,368	5,147	186,847
Total equity					4,311
Total equity and liabilities					191,158

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

32 Risk management and sensitivity analysis (continued)

32.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation of the Group's business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

Market risk comprises six types of risk, namely:

- Interest rate risk: fluctuations in the level and volatility of interest rates or the shape or curvature of the yield curve or spread relationship
- Inflation risk: fluctuations in actual or implied inflation rates
- Equity risk: fluctuations in the level or volatility of equity investments
- Property risk: fluctuations in the level or volatility of property investments
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures
- Alternative investments risk: fluctuations in the level or volatility of alternative investment exposures

The primary market risks that the Group faces are equity risk, property risk and interest rate risk. Most assets the Group holds are investments that are either equity or property-type investments and subject to equity or property price risk, or bonds, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. The amount of risk borne by the Group's shareholders depends on the extent to which its customers share the investment risk through the structure of the Group's products.

The split of the Group's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Group has available. This mix of liabilities allows the Group to invest a substantial portion of its investment funds in equity and property investments that the Group believes produce greater returns over the long term.

Market risk is managed through a robust market risk framework which includes: policies, risk appetite statements and risk limits and triggers covering key market risk exposures; asset and liability management programmes; a quality of capital framework; strategic asset allocations; investment and hedging strategies; and investment constraints.

32.2.1 Interest rate risk and inflation risk

The majority of the Group's interest rate exposure arises from shareholder-backed annuities. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The matching of assets of appropriate duration to the annuity liabilities is based on management of regulatory capital reporting requirements. The assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in an exposure to interest rate risk.

Exposure to interest rate risk also arises on the shareholders' share of the excess assets in the With-Profits Fund.

The assets and liabilities for the with-profits and unit-linked components of business are sensitive to interest rates, but the shareholder is not directly exposed to changes in the value of these assets and liabilities. The shareholder is indirectly exposed to interest rate risk through the value of future shareholder transfers from with-profits business and charges levied on unit-linked and asset management business.

Inflation risk primarily arises from certain annuity contracts that have benefit escalation linked to a price index. The Group manages this exposure by matching inflation-linked annuity liabilities with corresponding inflation-linked assets.

32.2.2 Equity and property risk

While the Group holds significant amounts of equity and property assets on its consolidated statement of financial position, the shareholders' exposure to equity and property risk for the with-profits and unit-linked business is limited as the risk is predominantly borne by the policyholder. For with-profits business, the impact of market risk is reduced due to the 'smoothed' basis of bonus declaration, so the sensitivity to short-term investment performance is relatively low. However, long-term investment performance may affect future shareholder transfers. The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk.

The Group's direct exposure to this risk arises from the 'annuities and other long-term business' component's holdings in equity securities and property, which are not hedged or matched by corresponding liabilities.

32 Risk management and sensitivity analysis (continued)

32.2 Market risk (continued)

32.2.3 Currency risk

The Group invests significant amounts of policyholder funds in overseas assets as part of its investment strategy. The direct currency risk exposure to the shareholder from the with-profits and unit-linked components of business is minimal, although the shareholder is indirectly exposed to currency risk in relation to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity and other long-term business is mitigated through the use of derivatives.

The currency risk analysis for the year ended 31 December 2022 presented below has been restated to better reflect the currency exposure of the Group's financial assets and financial liabilities.

As at 31 December 2023, the Group held 50% (2022: 48%) and 38% (2022: 38%) of its financial assets and financial liabilities respectively, in currencies other than pounds sterling, the presentation currency of the Group. The non-sterling currencies are primarily US dollar and euro.

Of these financial assets, as at 31 December 2023, 92% (2022: 90%) are held by the With-Profits Fund, allowing the fund to obtain exposure to foreign equity markets. Of these financial liabilities, as at 31 December 2023, 74% (2022: 88%) are held by the With-Profits Fund, mainly relating to foreign currency borrowings. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

For the year ended 31 December 2023, exchange losses of £126m (2022 restated: gains of £576m) were recognised in the consolidated income statement; mainly arising on assets held by the With-Profits Fund, the majority of which are offset by changes in with-profits and unit-linked liabilities. This excludes exchange gains and losses arising on foreign currency investments measured at FVTPL, which are included as part of gains and losses included in investment return, which is shown in Note 5.

The Group is also exposed to structural currency translation risk as a result of overseas operations which contribute to equity. The assets and liabilities of foreign operations are translated into the Group's presentational currency, pounds sterling. Foreign exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

32.3 Credit risk

The Group's exposure to credit risk primarily arises from the annuity funds, which hold substantial volumes of public and private fixed income investments on which a certain level of defaults and downgrades are expected.

Exposure to the credit risk also arises on the shareholders' share of the excess assets in the With-Profits Fund.

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 of business. However, the shareholder is indirectly exposed to credit risk from these components of business in relation to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business. 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.

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, appetite statements, limits and triggers (including relevant governance and controls); investment constraints and limits on the asset portfolios, in relation to credit rating, seniority, sector and issuer, and counterparties in particular for derivatives, reinsurance and cash; and a robust credit rating process.

32.3.1 Financial assets

The following tables provide an analysis of the quality of financial assets which are exposed to credit risk. The financial assets below are analysed according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

	2023						
As at 31 December	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Reinsurance contract assets	—	74	923	—	—	102	1,099
Loans	—	—	783	4	370	2,751	3,908
Debt Securities	6,604	17,340	16,919	14,213	4,930	10,677	70,683
Deposits	9	4,667	8,526	1,427	—	1,695	16,324
Accrued investment income and other debtors	38	117	297	126	49	1,909	2,536
Cash and cash equivalents	826	1,058	3,644	18	17	27	5,590
Total financial assets	**7,477**	**23,256**	**31,092**	**15,788**	**5,366**	**17,161**	**100,140**

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.1 Financial assets (continued)

	Restated[i] 2022						
As at 31 December	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Reinsurance contract assets	—	129	893	—	—	60	1,082
Loans	—	—	1,037	168	589	1,440	3,234
Debt Securities	6,651	12,632	11,774	16,147	4,377	11,240	62,821
Deposits	—	2,011	14,952	3,594	—	842	21,399
Accrued investment income and other debtors	38	82	140	155	64	1,925	2,404
Cash and cash equivalents	224	1,060	3,342	144	18	96	4,884
Total financial assets	6,913	15,914	32,138	20,208	5,048	15,603	95,824

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

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.

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- and are non-investment grade.

The Group is exposed to the risk of counterparty default on its reinsurance assets. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimise its exposure from reinsurer insolvencies. The split of the reinsurance asset by credit rating is shown above.

Loans that were impaired are not significant to the Group. Further information on the loans portfolio is provided in Note 18.

Debt securities with no external credit rating are classified as 'other'. The following table shows the majority of debt securities shown as 'other' are allocated an internal rating and are considered to be of investment grade quality:

As at 31 December	**2023 £m**	2022 £m
AAA	**188**	43
AA+ to AA-	**841**	1,548
A+ to A-	**4,721**	3,844
BBB+ to BBB-	**1,944**	1,845
Below BBB-	**1,138**	786
Unrated	**1,845**	3,174
Total	**10,677**	11,240

Notes to the consolidated financial statements continued

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.2 Debt securities

The table below presents the Group's debt securities by asset category and external credit rating issued for each component of business as set out in note 32.1.

	2023						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m
Government Sovereign debt	4,790	12,650	1,699	2,295	1,213	187	22,834
With-profits	3,365	9,297	1,670	2,220	1,213	80	17,845
Unit-linked	109	1,354	15	47	—	107	1,632
Annuity and other long-term business	715	1,934	14	27	—	—	2,690
Other	601	65	—	1	—	—	667
Quasi-sovereign and Public sector debt	202	1,572	204	397	873	300	3,548
With-profits	157	821	145	377	873	238	2,611
Unit-linked	1	58	13	2	—	1	75
Annuity and other long-term business	44	693	46	18	—	61	862
Corporate debt	1,242	2,875	14,587	11,268	2,755	8,544	41,271
With-profits	745	1,789	11,670	8,332	2,423	4,462	29,421
Unit-linked	27	110	1,239	1,209	257	23	2,865
Annuity and other long-term business	283	904	1,644	1,707	72	4,057	8,667
Other	187	72	34	20	3	2	318
Asset-backed securities	370	243	429	253	89	1,646	3,030
With-profits	217	161	203	153	89	1,539	2,362
Unit-linked	17	22	17	23	—	—	79
Annuity and other long-term business	85	60	209	77	—	107	538
Other	51	—	—	—	—	—	51
Total debt securities	6,604	17,340	16,919	14,213	4,930	10,677	70,683
With-profits	4,484	12,068	13,688	11,082	4,598	6,319	52,239
Unit-linked	154	1,544	1,284	1,281	257	131	4,651
Annuity and other long-term business	1,127	3,591	1,913	1,829	72	4,225	12,757
Other	839	137	34	21	3	2	1,036

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.2 Debt securities (continued)

	2022						
As at 31 December	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Government Sovereign debt	4,325	7,641	1,379	2,194	1,062	187	16,788
With-profits	3,382	4,633	1,297	2,106	1,058	187	12,663
Unit-linked	211	923	81	58	—	—	1,273
Annuity and other long-term business	671	1,497	—	26	—	—	2,194
Other	61	588	1	4	4	—	658
Quasi-sovereign and Public sector debt	329	1,800	328	175	21	305	2,958
With-profits	257	942	250	172	21	261	1,903
Unit-linked	34	83	15	3	—	2	137
Annuity and other long-term business	38	775	63	—	—	42	918
Corporate debt	1,368	2,952	9,623	13,527	3,250	9,235	39,955
With-profits	760	1,812	7,251	10,333	2,695	5,032	27,883
Unit-linked	87	180	772	1,473	382	53	2,947
Annuity and other long-term business	326	870	1,542	1,687	148	4,150	8,723
Other	195	90	58	34	25	—	402
Asset-backed securities	629	239	444	251	44	1,513	3,120
With-profits	398	158	208	144	44	1,389	2,341
Unit-linked	30	21	18	31	—	9	109
Annuity and other long-term business	95	60	218	76	—	115	564
Other	106	—	—	—	—	—	106
Total Debt Securities	6,651	12,632	11,774	16,147	4,377	11,240	62,821
With-profits	4,797	7,545	9,006	12,755	3,818	6,869	44,790
Unit-linked	362	1,207	886	1,565	382	64	4,466
Annuity and other long-term business	1,130	3,202	1,823	1,789	148	4,307	12,399
Other	362	678	59	38	29	—	1,166

As at 31 December 2023 corporate debt exposure to banks amounted to £8,884m (2022: £8,273m).

The Group has holdings in asset-backed securities (ABS) which are presented within debt securities on the consolidated statement of financial position. The Group's holdings in ABS, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities are shown within the table above.

Notes to the consolidated financial statements continued

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.2 Debt securities (continued)

The Groups exposure to sovereign debt are analysed by issuer as follows:

As at 31 December	2023 With-profits £m	Unit-linked £m	Annuity and other long term business £m	Other £m	Total £m
Sovereign debt securities by country:					
United Kingdom	**5,195**	**1,338**	**1,910**	**606**	**9,049**
Germany	**601**	**16**	**140**	**—**	**757**
Other European countries	**1,235**	**1**	**436**	**—**	**1,672**
Total Europe	**7,031**	**1,355**	**2,486**	**606**	**11,478**
United States	**3,328**	**5**	**—**	**10**	**3,343**
Latin America Countries	**425**	**19**	**27**	**—**	**471**
South Africa	**922**	**105**	**—**	**—**	**1,027**
South Korea	**1,047**	**12**	**—**	**—**	**1,059**
Indonesia	**858**	**9**	**—**	**—**	**867**
Malaysia	**810**	**8**	**—**	**—**	**818**
Singapore	**491**	**5**	**—**	**—**	**496**
Philippines	**522**	**6**	**—**	**—**	**528**
Thailand	**499**	**6**	**—**	**—**	**505**
India	**450**	**5**	**—**	**—**	**455**
Other	**1,462**	**97**	**177**	**51**	**1,787**
Total	**17,845**	**1,632**	**2,690**	**667**	**22,834**

As at 31 December	2022 With-profits £m	Unit-linked £m	Annuity and other long term business £m	Other £m	Total £m
Sovereign debt securities by country:					
United Kingdom	2,290	947	1,239	578	5,054
Germany	503	39	201	—	743
Other European countries	1,223	57	586	4	1,870
Total Europe	4,016	1,043	2,026	582	7,667
United States	1,990	6	—	23	2,019
Latin America Countries	604	—	26	—	630
South Africa	90	98	—	1	189
South Korea	760	12	—	—	772
Indonesia	891	12	—	—	903
Malaysia	566	8	—	—	574
Singapore	460	5	—	—	465
Philippines	477	7	—	—	484
Thailand	476	7	—	—	483
India	349	5	—	—	354
Other	1,984	70	142	52	2,248
Total	12,663	1,273	2,194	658	16,788

As at 31 December 2023 Other European Countries included £1,232m (2022: £1,403m) and Other included £1,342m (2022: £1,226m) of Supranational Government bonds.

Notes to the consolidated financial statements continued

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.3 Derecognition, collateral and offsetting

Securities lending and repurchase agreements

The Group has entered into securities lending and repurchase agreements whereby blocks of securities are transferred to third parties, primarily major brokerage firms, in exchange for collateral. Typically, the value of collateral assets pledged to the Group in these transactions is in excess of the value of securities transferred, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The securities lent and securities subject to repurchase agreements are not derecognised from the Group's consolidated statement of financial position. Collateral typically consists of cash, debt securities, equity securities and letters of credit. Cash collateral received is recognised on the consolidated statement of financial position and a financial liability for the obligation for the Group to repay the cash is also recognised. Non-cash collateral received is not recognised on the consolidated statement of financial position. Collateral pledged by the Group under reverse repurchase arrangements, aside from cash, is not derecognised from the consolidated statement of financial position as the risks and rewards are still retained by the Group. Cash collateral pledged is derecognised as it is pledged under right to use by the counterparty and a financial asset is recognised for the obligation for the counterparty to repay the cash to the Group.

As at 31 December 2023, the Group had £7,308m (2022: £3,638m) of collateral pledged under securities lending and repurchase agreements, primarily relating to the With-Profits Fund. The cash and securities collateral accepted under securities lending agreements was £6,961m (2022: £5,471m). As at 31 December 2023, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £10,165m (2022: £15,316m).

Collateral and pledges under derivative transactions

At 31 December 2023, the Group had pledged £2,116m (2022: £2,818m) for liabilities and held collateral of £468m (2022: £1,318m) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

Other collateral

At 31 December 2023, the Group had pledged collateral of £635m (2022: £552m) in respect of other transactions. This primarily arises from collateral pledged in relation to consolidated funds held by the With-Profits Fund, in addition to deferred purchase consideration on lifetime (equity release) mortgages.

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis on the consolidated statement of financial position.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

	2023				
		Related amounts not offset in the consolidated statement of financial position			
As at 31 December	Gross amount included in the consolidated statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral £m	Net amount £m
Financial assets:					
Derivative assets	1,280	(884)	(387)	(6)	3
Reverse repurchase agreements	13,615	—	—	(10,141)	3,474
Total financial assets	**14,895**	**(884)**	**(387)**	**(10,147)**	**3,477**
Financial liabilities:					
Derivative liabilities	2,520	(884)	(29)	(1,548)	59
Securities lending and repurchase agreements	726	—	—	(730)	(4)
Total financial liabilities	**3,246**	**(884)**	**(29)**	**(2,278)**	**55**

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.3 Derecognition, collateral and offsetting (continued)

	2022				
		Related amounts not offset in the consolidated statement of financial position			
As at 31 December	Gross amount included in the consolidated statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral £m	Net amount £m
Financial assets:					
Derivative assets	2,560	(1,293)	(1,309)	277	235
Reverse repurchase agreements	18,892	—	—	(15,295)	3,597
Total financial assets	21,452	(1,293)	(1,309)	(15,018)	3,832
Financial liabilities:					
Derivative liabilities	3,705	(1,293)	(18)	(2,317)	77
Securities lending and repurchase agreements	939	—	—	(938)	1
Total financial liabilities	4,644	(1,293)	(18)	(3,255)	78

In the tables above, the amounts of assets or liabilities included on the consolidated statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements, with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than the amounts presented in the tables. Reverse repurchase agreements shown in the tables above are included within deposits on the consolidated statement of financial position.

32.3.4 Impairment of financial assets

Significant increase in credit risk

When determining whether the credit risk (ie risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Group's experience, expert credit assessment and forward-looking information.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the debtor.

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to show a period of good payment behaviour.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.4 Impairment of financial assets (continued)

Low credit risk debt instruments

The Group has used the low credit risk exemption for financial instruments when they meet the following conditions:

- the financial instrument has a low risk of default;
- the borrower is considered to have a strong capacity to meet its obligations in the near term; and
- the Group expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher based on Moody's ratings. The Group defines low credit risk financial assets as financial assets that are BBB- investment grade at the reporting date, based on the Group's credit grading policies. For such instruments, the significant increase in credit risk is not assessed, and the impairment allowance is calculated and the financial asset is measured using the 12-month ECL, as long as the financial asset meets the criteria above.

Definition of default

The Group considers any exposure to financial assets in default to be credit impaired.

The impact of any collateral received will not be considered for the assessment of whether an asset is credit impaired. The collateral is considered for the estimate of the related ECLs.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the debtor. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value plus eligible transaction costs. The new asset is allocated to Stage 1 under IFRS 9 (assuming that it is not credit-impaired at the date of modification).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

- its remaining lifetime PD as at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Measurement of ECL

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

32 Risk management and sensitivity analysis (continued)

32.3 Credit risk (continued)

32.3.4 Impairment of financial assets (continued)

Loss allowance

The Group has used the low credit risk exemption for deposits and accrued investment income and other debtors and calculates the loss allowance based on 12-month ECL. The carrying amounts and ECL allowances are shown in the following table:

	2023		2022	
	12-month ECL		12-month ECL	
	Carrying amount	Related ECL allowance	Carrying amount	Related ECL allowance
Balance as at 31 December	£m	£m	£m	£m
Deposits	**16,324**	**8**	21,399	2
Accrued investment income and other debtors	**2,536**	**2**	2,404	41

There were no financial assets that were still subject to enforcement activity as at 31 December 2023 and 31 December 2022.

The table presenting an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised is included in Note 32.3.1. The carrying amount of financial assets above also represents the Group's maximum exposure to credit risk on these assets.

32.4 Demographic and expense risk

The Group is exposed to significant levels of demographic risk. This arises mainly from the annuity business in the form of longevity risk, which is the risk of unexpected changes in the life expectancy (longevity) of policyholders. If mortality improvement rates significantly exceed the level assumed, the Group's results could be adversely affected. Further to this, any major medical breakthrough (for example, in the treatment of cancer or other life-threatening diseases) that would require the Group to strengthen its longevity assumptions would have an impact on the Group's results.

Longevity risk for both shareholder-backed business and policyholder-backed business has been predominantly managed through:

- Annual reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus best estimate assumptions;
- Regular monitoring of longevity exposure;
- Longevity research; and
- Longevity risk transfer transactions, assessed against principles and guidance provided in internal standards.

The Group is also exposed to expense risk in relation to maintenance expense levels from the shareholder-backed annuity business.

For with-profits business, mortality and other demographic risks are relatively minor factors in the determination of the policyholder bonus rates. Adverse persistency experience can affect the level of profitability from with-profits contracts, but in any given year the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

For unit-linked business, by virtue of the design features of most of the contracts which provide low levels of mortality cover, profit is relatively insensitive to changes in mortality experience. Persistency experience variances can affect the level of profit in the year. The shareholder is also exposed to variances in expenses relative to the charges levied on these products.

The risk arising from the other long-term business is not significant in the context of the Group's overall liabilities.

32 Risk management and sensitivity analysis (continued)

32.4 Demographic and expense risk (continued)

32.4.1 Concentration of insurance risk

The geographical concentration of the insurance contract assets and liabilities (both gross and net of reinsurance) is shown below. The disclosure is based on the carrying amounts of insurance contract assets and liabilities and reinsurance contract assets and liabilities disaggregated to countries where the business is written.

	2023			2022		
As at 31 December	United Kingdom £m	Europe £m	Total £m	United Kingdom £m	Europe £m	Total £m
With-profits:						
Insurance contract assets and liabilities	**(116,135)**	**(7,461)**	**(123,596)**	(115,953)	(7,224)	(123,177)
Reinsurance	**10**	**—**	**10**	7	—	7
Net	**(116,125)**	**(7,461)**	**(123,586)**	(115,946)	(7,224)	(123,170)
Unit-linked:						
Insurance contract assets and liabilities	**(3,964)**	**(440)**	**(4,404)**	(4,182)	(416)	(4,598)
Reinsurance	**7**	**(21)**	**(14)**	5	(22)	(17)
Net	**(3,957)**	**(461)**	**(4,418)**	(4,177)	(438)	(4,615)
Annuity and other long-term business:						
Insurance contract assets and liabilities	**(13,892)**	**(199)**	**(14,091)**	(13,967)	(195)	(14,162)
Reinsurance	**746**	**—**	**746**	744	—	744
Net	**(13,146)**	**(199)**	**(13,345)**	(13,223)	(195)	(13,418)
Total:						
Insurance contract assets and liabilities	**(133,991)**	**(8,100)**	**(142,091)**	(134,102)	(7,835)	(141,937)
Reinsurance	**763**	**(21)**	**742**	756	(22)	734
Net	**(133,228)**	**(8,121)**	**(141,349)**	(133,346)	(7,857)	(141,203)

32.5 Liquidity risk

Liquidity risk is the risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to meet financial obligations (for example, claims, creditors and collateral calls) as they fall due because they do not have or are unable to generate sufficient liquid assets.

Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

The Group's IFRS results are indirectly exposed to fund liquidity risk, for example, through reputational damage leading to lower funds under management and lower revenue through charges collected. However, as the effect on the Group's IFRS results is indirect, this risk is not discussed further and the remainder of this section refers to liquidity risk.

Liquidity management in the Group seeks to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

Liquidity risk is carefully managed, in particular in relation to: bank balances, cash flow forecasting, appropriate fund management (to ensure that assets are not unduly concentrated in less liquid investments) and detailed cash flow matching for the annuity business. Specific arrangements are also in place to manage liquidity in the unit-linked funds, particularly property funds where the underlying assets are relatively illiquid.

Notes to the consolidated financial statements continued

32 Risk management and sensitivity analysis (continued)

32.5 Liquidity risk (continued)

32.5.1 Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities that are separately presented in section 32.5.2. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments and expected benefit payments) due to be paid, assuming conditions are consistent with those at the year end.

	2023								
As at 31 December	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Financial liabilities:									
Investment contracts without DPF	**12,535**	**12,535**	**—**	**—**	**—**	**—**	**—**	**—**	**12,535**
Third party interest in consolidated funds	**9,893**	**521**	**463**	**190**	**—**	**—**	**13**	**8,706**	**9,893**
Subordinated liabilities and other borrowings	**8,089**	**1,310**	**3,427**	**1,321**	**941**	**1,345**	**5,846**	**—**	**14,190**
Other financial liabilities	**1,186**	**1,092**	**—**	**—**	**—**	**—**	**—**	**94**	**1,186**
Accruals, deferred income and other liabilities	**6,083**	**6,563**	**43**	**90**	**116**	**107**	**170**	**—**	**7,089**
Total	**37,786**	**22,021**	**3,933**	**1,601**	**1,057**	**1,452**	**6,029**	**8,800**	**44,893**

	Restated[i] 2022								
As at 31 December	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Financial liabilities:									
Investment contracts without DPF	11,937	11,937	—	—	—	—	—	—	11,937
Third party interest in consolidated funds	10,389	116	999	108	—	—	130	9,036	10,389
Subordinated liabilities and other borrowings	7,537	995	2,993	1,585	965	1,281	6,080	—	13,899
Other financial liabilities	2,172	2,039	—	—	—	—	—	133	2,172
Accruals, deferred income and other liabilities	6,649	6,190	110	87	114	109	191	—	6,801
Total	38,684	21,277	4,102	1,780	1,079	1,390	6,401	9,169	45,198

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean surrenders are unlikely to be exercised in practice.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Many of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets. As a result, an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

32 Risk management and sensitivity analysis (continued)

32.5 Liquidity risk (continued)

32.5.2 Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with the maturity profile of the contractual undiscounted cash flows:

	2023								
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets	**1,693**	**740**	**534**	**284**	**76**	**115**	**461**	**—**	**2,210**
Derivative liabilities	**2,910**	**561**	**841**	**1,052**	**187**	**757**	**2,160**	**—**	**5,558**
Net derivative position	**(1,217)**	**179**	**(307)**	**(768)**	**(111)**	**(642)**	**(1,699)**	**—**	**(3,348)**

	2022								
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets	2,850	384	816	722	526	554	1,258	—	4,260
Derivative liabilities	4,185	772	1,066	821	1,164	934	1,662	—	6,419
Net derivative position	(1,335)	(388)	(250)	(99)	(638)	(380)	(404)	—	(2,159)

32.5.3 Maturity analysis of insurance contracts

The following tables provide a maturity analysis of the Group's insurance and reinsurance contract liabilities, which reflects the dates on which the cash flows are expected to occur. The Group has elected to analyse the estimates of the present value of the future cash flows by estimated timing. It excludes the release of the CSM which is in Note 24.4.

For reinsurance contracts held 98% (2022: 99%) relates to annuity and other long-term business contracts and so analysis by each line of business are not presented.

Insurance contracts[i]	2023			
As at 31 December	With-profits sub-funds	Unit-linked insurance	Annuity and other long-term business	Total
0 to 1 year	**11%**	**15%**	**9%**	**11%**
1 to 2 years	**9%**	**12%**	**9%**	**9%**
2 to 3 years	**8%**	**10%**	**8%**	**8%**
3 to 4 years	**7%**	**9%**	**7%**	**7%**
4 to 5 years	**7%**	**8%**	**7%**	**7%**
5 to 10 years	**24%**	**26%**	**27%**	**25%**
10 to 15 years	**15%**	**12%**	**17%**	**15%**
15 to 20 years	**9%**	**5%**	**9%**	**9%**
20 to 25 years	**5%**	**2%**	**4%**	**5%**
Over 25 years	**5%**	**1%**	**3%**	**4%**
Total	**100%**	**100%**	**100%**	**100%**

32 Risk management and sensitivity analysis (continued)

32.5 Liquidity risk (continued)

32.5.3 Maturity analysis of insurance contracts (continued)

Insurance contracts[i]	2022			
As at 31 December	With-profits sub-funds	Unit-linked insurance	Annuity and other long-term business	Total
0 to 1 year	11%	14%	9%	11%
1 to 2 years	8%	12%	8%	9%
2 to 3 years	8%	10%	8%	8%
3 to 4 years	7%	8%	7%	7%
4 to 5 years	6%	7%	7%	6%
5 to 10 years	25%	28%	28%	25%
10 to 15 years	16%	13%	17%	15%
15 to 20 years	9%	5%	9%	9%
20 to 25 years	5%	2%	4%	5%
Over 25 years	5%	1%	3%	5%
Total	100%	100%	100%	100%

i There is no current plan for distribution of the policyholders' share of excess assets in the With-Profits Fund and so this is not included in the analysis.

Reinsurance contracts	**2023**	2022
As at 31 December	**Total**	Total
0 to 1 year	**10%**	10%
1 to 2 years	**9%**	9%
2 to 3 years	**9%**	8%
3 to 4 years	**8%**	8%
4 to 5 years	**7%**	7%
5 to 10 years	**29%**	29%
10 to 15 years	**16%**	16%
15 to 20 years	**8%**	8%
20 to 25 years	**3%**	3%
Over 25 years	**1%**	2%
Total	**100%**	100%

32 Risk management and sensitivity analysis (continued)

32.6 Derivatives and hedging

The Group uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In doing so, the Group obtains cost-effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency, credit and other business risks. The Group has opted not to apply hedge accounting to derivatives.

The Group uses various interest rate derivative instruments such as interest rate swaps and swap options to reduce exposure to interest rate volatility. The Group also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than pounds sterling.

All over-the-counter (OTC) derivative transactions are conducted under standardised International Swaps and Derivatives Association Inc (ISDA) master agreements and Credit Support Annexes (CSA). The Group has collateral agreements between the individual entities in the Group, of which the Company is one, and relevant counterparties in place under each of these market master agreements. The Group also has the ability to enter into cleared derivative positions under European Market Infrastructure Regulation (EMIR).

The total fair value balances of derivative assets and liabilities are shown in Note 18.

There are hedging arrangements in place for the with-profits liabilities, including some product-specific arrangements. The actual and required hedging positions are monitored at least monthly and rebalanced if required.

Under Article 11 of the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories EMIR and Commission Delegated Regulation (EU) 2016/2251 supplementing EMIR, market participants transacting in non-cleared OTC derivatives are required to exchange collateral to cover variation and initial margin. However, trades between counterparties belonging to the same group are exempt from these margin requirements subject to certain criteria.

Prudential Capital Plc (Legal Entity Identifier reference (LEI) CHW8NHK268SFPTV63Z64) has entered into such derivative agreements with the following group entities. These counterparties pairings meets the criteria to be eligible for intra-group exemptions to the margin requirements:

As at 31 December				2023	2022
				Aggregate notional of OTC derivatives contract	Aggregate notional of OTC derivatives contract
Counterparty	Legal Entity Identifier	Relationship between parties	Type of exemption	**£m**	£m
Prudential Lifetime Mortgages Limited	5493001GSK4HF84IOB02	M&G plc is the ultimate Parent Company for both parties	Full	**—**	37
M&G FA Limited	213800TFNC2ZYHSGTN11	M&G plc is the ultimate Parent Company for both parties	Full	**392**	255

32.6.1 Hedges in respect of shareholder transfers arising from the with-profits business

The shareholders' exposure to market risk from with-profits business arises from the shareholder transfers which depend on investment return of the funds. These shareholder transfers, while smoothed, are particularly exposed to equity risk.

The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The effect for the year ended 31 December 2023 was an unrealised loss of £8m (2022: unrealised gain of £121m) and a realised loss of £109m (2022: realised loss of £119m).

PAC's shareholder fund had also previously entered into a risk management arrangement with the WPSF in relation to the shareholder transfers expected to emerge from the WPSF, specifically with regard to the PruFund new business written during 2018 to 2020. This arrangement was designed to protect the shareholders against extremely weak market returns. This arrangement was terminated in 2023. The arrangement resulted in a £9m realised loss for the year ended 31 December 2023 (2022: unrealised loss of £8m).

In 2023, PAC's shareholder fund entered into a further arrangement with the WPSF in relation to the shareholder transfers expected to emerge from PruFund business written to 31 December 2022. The shareholder fund accepted a one-off cash payment in lieu of 20% of future shareholder transfers. This arrangement is mutually beneficial since it generates certainty and cash for the shareholder while reducing the WPSF exposure to a potential mismatch between the value of the shareholder transfers and the fixed charges taken to cover those transfers. In addition, under the arrangement the shareholder paid the WPSF for a higher share of future surplus from certain cohorts of business. For the year ended 31 December 2023 this arrangement resulted in a loss of £36m (2022: n/a).

32 Risk management and sensitivity analysis (continued)

32.6 Derivatives and hedging (continued)

32.6.2 Other shareholder hedging arrangements

The Group's shareholder fund has purchased interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2023, these instruments resulted in an unrealised gain of £116m (2022: unrealised loss of £803m) and a realised loss of £36m (2022 unrealised loss of: £186m).

32.7 IFRS profit and liability sensitivity analysis

The Group uses a wide ranging stress and scenario testing approach to, among other things, understand the potential volatility of earnings, and capital requirements and for the purposes of efficient capital management. Results of the IFRS profit and liability sensitivity analysis for the long-term business to reasonable possible movements in key economic and non-economic risk factors are summarised below (sensitivity of the capital position is detailed separately in the supplementary notes). For sensitivities arising from financial assets refer to Note 31.8.

The risks are described in further detail throughout this note. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged. The sensitivities applied are described below. The sensitivities capture the immediate effects of an event occurring, as opposed to the longer-term or second-order effects which may impact future years' profits, and do not reflect management actions which could be taken to mitigate the impacts of these events occurring. The results shown include the impacts on both the with-profits business and the non-profit annuity business.

Sensitivity factor	Sensitivity applied
Economic scenario:	
+/- 50bps interest rates	The impact of a parallel increase (decrease) in the market interest rates. The scenario allows for the impact on both the changes to future yields and investment returns and the market values of the fixed interest securities.
+/- 10% change in equity & property market values	The impact of an increase (decrease) in equity and property market values.
+ 5 bps increase in the with-profits illiquidity premium	The impact of an increase in the illiquidity premium on with-profits business of 5 bps.
+ 5 bps increase in annuity credit default/downgrade assumption	The impact on non-profit annuity liabilities from a 5 bps strengthening of the credit default/downgrade assumptions.
Non-economic scenario:	
+/- 5% renewal expenses	The impact of a permanent increase (decrease) in future maintenance expense assumptions across all lines of business.
+/- 10% persistency assumptions	The impact of a permanent increase (decrease) in the lapse rates for the business.
+/- 1% base mortality rates	The impact of a permanent increase (decrease) in the base mortality rates at all ages.
+ 0.25% increase in mortality improvements	The impact of an increase in the annual rate of mortality improvements at all ages.

32 Risk management and sensitivity analysis (continued)

32.7 IFRS profit and liability sensitivity analysis (continued)

32.7.1 Sensitivity - Profit after tax/equity

The sensitivity of IFRS profit after tax to the key economic and non-economic risks is summarised below. The impact on equity is expected to be consistent with the impact on IFRS profit after tax. The change in net of reinsurance CSM is also shown.

	2023		2022	
	Profit £m	CSM £m	Profit £m	CSM £m
Economic sensitivities				
50bps increase in interest rates	**(152)**	**129**	(138)	137
50bps decrease in interest rates	**160**	**(138)**	144	(154)
10% fall in equity and property markets	**(26)**	**(595)**	(43)	(654)
10% rise in equity and property markets	**15**	**592**	29	650
5bps increase in with-profits illiquidity premium	**2**	**20**	2	19
5bps increase in annuity credit default/downgrade assumptions	**(39)**	**—**	(36)	—
Non-economic sensitivities				
5% increase in renewal expense assumptions	**9**	**(42)**	7	(40)
5% decrease in renewal expense assumptions	**(9)**	**42**	(7)	39
10% increase in persistency assumptions	**(4)**	**(69)**	(5)	(79)
10% decrease in persistency assumptions	**5**	**76**	5	84
1% increase in base mortality assumptions	**(40)**	**75**	(37)	71
1% decrease in base mortality assumptions	**40**	**(79)**	38	(72)
0.25% increase in mortality improvements	**107**	**(208)**	103	(198)

The interest rate stresses reflect a parallel shift in the nominal rate of interest at all durations. As described in Note 32.2.1, the impact on IFRS profit after tax predominantly arises from assets held in excess of the IFRS liabilities. These assets are held to back the regulatory capital requirements.

The main impact to the Group of changes in equity and property asset values is through the entity's share of the returns in the with-profits fund through future shareholder transfers. Under IFRS reporting, the change in expected future profits adjusts the CSM and is released over the remaining lifetime of the business. The key impact to post-tax profit arises from the change in the level of CSM amortised in the current reporting period.

The impact of the non-economic sensitivities to expenses, mortality and mortality improvements are the opposite of the result that may be expected, and which may be seen in other financial metrics (eg in general we would expect an increase in mortality rates would result in an increase in IFRS profits, whereas a reduction is observed in the stress scenario). As detailed in Note 3.2, the application of IFRS 17 results in mismatches due to the use of locked-in rates for the CSM for annuities under GMM and in relation to the measurement of the non-profit business in the With-Profits Fund. This results in the sensitivity analysis reflecting an increase in IFRS profits when there is a strengthening of mortality assumptions, whereas the opposite effect might have been expected. The primary reasons for this are i) interest rates at the time of recognising most of the in-force annuity business were substantially lower than current rates, resulting in a larger reduction in the CSM (from discounting the change in future cash flows at locked-in rates) than the increase in the fulfilment cash flows (from discounting the change in future cash flows at current rates), and ii) the fair value of non-profit business written in the With-Profits Fund is reflected in the liabilities for with-profits policyholders, resulting in a mismatch in the timing of when the change in mortality assumptions impacts the with-profits liabilities and when the IFRS 17 CSM for non-profit business is recognised as insurance revenue.

As described above, the main impacts of the sensitivities on profit arise through either short-term fluctuations in investment returns or through mismatches arising on the application of IFRS 17. As a result there is limited impact on adjusted operating profit (in line with the methodology detailed in Note 3.2).

32 Risk management and sensitivity analysis (continued)

32.7 IFRS profit and liability sensitivity analysis (continued)

32.7.2 Sensitivity – Insurance and investment contract liabilities

The sensitivity of insurance and investment contract liabilities (detailed in Note 24) to the same key economic and non-economic sensitivities are summarised below:

	Insurance contracts[i]			Reinsurance contracts		
As at 31 December 2023	Estimates of present value of future cash flows and risk adjustment £m	Contractual Service Margin £m	Total £m	Estimates of present value of future cash flows and risk adjustment £m	Contractual Service Margin £m	Total £m
Economic sensitivities						
50 bps increase in interest rates	(1,831)	129	(1,702)	(19)	—	(19)
50 bps decrease in interest rates	1,973	(138)	1,835	22	—	22
10% fall in equity and property markets	(6,369)	(595)	(6,964)	—	—	—
10% rise in equity and property markets	6,370	592	6,962	—	—	—
5 bps increase in with-profits illiquidity premium	(22)	20	(2)	—	—	—
5 bps increase in annuity credit default/downgrade assumptions	54	—	54	2	—	2
Non-economic sensitivities						
5% increase in renewal expense assumptions	31	(42)	(11)	—	—	—
5% decrease in renewal expense assumptions	(31)	42	11	—	—	11
10% increase in persistency assumptions	75	(69)	6	—	—	—
10% decrease in persistency assumptions	(82)	76	(6)	—	—	—
1% increase in base mortality assumptions	(42)	99	57	(16)	24	8
1% decrease in base mortality assumptions	46	(103)	(57)	16	(24)	(8)
0.25% increase in mortality improvements	112	(277)	(165)	38	(69)	(31)

	Insurance contracts[i]			Reinsurance contracts[ii]		
As at 31 December 2022	Estimates of present value of future cash flows and risk adjustment £m	Contractual Service Margin £m	Total £m	Estimates of present value of future cash flows and risk adjustment £m	Contractual Service Margin £m	Total £m
Economic sensitivities						
50 bps increase in interest rates	(1,500)	137	(1,363)	(21)	—	(21)
50 bps decrease in interest rates	1,620	(154)	1,466	24	—	11
10% fall in equity and property markets	(6,707)	(654)	(7,361)	—	—	—
10% rise in equity and property markets	6,709	650	7,359	—	—	—
5 bps increase in with-profits illiquidity premium	(21)	19	(2)	—	—	—
5 bps increase in annuity credit default/downgrade assumptions	50	—	50	2	—	2
Non-economic sensitivities						
5% increase in renewal expense assumptions	30	(40)	(10)	—	—	—
5% decrease in renewal expense assumptions	(30)	39	9	—	—	—
10% increase in persistency assumptions	85	(79)	6	—	—	—
10% decrease in persistency assumptions	(91)	84	(7)	—	—	—
1% increase in base mortality assumptions	(40)	97	57	(16)	27	11
1% decrease in base mortality assumptions	41	(99)	(58)	16	(27)	(11)
0.25% increase in mortality improvements	108	(277)	(169)	40	(79)	(39)

The presentation above reflects a change in insurance contract liabilities where insurance contract liabilities are expressed as a positive liability amount and reinsurance contracts are a positive asset amount. Insurance contracts are insurance contract liabilities net of insurance contract assets. Reinsurance contracts are reinsurance contract assets net of reinsurance contract liabilities.

32 Risk management and sensitivity analysis (continued)

32.7 IFRS profit and liability sensitivity analysis (continued)

32.7.2 Sensitivity – Insurance and investment contract liabilities (continued)

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Consistent with this, the changes in the insurance and investment contract liabilities in the economic sensitivities are offset by corresponding changes in the value of the assets, with only the changes in the surplus assets contributing to changes in profit after tax (as detailed in Note 32.7.1).

32.7.3 Other estimates in measurement of insurance contract liabilities

As a consequence of applying the mutualisation requirements of IFRS 17, a portion of the with-profits surplus assets are allocated to policyholders and a portion to shareholders. Under IFRS 4, this was included within the unallocated surplus of the With-Profits Fund. The portion of the with-profits surplus assets allocated to policyholders and shareholders under IFRS 17 reflects a judgement on the division of surplus in the With-Profits Fund. The policyholders' share is assessed on a prospective basis and is assumed to be 90%, consistent with the division of profits permitted by the Articles of Association. The portion of the surplus assets allocated to shareholders, £1,037m (after tax) at 31 December 2023 (2022: £1,053m) is not easily or practicably fungible to shareholders in the short term.

IFRS 17 liabilities include an explicit risk adjustment, covering the Group's assessment of the margin required to cover non-financial risks. The assessment of the risk adjustment requires assumptions about the compensation that the Group requires for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk, the most significant of which is the assumed rates of policyholder mortality for annuity contracts. The Group has calibrated the risk adjustment at the 75th percentile of its internal calibrations of the risk distributions (which have a time horizon of one year) and amounts to £488m (2022: £478m) net of reinsurance. Increasing the calibration to the 80th percentile (over a one year time horizon) would increase the risk adjustment (net of reinsurance) at 31 December 2023 by around £90m (2022: £90m). The increase would be offset by a corresponding reduction in CSM, but with the CSM impact being assessed at locked-in rates as described above.

The UK Government's consultation on residential ground rents has had an impact on the value of the assets that back insurance contract liabilities as discussed in note 31.8.1. The main impact on the insurance contract liabilities has been through a change in discount rate which has resulted in the carrying value decreasing by £98m, of which £50m relates to annuities which are shareholder-backed.

The net asset and liability impact is to reduce profit after tax by £54m in 2023.

If the yield on the residential ground rents were to increase by 50bps to reflect a change in illiquidity spread (aligned to the asset sensitivity in note 31.8.2), the carrying value of the insurance contract liabilities will decrease by £50m, of which £22m would relate to the annuities which are shareholder-backed.

The net asset and liability impact of an increase in spread of 50bps would be to reduce the profit after tax by £38m.

In the event that the Government implements the peppercorn cap, the value of the insurance contract liabilities would be impacted due to a change in the overall portfolio yield on the writing down of the underlying residential ground rent assets. The impact would be dependent on replacement assets that are used to rebalance the portfolio.

32.7.4 Limitations

The sensitivity results demonstrate the effect of an instantaneous change in a key assumption while other assumptions remain unchanged. In reality, changes may occur over a period of time and there may be a correlation between the risks. The sensitivity analysis does not take into consideration active management of the Group's assets and liabilities, and that this may change the impact of an emerging risk scenario. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis includes the use of 'hypothetical' market movements to demonstrate potential risk exposures, for example:

- The sensitivity analysis assumes a parallel shift in interest rates at all terms. These results cannot be used to calculate the impact of non-parallel yield movements.
- The sensitivity analysis assumes equivalent assumption changes across all markets eg all equity and property assets rise (fall) by 10%. The actual impact on the Group's assets may not be identical to the observed changes in market indices and so actual impacts on the Group cannot be inferred by applying the sensitivities to observed changes in key indices.

33 Contingencies and related obligations

33.1 Litigation, tax and regulatory matters

In addition to the matters set out in Note 10.3 regarding the portfolio dividend tax litigation, 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.

33.2 Guarantees

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

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

The Group has also received guarantees in respect of subleasing arrangements, entered into in the normal course of business.

On acquisition of a controlling interest in MGSA, M&G Group Limited provided a guarantee in respect of an existing loan facility between Thesele, the seller of MGSA, and Nedbank, a third party bank amounting to ZAR 220m. The guarantee is secured on 7% of the shares that Thesele retains in MGSA.

On acquisition of 49.9% holding in My Continuum Financial Limited (MCFL) Limited, the holding company Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW), M&G Regulated Entity Holding Company Limited (M&G REH) provided a guarantee in respect of the obligations under the Sale and Purchase agreement up to a maximum value of £33m.

M&G REH is guarantor for the obligations of M&G Corporate Services Limited to make payments under the Scottish Amicable Staff Pension Scheme.

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 these would result in a significant unprovisioned loss.

33.3 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 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.

There are a number of additional arrangements between the shareholder and the With-Profits Fund as follows:

- The With-Profits Fund contributed to the costs of establishing the Polish branch of PAC, and receives repayment through income from charges levied on the business. There is an obligation on the shareholders to ensure that the with-profits fund will be repaid in full with interest, and an amount is recognised for the estimated cost to the shareholder of any shortfall at the end of the term of the agreement. The policyholders share of the impact is included in the insurance contract liabilities for the with-profits fund, with changes in value recognised in finance income or expenses from insurance contracts issued in the consolidated income statement. The amount held within insurance contract liabilities is £56m as at 31 December 2023 (2022: £32m).
- Part of the acquisition costs incurred in the early years of M&G Wealth Advice Limited (formerly Prudential Financial Planning Limited) were funded by the With-Profits Fund. In return, M&G Wealth Advice Limited is required to deliver cost savings to the With-Profits Fund. In the event of closure of M&G Wealth Advice or, the cost savings not being delivered and M&G Wealth Advice stops writing new business, the shareholder will reimburse the With-Profits Fund for any remaining shortfall. The time period for repayment is not defined.
- Transformation costs associated with with-profits new business will be recovered in the pricing of future new business (subject to a shareholder underpin whereby the shareholder will compensate the With-Profits Fund if any of these costs are not fully recovered at the end of the term of the agreement). The policyholders' share of the impact is included in the insurance contract liabilities for the With-Profits Fund, with changes in value recognised in finance income or expenses from insurance contracts issued in the consolidated income statement. The amount held within insurance contract liabilities is £6m as at 31 December 2023 (2022: £nil).

33 Contingencies and related obligations (continued)

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

- PAC has undertaken a project to rationalise fund structures (The Target Investment Model programme) achieved by combining existing, smaller funds with the main With-Profits asset share fund in a fund umbrella structure, and is expected to yield various benefits for the business over time. If expected benefits do not materialise to the With-Profits Fund, the shareholder is committed to compensate the fund for any implementation costs borne which were not fully recouped. The assessment period for the underpin arrangement is five years, running to the end of 2025.
- PAC has priced new with-profits business on a basis that is expected to be financially self-supporting or, where this has not been the case, the shareholder is required to cover the cost (known as the New Business Supportability Test (NBST)). The policyholders share of the impact is included in the insurance contract liabilities for the With-Profits Fund, with changes in value recognised in finance income or expenses from insurance contracts issued in the consolidated income statement. The amount held within insurance contract liabilities is £15m as at 31 December 2023 (2022: £6m).

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

33.3.1 Pension mis-selling review

The Pensions mis-selling review covers customers who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. During the initial review some customers were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The expense to cover these customers continues to be recognised within insurance contract liabilities.

While PAC believed it met the requirements of the FSA (the UK insurance regulator) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, while an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers have been re-engaged, to ensure they have the opportunity to take part in the review. The liability also covers this population. Currently, an expense amounting to £140m as at 31 December 2023 (2022: £226m) is being held in relation to this within insurance contract liabilities.

The key assumptions underlying the liability are:

- average cost of redress per customer;
- proportion of liability (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).

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

Assumption	Change in assumption	2023 £m	2022 £m
Average cost of redress	increase/decrease by 10%	**+/-5**	+/-10
Reserve rate for soft closed cases	increase/decrease by 10%	**+/-31**	+/-30

Changes in the value of the pension mis-selling liability would not immediately impact profit or loss as the changes would be offset by changes in the allowance for mutualisation and the CSM.

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.

33.3.2 With-profits options and guarantees

Certain policies within the With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. These options and guarantees are valued as part of the policyholder liabilities. Please refer to Note 24 for further details on these options and guarantees.

34 Commitments

The Group leases various offices to conduct its business. In line with the requirements of IFRS 16, the Group has recognised a lease liability in respect of these leases representing the obligation to make future lease payments. For further information on the lease liability see Note 27.

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment property as at 31 December 2023 were £711m (2022: £805m). Commitments also arise in relation to the refurbishment of investment properties, however these would not be material to the financial statements, either individually or in aggregate.

As at 31 December 2023, the Group had undrawn commitments of £3,773m to third parties (2022: £4,027m) of which £2,618m (2022: £2,566m) was committed by its private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

35 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.

35.1 Transactions with the Group's joint ventures and associates

The Group received dividends of £89m for the year ended 31 December 2023 (2022: £91m) from 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 £43m as at 31 December 2023 (2022: £88m). There were no balances due to joint ventures or associates accounted for using the equity method at 31 December 2023 or 31 December 2022.

Furthermore, in the normal course of business a number of investments into and divestment 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.

35.2 Compensation of key management personnel

The members of the Board and the Group Executive Committee 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:

As at 31 December	**2023 £m**	2022 £m
Salaries and short-term benefits	**13.2**	11.4
Post-employment benefits	**0.5**	0.5
Share-based payments	**3.2**	4.8
Total	**16.9**	16.7

Information concerning individual Directors' emoluments, interests and transactions are provided in the single figure tables in the Remuneration Report on pages 133 and 139.

36 Capital management

36.1 Capital regulations of entities within the Group

The Group is regulated under Solvency II and supervised as an insurance group by the Prudential Regulation Authority. The Group manages Solvency II own funds as its measure of capital. As at 31 December 2023 estimated and unaudited Group Solvency II own funds are £11.3bn (2022: £11.8bn).

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.

The regulated entities within the Group are also subject to local capital regulations. Capital is actively managed to ensure that local regulatory requirements are met. The main regulated entities in the Group and the regulatory framework to which they must adhere are listed below:

Entity	Main activity	Regulatory framework
M&G plc	Insurance	Solvency II
The Prudential Assurance Company Limited	Insurance	Solvency II
Prudential International Assurance plc	Insurance	Solvency II
Prudential Pensions Limited	Insurance	Solvency II
M&G Group Limited (including subsidiaries)	Investment management	IFPR[i]
Investment Funds Direct Limited	Investment services	IFPR[i]

i Investment Firms Prudential Regime under MIFIDPRU – Prudential Sourcebook for MiFID Investment Firms.

All Group entities that were subject to externally imposed regulatory capital requirements complied with them throughout the year.

36.2 Group capital position

In 2020, the Government announced that it would undertake a review of the Solvency II regime. Following a consultation process, His Majesty's Treasury (HMT) has published the final proposed Solvency II reform package and plans for implementing the changes to the UK's prudential regime.

The reforms to the risk margin, moving to a modified cost of capital approach with a reduction in the cost of capital from 6% to 4%, have been implemented as at 31 December 2023. The lower cost of capital and increase in the rate at which the risk margin runs off have resulted in a reduction in risk margin of c.£800m (unaudited). This is largely offset by a corresponding reduction in the Transitional Measure on Technical Provisions (TMTP); the net impact is a c.£74m (unaudited) increase in surplus, largely arising because there is no TMTP in respect of the PIA business. As part of the reform package, the PRA also invited firms to apply for removal of the Financial Resources Requirement (FRR) restriction, which limits the amount of TMTP benefit. PAC received approval to remove the restriction as at 31 December 2023, resulting in an increase in surplus of £103m (unaudited). The total impact of implementing the Solvency II reforms is £177m (unaudited).

Reforms of the matching adjustment (MA) are expected to come into force as at 30 June 2024. The proposals include greater investment flexibility, revised MA eligibility rules, and more flexibility in processes. They also cover a requirement for senior manager attestations on the level of Fundamental Spread and MA, and changes to the way the MA is calculated (eg requiring a greater level of granularity in the calculation) and reported (eg the introduction of a new regular Matching Adjustment Asset and Liability Information Return).

The remainder of the new reforms are expected to come into force as at 31 December 2024.

Furthermore, the impact of the UK Government's consultation on residential ground rents has been reflected in the capital position. The overall impact is a decrease in own funds due to the fall in the valuation of the underlying residential ground rent asset which is offset partly by a fall in the value of the technical provisions due to the changes in portfolio yield.

In addition, incremental capital has been held in the SCR to reflect the implementation of the 'peppercorn cap' in a stand-alone 1-in-200 event. However, there is significant diversification against the Group's existing risk exposure, which results in the diversified risk capital being materially lower than the full loss amount and therefore, reflects the diversified impact of the possible outcomes set out in the consultation.

This net impact of the items stated above is a reduction in surplus of £264m.

36 Capital management (continued)

36.2 Group capital position (continued)

36.2.1 Regulatory capital position

The regulatory capital position of the Group takes into account all Group exposures, including that of the With-Profits Fund. This view of capital recognises the ring-fenced nature of the With-Profits Fund, and on consolidation, surplus in the fund can only be recognised to the level of associated SCR with any excess surplus being eliminated as a ring-fenced fund restriction, effectively restricting the solvency coverage ratio of the With-Profits Fund to 100%. As such, the combined 'regulatory' solvency coverage ratio is highly resilient to movements in the With-Profits Fund's own funds.

The estimated and unaudited Solvency II capital position for the Group as at 31 December 2023 and 31 December 2022 is shown below:

As at 31 December	2023 £bn	2022 £bn
Solvency II eligible own funds	**11.3**	11.8
Solvency II SCR	**(6.8)**	(7.2)
Solvency II surplus	**4.5**	4.6
Solvency II coverage ratio[i]	**167%**	164%

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

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2022, the recalculated transitional measures did not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differed from the position disclosed in the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report of the same date. As at 31 December 2023, the recalculation has been approved for the reporting date and the positions are aligned.

36.2.2 Shareholder capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered to provide a more relevant reflection of the capital strength of the Group. The 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 Section 1.5 of Supplementary Information. Shareholder Solvency II own funds also assume transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the reporting date (regardless as to whether the recalculation was approved for the reporting date).

The estimated and unaudited shareholder Solvency II capital position for the Group is shown below.

As at 31 December	2023 £bn	2022 £bn
Shareholder Solvency II eligible own funds	**8.9**	9.3
Shareholder Solvency II SCR	**(4.4)**	(4.7)
Solvency II surplus	**4.5**	4.6
Shareholder Solvency II coverage ratio[i]	**203%**	199%

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

36 Capital management (continued)

36.3 Meeting of capital management objectives

The Group manages its capital on a Solvency II basis to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the Solvency II balance sheet under the regulatory view resilient to stresses that affect the Group's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the regulator. The sensitivity of liabilities and other components of total capital vary, depending upon the type of business concerned, and this influences the approach to asset/liability management.

In addition, projections are performed to understand how the own funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the own funds position.

As well as holding sufficient capital to meet regulatory requirements, the Group also closely manages the cash it holds so that it can:

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

37 Share-based payments

The Group operates various share-based payment schemes that award M&G plc shares to participants upon meeting the required vesting conditions. Details of those schemes are stated below:

37.1 Description of the plans

Discretionary schemes initiated prior to demerger:

Scheme	Description
Long-term Incentive Plan (LTIP)	The LTIP is a conditional share plan: the shares awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to LTIP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including measures linked to profit. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the business plan. The last of these awards vested in 2022.
Annual Incentive Plan (AIP)	Certain senior executives participate in the AIP where a portion of the individual's bonus is delivered in the form of shares that are released after three years. There are no performance conditions associated with the plan. The last of these awards vested in 2022.
Group Deferred Bonus Plan (GDBP)	Under these plans, part of the participant's annual bonus is paid in the form of a share award that vests after three years. Other than the service condition, there are no other performance conditions associated with this plan. The last of these awards vested in 2022.
Restricted Share Plan (RSP)	Awards under this plan are discretionary and ad hoc, and the vesting of awards may be subject to performance conditions. These awards may be retention awards, new joiner awards and promotion related awards. The last of these awards vested in 2023.

Prior to demerger, all discretionary schemes mentioned above were based on Prudential plc awards. At the point of demerger and subsequent listing of M&G plc, all outstanding discretionary awards were replaced with equivalent awards based on M&G plc shares. The scheme rules for the awards remain the same in principle, except for the LTIP awards, for which the relevant metrics would be based on M&G plc as opposed to Prudential plc performance.

In accordance with IFRS 2, the replacement awards have been accounted for as a modification of the previous scheme and the expense in relation to the scheme will continue to be recorded over the remaining vesting period.

37 Share-based payments (continued)

37.1 Description of the plans (continued)

Discretionary schemes initiated post-demerger:

Scheme	Description
Performance Share Plan (PSP)	The PSP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to PSP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including measures linked to profit as well as sustainability-related measures. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the business plan.
Deferred Incentive Plan (DIP)	Under these plans, part of the participant's Annual Bonus is paid in the form of a share award that vests after three or four years. Other than the service condition, there are no other performance conditions associated with this plan.

Approved schemes:

Share scheme	Description
Save As You Earn (SAYE) plans	The Group operates SAYE plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five-year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remaining in employment for three years after the grant date of the options and satisfying the monthly savings requirement.
Share Incentive Plan (SIP)	The Group operates SIPs, which allow eligible employees to invest a monthly or annual amount from their salaries in M&G plc shares; M&G plc will then contribute a share for every two the employee purchases.

All approved and discretionary schemes are accounted for as equity-settled as the awards would be settled in M&G plc shares.

37.2 Outstanding options and awards

Movements in outstanding options and awards under the Group's share-based compensation are as follows:

	2023	
	Outstanding options under SAYE schemes	**Awards outstanding under incentive plans**
Outstanding as at 1 January	**23,265,327**	**87,565,318**
Granted	**7,266,101**	**34,246,494**
Exercised	**(9,599,874)**	**(41,104,260)**
Forfeited/Expired	**(1,355,605)**	**(6,425,515)**
Outstanding at 31 December	**19,575,949**	**74,282,037**
Options/awards immediately exercisable at 31 December	**2,181,057**	**10,711,591**

	2022	
	Outstanding options under SAYE schemes	Awards outstanding under incentive plans
Outstanding as at 1 January	23,299,399	82,892,380
Granted	3,085,857	25,900,361
Exercised	(568,529)	(11,523,658)
Forfeited/Expired	(2,551,400)	(9,703,765)
Outstanding at 31 December	23,265,327	87,565,318
Options/awards immediately exercisable at 31 December[i]	99,162	2,419,090

i The comparative amount for awards outstanding under incentive plans has been restated to include Free Shares as immediately exercisable.

Options are exercised throughout the year; the average share price over 2023 was £2.00 (2022: £2.01).

37 Share-based payments (continued)

37.2 Outstanding options and awards (continued)

The following tables provide a summary of the range of exercise prices and average remaining contractual life for the SAYE options and discretionary option awards.

	2023				
As at 31 December	**Exercise price**	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (£)**	**Number exercisable**
SAYE options	Between £1 and £2	**19,575,949**	**2.02**	**1.52**	**2,181,057**
Discretionary option awards	—	**38,430,160**	**1.00**	**—**	**8,690,729**

	2022 (Restated)				
As at 31 December	Exercise Price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (£)	Number exercisable
SAYE options	Between £1 and £2	23,265,327	1.63	1.45	99,162
Discretionary option awards[i]	—	42,818,764	0.93	—	78,872

i The 2022 comparative has been restated to include the PSP nil cost option awards.

37.3 Fair value of options and awards

The fair value of all awards is based on the M&G plc share price at the date of grant: £1.98 for 2023 (2022: between £1.95 and £2.23), except for the following:

- Awards with market performance conditions based on Total Shareholder Returns (TSR awards), these include certain PSP awards;
- SAYE options.

The determination of the fair value of these awards requires the use of various assumptions which are disclosed below:

	Awards granted in			
	2023		2022	
As at 31 December	**PSP TSR award**	**SAYE options**	PSP TSR award	SAYE options
Dividend yield (%)	**N/A**	**9.88**	N/A	11.37
Expected pay-off (%)	**41.67**	**N/A**	100.00	N/A
Expected volatility (%)	**N/A**	**20.97**	N/A	48.51
Risk-free interest rate (%)	**N/A**	**4.40**	N/A	4.37
Expected option life (years)	**N/A**	**3.25**	N/A	3.45
Weighted average exercise price (£)	**N/A**	**1.63**	N/A	1.61
Weighted average share price at grant date (£)	**1.88**	**2.01**	2.17	1.67
Weighted average fair value at grant date (£)	**1.69**	**0.25**	2.17	0.33

The Group uses the Black-Scholes model to value the SAYE options. In determining the fair value of options granted, the historic volatility of the share price of suitable peers and a risk-free rate determined by reference to swap rates was also considered.

37.4 Share-based payment expense charged to the consolidated income statement

Total expenses recognised in the year in the consolidated financial statements relating to equity-settled share-based compensation as at 31 December 2023 was £32m (2022: £34m). The Group has no outstanding liabilities at the year end relating to awards which are settled in cash.

38 Post-balance sheet events

On 27 February 2024, the With-Profits Fund declared a distribution of £3.5bn to the policyholders comprised of the annual with-profits bonus declaration, and an extra distribution to eligible policyholders.

On 19 March 2024, the Group, via M&G Wealth Advice Limited, a wholly-owned subsidiary of the Group, acquired a further 25.05% stake in My Continuum Financial Limited (MCFL), the holding company of Continuum (Financial Services) LLP and My Continuum Wealth, collectively referred to as 'Continuum', a fast-growing in-house discretionary Model Portfolio Service. The execution of this second tranche increases the Group's holding from 49.90% to 74.95% and results in the Group gaining control over MCFL. The results of Continuum will be consolidated in the Group's financial statements going forward.

39 Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of the Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20%), along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 31 December 2023 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS statements. The Group's consolidation policy is described in Note 1.5.

Direct subsidiary undertakings of the Parent Company, M&G plc (shares held directly or via nominees)

Key to classes of shares held: Limited by guarantee (LBG), Limited partnership interest (LPI), Ordinary shares (OS), Preference shares (PS), Units (U).

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Regulated Entity Holding Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Corporate Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital Holding Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital Public Limited Company	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Services Limited (In liquidation)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Aldwych LP	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
Aqua GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
BWAT Retail Nominee (1) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Caisson (Jersey) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Canada Property (Trustee) No 1 Limited	OS	100%	47 Esplanade, St Helier,JE1 0BD, Jersey
Canada Property Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford (Nominee A) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford (Nominee B) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Investments Unit Trust	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cathedral Approach Estate Management Company Limited	OS	50%	7 Albemarle Street, London, W1S 4HQ, UK
Centaurus Retail LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
CJPT Real Estate Inc.	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 1 Trust	U	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	U	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Clear View Assured Limited	OS	100%	5th Floor, 30 Market Street, Huddersfield, HD1 2HG, UK
Condor F3 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Cribbs Causeway JV Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cribbs Causeway Merchants Association Limited	LBG	20%	Management Offices, The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Debt Investments Opportunities IV	U	26%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Digital Infrastructure Investment Partners GP LLP	LPI	65%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Dudok GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Dudok GP1 Ltd	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Dudok GP2 Ltd	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments - China Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Edger Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
EF IV Schoolhill GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Elle 14 S.à r.l. company	OS	45%	Via Alessandro Manzoni 38, Milan, 20121, Italy
Embankment GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Episode Inc	LPI	93%	c/o Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands
EUREV CI GP S.à r.l.	OS	100%	Rue de la Poste 20, 2346, Luxembourg
Fashion Square ECO LP	LPI	50%	1209 Orange Street, Wilmington, DE 19801, USA
Folios III Designated Activity Company	OS	49%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	OS	65%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	OS	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird Limited Partnership	LPI	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Foundry Properties Limited	OS	50%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Fundsdirect ISA Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Fundsdirect Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Genny GP 1 LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Genny GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
GGE GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Green GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
GTA W21 GP Inc.	OS	50%	22 Adelaide Street West, Suite 2600, Toronto, Ontario, M5H 4E3, Canada
GTA W21 Inc.	OS	50%	22 Adelaide Street West, Suite 2600, Toronto, Ontario, M5H 4E3, Canada

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
GTA W21 LP	LPI	90%	22 Adelaide Street West, Suite 2600, Toronto, Ontario, M5H 4E3, Canada
HCR Canary Fund	LPI	99%	300 Atlantic Street, Suite 600, Stamford, CT 06901, USA
Highcross Leicester (GP) Limited	OS	50%	Marble Arch House, 66 Seymour Street, London, W1H 5BX, UK
ICP (Finch) GP 1 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
ICP (Finch) GP 2 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
ICP (Finch) GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
IFDL Personal Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (AIRI) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Belmond) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Bio) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Churchill) GP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (Churchill) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (GC) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (IT PPP) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Leo) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Novos) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Sense) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital F1 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital F2 GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield DF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder LP	LPI	76%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I GP Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Greenfield Partners I LP	LPI	22%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Greenfield Partners I SLP EF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP LP	LPI	36%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners II GP S.à r.l	OS	100%	6, Rue Eugène Ruppert, L-2453, Luxembourg
Infracapital Greenfield Partners II Subholdings (Euro) GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Greenfield Partners II Subholdings (Sterling) GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Greenfield Partners II Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II LP	LPI	26%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Partners II Subholdings GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners III GP S.à r.l	OS	100%	6, Rue Eugène Ruppert, L-2453, Luxembourg
Infracapital Partners III Subholdings (Euro) GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Infracapital Partners III Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners IV G.P S.à r.l.	OS	100%	5 Heienhaff, Nidderaanwen, 1736, Luxembourg
Infracapital Partners IV SCSp	LPI	50%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Infracapital Partners IV Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners IV Subholdings GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital Partners IV Subholdings GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners IV Subholdings Nominee Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners IV Subholdings SLP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners LP	LPI	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital SLP II LP	LPI	40%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Innisfree M&G PPP LLP	LPI	35%	1st Floor, Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Investment Funds Direct Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Investment Funds Direct Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Investment Funds Direct Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
KESTREL F4 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
LB Professional Investors Private Real Estate Fund No. 10	U	25%	20th floor, 136, Sejong-daero, Jung-gu, Seoul, Republic of Korea
LB Professional Investors Private Real Estate Fund No. 10 (Centropolis)	U	25%	20th floor, 136, Sejong-daero, Jung-gu, Seoul, Republic of Korea
Leadenhall Unit Trust	U	100%	IFC 5, St Helier, JE1 1ST, Jersey, UK
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	U	100%	35 Shelbourne Road, Ballsbridge, Dublin 4, D04 A4EO, Ireland
Lion Credit Opportunity Fund Public Limited Company - M&G SRT Fund II	U	52%	35 Shelbourne Road, Ballsbridge, Dublin 4, D04 A4EO, Ireland
London Fenchurch Employee Feeder F4 SP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Fenchurch F4 Employee Feeder SP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Fenchurch GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Fenchurch GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Fenchurch SLP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP1 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP2 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
London Stone Investments F3 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 SP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Luxembourg Specialist Investment Funds (2) FCP - M&G Private Equity Opportunities Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
Luxembourg Specialist Investment Funds (3) SICAV M&G Corporate Credit Opportunities ELTIF	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (ACS) BlackRock Japan Equity Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) BlackRock UK All Share Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) BlackRock US Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) China Equity Fund	U	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) China Fund	U	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Earnest Partners US Small Cap Value Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Granahan US Small Cap Growth Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Japan Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) Japan Smaller Companies Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) UK Listed Equity Fund	U	96%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) UK Listed Mid Cap Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (Guernsey) Limited	OS	100%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
M&G (Lux) Emerging Markets Corporate ESG Bond Fund	U	57%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Euro ex UK Index Fund	U	99%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Europe ex UK Equity Fund	U	99%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Enhanced Equity Premia Fund	U	99%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Funds - M&G (Lux) Asian Corporate Bond Fund	U	97%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Funds - M&G (Lux) Asian Local Currency Bond Fund	U	97%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Funds - M&G (Lux) Asian Total Return Bond Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Better Health Solutions Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Climate Solutions Fund	U	93%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Diversity and Inclusion Fund	U	89%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Emerging Markets Hard Currency Bond Fund	U	92%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G (Lux) Global Artificial Intelligence Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 - M&G Lux Emerging Markets Bond Fund	U	59%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Managed Cautious (Euro) Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G (Lux) Managed Growth (Euro) Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Pan European Smaller Comp Fund	U	98%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Reserved Investment Fund (2), SCA SICAV-RAIF	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Reserved Investment Funds (2) GP S.à r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sterling Liquidity Fund	U	86%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sustainable Emerging Markets Corporate Bond Fund	U	21%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sustainable Optimal Income Bond Fund	U	98%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Global Funds	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Alternatives CV SCSp	LPI	100%	8, Rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives GP S.à r.l.	OS	100%	8, Rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Asia Property Fund	U	44%	16, Boulevard Royal, L-2449, Luxembourg
M&G Black Seed GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G BlackRock Canada Equity Fund	U	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G BlackRock UK 200 Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Catalyst Capital Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Catalyst Credit Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Catalyst Sustainable Agriculture GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Catalyst Sustainable Agriculture GP Member No.1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Catalyst Sustainable Agriculture GP Member No.2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Catalyst Sustainable Agriculture LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Corporate Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Corporate Credit Opportunities S.à r.l.	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	23%	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Emerging Markets Monthly Income Fund	U	93%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European High Yield Credit Investment Fund	U	27%	80, Route d'Esch, L-1470, Luxembourg
M&G European Living Property Fund SCSP, SICAV-RAIF	LPI	71%	16, Boulevard Royal, L-2449, Luxembourg
M&G European Property Fund SICAV-FIS	U	29%	16, Boulevard Royal, L-2449, Luxembourg
M&G European Secured Property Income Fund FCP-FIS	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G European Value Add GP S.à r.l.	OS	100%	Rue de la Poste 20, 2346, Luxembourg
M&G European Value Add Partnership SCSp	LPI	67%	Rue de la Poste 20, 2346, Luxembourg
M&G FA Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Feeder of Property Portfolio	U	57%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia GP Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Fitzrovia Limited Partnership	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 1 Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 2 Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Founders 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Asia Pacific (ex Japan) Equity Fund	U	96%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Blackrock Asia Pacific (ex Japan) Equity Fund	U	96%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Blackrock Emerging Markets Equity Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) GSAM Global Emerging Market Equity Fund	U	99%	16, Boulevard Royal, L-2449, Luxembourg
M&G Funds (1) Invesco Global Emerging Markets Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Lazard Global Emerging Markets Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) MFS Global Emerging Markets Equity Fund	U	99%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Sterling Investment Grade Corporate Bond Fund	U	84%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) US Corporate Bond Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) US Short Duration Corporate Bond Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Funds (1) Wellington Impact Bond Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G General Partner Inc.	OS	100%	190 Elgin Avenue, George Town, Grand Cayman, KYI-9005, Cayman Islands
M&G Global Services Private Limited	OS	100%	1st floor Prudential House, Central Avenue, Hiranandani Business Park, Mumbai-400076, India
M&G Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Group PCC Limited	OS	100%	PO Box 155, Mill Court, La, Charroterie, St Peter Port, GY1 4ET, Guernsey
M&G IMPPP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments Switzerland AG	OS	100%	Zollstrasse 17, 8005 Zürich, Switzerland
M&G Investment Funds (1) - M&G European Sustain Paris Aligned Fund	U	64%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Better Health Solutions Fund	U	90%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Climate Solutions Fund	U	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Global AI Themes Fund	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Global High Yield ESG Bond Fund	U	43%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) - M&G Positive Impact Fund	U	30%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) - M&G Gilt & Fixed Interest Income Fund	U	54%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) - M&G Global High Yield Bond	U	55%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Notes to the consolidated financial statements continued

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Investment Funds (3) - M&G Dividend Fund	U	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Episode Allocation Fund	U	24%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Sustainable Multi Asset Balanced Fund	U	31%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Sustainable Multi Asset Cautious Fund	U	49%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Sustainable Multi Asset Fund	U	41%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Sustainable Multi Asset Growth Fund	U	67%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) - M&G Global Convertibles Fund	U	80%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investments (Americas) Inc.	OS	100%	251 Little Falls Drive, Wilmington, DE 19801, USA
M&G Investments (Australia) Pty Limited	OS	100%	Level 6, 60 Martin Place, Sydney NSW 2000, Australia
M&G Investments (Hong Kong) Limited	OS	100%	6th Floor, Alexander House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Limited	OS	100%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Investments (Taiwan) Limited	OS	100%	Floor.33 (Unit B-1), No.7, Sec.5, Road.Xinyi,110, Taipei, Ta, Taiwan
M&G Investments (USA) Inc	OS	100%	251 Little Falls Drive, Wilmington, DE 19801, USA
M&G Investments Japan Co., Limited	OS	100%	Tokyo Toranomon Global Square 13F, 1-3-1 Toranomon, Minatoku, Tokyo 105-0001, Japan
M&G Luxembourg S.A.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Management Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Pan African Bond Fund	U	100%	PO Box 44813, Claremont, Western Cape, 7735, South Africa
M&G PFI 2018 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI Carry Partnership 2016 LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Platform Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Property Portfolio	U	89%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE Espana, 2016, S.L.	OS	100%	Calle Fortuny, 6 - 4 A, 28010, Madrid, Spain
M&G RE UKEV (GP1) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1-A LP	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate Asia Holding Company Pte Limited	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Asia PTE Limited	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Debt Carried Interest GP S.à r.l	OS	100%	5 Heienhaff, Nidderaanwen, 1736, Luxembourg
M&G Real Estate France SAS	OS	100%	8 Avenue Hoche, 75008, Paris, France
M&G Real Estate Funds Management S.à r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Real Estate Japan Co Limited	OS	67%	Tokyo Toranomon Global Square 13F, 1-3-1 Toranomon, Minatoku, Tokyo 105-0001, Japan
M&G Real Estate Korea Co Limited	OS	67%	Jongno 1-ga, Kyobo Building, Seoul, Korea
M&G Real Estate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate UK Enhanced Value LP	LPI	50%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate Debt Carried Interest GP S.à r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G RED II Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited (In liquidation)	OS	100%	1 Royal Plaza, Royal Avenue, St Peter Port, GY1 2HL, Guernsey
M&G RED II SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III GP Limited (In liquidation)	OS	100%	1 Royal Plaza, Royal Avenue, St Peter Port, GY1 2HL, Guernsey
M&G RED III SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RPF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SA Equity Fund	U	95%	PO Box 44813, Claremont, Western Cape, 7735, South Africa
M&G Secure Income S.à r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Securities Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SFF (CIP GP) S.à r.l.	OS	100%	Heienhaff 5, 1736 Senningerberg, Luxembourg
M&G SFF (GP) S.à r.l.	OS	100%	Heienhaff 5, 1736 Senningerberg, Luxembourg
M&G SFF 2 (CIP GP) S.à r.l.	OS	100%	5 Heienhaff, Nidderaanwen, 1736, Luxembourg
M&G SFF 2 (GP) S.à r.l.	OS	100%	5 Heienhaff, Nidderaanwen, 1736, Luxembourg
M&G Shared Ownership LP	LPI	46%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SIF Management Company (Ireland) Limited	OS	100%	IPC House, 35 Shelbourne Road, Dublin, D, D04 A4E0, Ireland
M&G Specialty Finance Fund 2 GBP SCSp	LPI	47%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
M&G Sustainable Loan Fund Limited	OS	63%	35 Shelbourne Road, Ballsbridge, Dublin, Ireland
M&G Trustee Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Mortgage Income Fund	U	62%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property Fund	U	98%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Residential Property Fund	LPI	28%	16 Boulevard Royal, L-2449 Luxembourg

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G UK Shared Ownership Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) General Partner LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) LP	LPI	80%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Wealth Advice Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Wealth Investments LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Wealth Solutions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Manchester JV Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Manchester Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
MandG Investment Managers (Pty) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MandG Investments (Namibia) (Pty) Limited	OS	100%	Unit 3, 2nd Floor, Ausspann Plaza, Dr Agostinho Neto Road, Private Bag 12012, Ausspannplatz, Windhoek, Namibia
MandG Investments Life South Africa (RF) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MandG Investments Southern Africa (Pty) Limited	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MandG Investments Unit Trusts (Namibia) Limited	OS	100%	Unit 3, 2nd Floor, Ausspann Plaza, Dr Agostinho Neto Road, Private Bag 12012, Ausspannplatz, Windhoek, Namibia
MandG Investments Unit Trusts South Africa (RF) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MCF S.r.l.	OS	45%	Via Alessandro Manzoni 38, Milan, 20121, Italy
Merlin D5 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Minster Court Estate Management Limited	OS	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Mole GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Mole GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
My Continuum Financial Limited	OS	50%	Prydis Accounts Ltd, The Parade, Liskeard, Cornwall, England, PL14 6AF, UK
NAPI REIT, Inc	OS	99%	300 E Lombard Street, Baltimore, MD 21202, USA
NB Gemini Fund LP	LPI	99%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
Oaktree Business Park Limited	OS	14%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Old Kingsway LP	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	OS	52%	Barratt House, Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Ox GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Pacus (UK) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PAP Trusty Pty Limited	OS	100%	Suite 201, Level 2, 5 Berry Street, North Sydney NSW 2060, Australia
Pesca GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGDS (UK One) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPM America Private Equity Fund III LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM America Private Equity Fund IV LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund V LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund VI LP	LPI	40%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM America Private Equity Fund VII LP	LPI	46%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, USA
PPM Capital (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPM Managers GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Ventures (Asia) Limited (In liquidation)	OS	100%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PPMC First Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Property Partners (Two Rivers) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Pru Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudence Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Distribution Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Prudential Equity Release Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Planning Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential GP Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Prudential Greenfield GP LLP	LPI	100%	c/o Buckingham Corporate Services Limited, First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Prudential Greenfield GP1 Limited	OS	100%	c/o Buckingham Corporate Services Limited, First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Prudential Greenfield GP2 Limited	OS	100%	c/o Buckingham Corporate Services Limited, First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Prudential Greenfield LP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Prudential Holborn Life Limited (In liquidation)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential International Assurance plc	OS	100%	Fitzwilliam Court, Leeson Cl, Dublin 2, Dublin, D02 TC95, Ireland
Prudential International Management Services Limited	OS	100%	Fitzwilliam Court, Leeson Cl, Dublin 2, Dublin, D02 TC95, Ireland
Prudential Investment (Luxembourg) 2 S.à.r.l.	OS	100%	Citco Fund Services (Luxembourg) S.A., 20 Rue de la Poste, 2346, Luxembourg
Prudential Lifetime Mortgages Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Prudential Loan Investments 1 S.à r.l.	OS	100%	5 Heienhaff, L-1736 Senningerberg, Luxembourg
Prudential Loan Investments GP S.à r.l.	OS	100%	5 Heienhaff, L-1736 Senningerberg, Luxembourg
Prudential Loan Investments SCSp	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Polska sp. z.o.o	OS	100%	02-670 Warszawa, Pulawska 182, Poland

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Portfolio Management Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investment Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Staff Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Services Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Prudential Unit Trusts Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Radler GP LLP	LPI	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Radler GP1 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Radler GP2 Limited	OS	100%	First Floor, 85 Great Portland Street, London, W1W 7LT, UK
Rads Omega Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rads Gamma Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Randolph Street LP	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
RD Park (Hoddesdon Phase 1) Management Company Limited	OS	64%	10 Fenchurch Avenue, London, EC3M 5AG, UK
responsAbility Agriculture Partners SLP	OS	61%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Global Micro and SME Finance Fund	LPI	25%	Zollstrasse 17, 8005 Zürich, Switzerland
responsAbility Next Billion Growth I (GP), S.à r.l.	OS	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Singapore Pte. Ltd.	OS	100%	80 Robinson Road 2-00, Singapore
responsAbility Sustainable Food - Asia II (GP), S.à r.l.	OS	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Sustainable Food – Asia II, SLP	LPI	87%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Sustainable Food – Latam I (GP), S.à r.l.	OS	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Sustainable Food - Latam I, SLP	LPI	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Sustainable Food Asia II Partners SLP	OS	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Sustainable Food Latam I Partners SLP	OS	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility Africa Limited	OS	100%	Merchant Square, Block D, 5th Floor, Riverside Drive, Westlands, P.O. 29300623 Nairobi, Kenya
responsAbility Agriculture (GP) S.à r.l.	OS	100%	15, Boulevard F.W. Raiffeisen, L-2411, Luxembourg
responsAbility America Latina SAC	OS	100%	Av. 28 de Julio 753, Miraflores, Provincia de Lima, 15074, Peru
responsAbility BOP S.à r.l.	OS	50%	5 Rue Jean Monnet, L-2180, Luxembourg
responsAbility France SAS	OS	100%	8 Rue Lamennais, 75008, Paris, France
responsAbility Georgia LLC	OS	100%	4 Tamar Chovelidze Street, T'bilisi, Tbilisi, 0108, Georgia
responsAbility India Business Advisors Pvt Limited	OS	100%	31 Green Acre, Union Park Road Number 5, Mumbai, Mumbai Suburban, MH, 400052, India

Notes to the consolidated financial statements continued

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
responsAbility Investments AG	OS	100%	Zollstrasse 17, Zürich, ZH, 8005, Switzerland
responsAbility Thailand Limited	OS	100%	62 Thaniya BTS Building, Silom Road, Suriyawongse, Bangrak, Bangkok, 10500, Thailand
responsAbility Ventures I Services AG	OS	100%	Zollstrasse 17, Zürich, ZH, 8005, Switzerland
Sandringham Financial Partners Limited	OS PS	61% 39%	5th Floor, 30 Market Street, Huddersfield, HD1 2HG, UK
Schoolhill S.à r.l.	OS	100%	20, Rue de la Poste, Luxembourg
ScotAm Pension Trustees Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 2) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park Limited Partnership	LPI	63%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	LPI	100%	1 Royal Plaza, Royal Avenue, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	LPI	100%	1 Royal Plaza, Royal Avenue, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	LPI	100%	1 Royal Plaza, Royal Avenue, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	LPI	100%	1 Carter Lane, London, EC4V 5ER, UK
Sky Fund V Onshore LP	LPI	26%	559 Pacific Avenue, San Francisco, CA 94133, USA
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
SOFA Holding LP	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
Specialist Investment Funds (2) ICAV - M&G Real Impact Fund	U	100%	35 Shelbourne Road, Ballsbridge, Dublin D04 A4EO, Ireland
St Edward Homes Limited	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Strand Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
Stableview Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
StepStone Scorpio Infrastructure Opportunities Fund, L.P.	LPI	100%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
The Car Auction Unit Trust	U	50%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
The First British Fixed Trust Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Project Hoxton LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Prudential Assurance Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Strand Property Unit Trust	U	50%	28 Esplanade, Jersey, Channel Islands, JE2 3QA, UK
The Two Rivers Trust	U	100%	IFC1, The Esplanade, Saint Helier, JE1 4BP, Jersey
Three Snowhill Birmingham S.à r.l.	OS	100%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Two Rivers LP	LPI	100%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK

39 Related undertakings (continued)

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees) (continued)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Two Snowhill Birmingham S.à r.l.	OS	100%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Vanquish I Unit Trust	U	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish II Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties (UK) Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Vanquish Properties GP Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 1 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 2 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 3 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 4 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee A Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties LP Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Wessex Gate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
West Station 1 SCI	OS	100%	8 Avenue Hoche, 75008, Paris, France
West Station 2 SCI	OS	100%	8 Avenue Hoche, 75008, Paris, France
West Station SAS	OS	100%	8 Avenue Hoche, 75008, Paris, France
Westwacker Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wrap IFA Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
WS Prudential Risk Managed Active 1	U	20%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
WS Prudential Risk Managed Active 2	U	23%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
WS Prudential Risk Managed Active 3	U	24%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
WS Prudential Risk Managed Active 4	U	31%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
WS Prudential Risk Managed Active 5	U	30%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
WS Prudential Risk Managed Passive Fund 1	U	41%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK

Company financial statements

Company statement of financial position

As at 31 December	Notes	2023 £m	2022 £m
Assets			
Investments in subsidiaries	A	**9,623**	10,536
Deferred tax assets	B	**138**	141
Loans	C	**804**	793
Current tax assets	B	**2**	8
Accrued investment income and other debtors	D	**3**	37
Cash and cash equivalents	E	**27**	23
Total assets		**10,597**	11,538
Equity			
Share capital	F	**119**	119
Share premium	F	**379**	370
Capital redemption reserve	F	**11**	11
Shares held by employee benefit trust	G	**(26)**	(70)
Treasury shares	G	**(21)**	(47)
Equity-settled share-based payment reserve		**81**	91
Retained earnings			
Brought forward retained earnings		**7,252**	8,013
(Loss)/Profit for the year		**(480)**	159
Other movements in retained earnings		**(487)**	(920)
Total retained earnings		**6,285**	7,252
Total equity		**6,828**	7,726
Liabilities			
Subordinated liabilities and other borrowings	H	**3,676**	3,729
Provisions	I	**—**	2
Accruals, deferred income and other liabilities	J	**93**	81
Total liabilities		**3,769**	3,812
Total equity and liabilities		**10,597**	11,538

The Notes on pages 359 to 365 are an integral part of these financial statements.

The financial statements on pages 357 to 365 were approved by the Board and signed on its behalf, by the following Directors on 21 March 2024:

Andrea Rossi Group Chief Executive Officer

Kathryn McLeland Chief Financial Officer

Company financial statements continued

Company statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Shares held by employee benefit trust £m	Treasury shares £m	Equity-settled share-based payment reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2023	**119**	**370**	**11**	**(70)**	**(47)**	**91**	**7,252**	**7,726**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(480)**	**(480)**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(480)**	**(480)**
Dividends paid to equity holders of M&G plc	**—**	**—**	**—**	**—**	**—**	**—**	**(462)**	**(462)**
Shares issued to settle employee share option schemes	**—**	**9**	**—**	**—**	**—**	**—**	**—**	**9**
Vested employee share-based payments	**—**	**—**	**—**	**—**	**—**	**(42)**	**42**	**—**
Shares distributed by employee trusts or from treasury shares	**—**	**—**	**—**	**71**	**4**	**—**	**(71)**	**4**
Expense recognised in respect of share-based payments	**—**	**—**	**—**	**—**	**—**	**32**	**—**	**32**
Shares acquired by and transferred to employee trusts	**—**	**—**	**—**	**(27)**	**22**	**—**	**—**	**(5)**
Tax effect of items recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**1**
Other movements	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**3**
Net increase/(decrease) in equity	**—**	**9**	**—**	**44**	**26**	**(10)**	**(967)**	**(898)**
As at 31 December 2023	**119**	**379**	**11**	**(26)**	**(21)**	**81**	**6,285**	**6,828**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Shares held by employee benefit trust £m	Treasury shares £m	Equity-settled share-based payment reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022	130	370	—	(93)	—	80	8,013	8,500
Profit for the year	—	—	—	—	—	—	159	159
Total comprehensive income for the year	—	—	—	—	—	—	159	159
Dividends paid to equity holders of M&G plc	—	—	—	—	—	—	(465)	(465)
Shares purchased in buy-back [i]	(11)	—	11	—	(47)	—	(456)	(503)
Vested employee share-based payments	—	—	—	—	—	(23)	23	—
Shares distributed by employee trusts or from treasury shares	—	—	—	23	—	—	(22)	1
Expense recognised in respect of share-based payments	—	—	—	—	—	34	—	34
Net (decrease)/increase in equity	(11)	—	11	23	(47)	11	(761)	(774)
As at 31 December 2022	119	370	11	(70)	(47)	91	7,252	7,726

i On 27 October 2022 the share buy-back programme completed with a total consideration, including expenses and stamp duty of £503m. Shares with a nominal value of £11m were cancelled, leading to a capital redemption reserve for the same amount.

The Notes on pages 359 to 365 are an integral part of these financial statements.

Notes to the Company financial statements

Company accounting policies

a) Basis of preparation

These separate financial statements for the year ended 31 December 2023 have been prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on a going concern basis under the historical cost basis and are presented rounded to the nearest million pounds sterling, see Note 1 of the Group financial statements for information of the Directors' assessment of the going concern basis.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Statement of compliance with IFRS
- Outstanding shares comparative
- Requirement for minimum of two primary statements, including statement of cash flows
- Additional comparative information
- Capital management disclosures
- Statement of cash flows
- Financial instruments disclosure
- Effect of IFRSs issued but not effective
- Related party transactions with wholly-owned subsidiaries

The Company adopted IFRS 9 Financial Instruments effective for the first time from 1 January 2018. This did not have a material impact on the Company as it does not hold significant financial instruments. This differs from the Group treatment whereby the Group met the required eligibility criteria for temporary exemption and the adoption of IFRS 9 was deferred until 1 January 2023 to coincide with the adoption of IFRS 17.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. The auditors' remuneration for audit and other services is disclosed in Note 9 of the Group financial statements. During the year, the Company had two (2022: three) employees.

(b) Key judgements and critical accounting estimates

A full list of the Company's material accounting policies is provided in Section (c) of this Note below.

The preparation of these financial statements require management to apply judgement in relation to certain accounting policies. In addition, management have to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The area which required management to apply critical accounting estimates and assumptions which were material to the financial statements is as follows:

Financial statement area	Key estimate and assumptions	Accounting policy	Note
Impairment of investment in subsidiaries	When assessing impairment of subsidiaries where indicators of impairment exist the carrying value is compared to the recoverable amount, which is the higher of fair value less cost of disposal and value-in-use. The determination of the recoverable amount, especially in relation to the value-in-use calculation requires the use of various assumptions that can have a material impact on the calculation.	(c) (ii)	A

(c) Critical accounting policies

(i) Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

(ii) Investment in subsidiaries

Investment in subsidiaries is stated at cost less, where appropriate, allowances for impairment. Investments are reviewed annually to assess whether there are indicators of impairment. Where indicators of impairment exist, the carrying value of the investment in the subsidiary is compared against its recoverable amount, which is the higher of the fair value less cost to sell or the value-in-use, with any resulting impairment recorded in the income statement.

Company accounting policies (continued)

(c) Critical accounting policies (continued)

(ii) Investment in subsidiaries (continued)

Investment in subsidiaries under common control transactions which are acquired as part of a group reorganisation are recorded at fair value of the consideration received, which is deemed to be the cost at the point of initial recognition. Any gains and losses arising on disposal of subsidiaries are recorded in profit or loss.

(iii) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand with an original maturity date of 90 days or less. Cash and cash equivalents are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements of IFRS 9.

(iv) Tax

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or other comprehensive income.

Deferred tax

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Company does not provide for deferred tax on undistributed earnings of subsidiaries where the Company is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period.

(v) Share capital and share premium

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Where the consideration received from the issue or sale of existing shares exceeds the nominal value recorded in share capital, the difference is recorded in share premium. Share premium is recorded net of share issue costs.

(vi) Treasury shares

Where any of the Group entities purchase the Company's share capital, the consideration paid, including any attributable transaction costs, is shown as a deduction from total shareholders' equity.

(vii) Capital redemption reserve

The capital redemption reserve arises from the cancellation of shares following the share buy-back programme in 2022.

(viii) Dividends

Dividends are recognised when the obligation becomes certain, ie, when the dividend is no longer at the discretion of the Company. In the case of interim dividends, this occurs when the dividends are paid. For final dividends, this occurs when they are recommended by the Board and approved by shareholders.

(ix) Subordinated liabilities

Subordinated liabilities include loan notes issued by the Company which are classified as financial liabilities as they have a fixed repayment date and do not represent a residual interest in the net assets of the Company on liquidation. The notes rank junior to all other liabilities of the Company in the event of liquidation, but above share capital.

Subordinated liabilities are initially recognised at fair value, net of transaction costs.

(x) Share-based payments

All share-based payments made to employees for services rendered are measured based on the fair value of the equity instrument granted. The fair value takes into account the impact of market-based vesting conditions and non-vesting conditions, but excludes any impact of non-market-based vesting conditions. The related share-based payment expense is recognised over the vesting period. The fair value may be determined using an option pricing model such as Black-Scholes, where appropriate, taking into account the terms and conditions of the award.

For equity-settled share-based payments, the fair value of service rendered is based on the fair value of the equity instrument at grant date which is not remeasured subsequently. The share-based payment expense is based on the number of equity instruments expected to vest over the vesting period, with the corresponding entry to equity.

Company accounting policies (continued)

(c) Critical accounting policies (continued)

(x) Share-based payments (continued)

For cash-settled share-based payments, the fair value of service rendered is based on the fair value of the related liability to the equity instrument granted. The fair value equity instrument granted is remeasured at each reporting date with any changes recognised in the share-based payment expense for the period.

A cancellation of an award without the grant of a replacement equity instrument is accounted for as an acceleration of vesting. Accordingly, any share-based payment expense that would have been recognised over the remaining vesting period is recognised immediately.

Where replacement equity instruments are granted to employees in place of the cancelled equity instruments, the replacement award is treated as a modification of the original award. At the point of replacement, the awards are remeasured to the fair value at the date of replacement, which forms the basis of recognising the expense over the remaining vesting period.

(xi) Provisions and contingent assets and liabilities

Provisions are recognised on the statement of financial position when the Company has a present legal or constructive obligation resulting from a past event, it is probable that a loss will be made in settling the obligation and the amounts can be estimated reliably.

Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

Contingent liabilities are possible obligations of the Company where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position, unless they are assumed by the Company as part of a business combination. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and is recognised as a liability.

Contingent assets which are possible benefits to the Company are only disclosed if it is probable that the Company will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the statement of financial position as an asset.

(xii) Financial instruments

Recognition and initial measurement

A financial asset is initially measured at fair value plus, for a financial asset not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This includes assets that are held for trading or are part of a portfolio that is managed on a fair value basis.

Financial assets are not reclassified subsequent to their initial recognition unless the entity changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised. Where relevant, the Company makes use of the exemption available for financial instruments with low credit risk, for which, an assessment of a significant increase in credit risk is not required.

A. Investment in subsidiaries

As at 31 December	2023 £m	2022 £m
Cost at 1 January	**11,759**	11,747
Capital contribution into subsidiaries	**30**	12
Disposal of subsidiaries	**(10)**	—
Cost at 31 December	**11,779**	11,759
Impairment at 1 January	**(1,223)**	(1,223)
Impairment of subsidiaries	**(933)**	—
Impairment at 31 December	**(2,156)**	(1,223)
Investment in subsidiaries at 31 December	**9,623**	10,536

(i) Capital contributions

On 1 March 2023 the Company increased its investment in Prudential Financial Services Limited through the purchase of 22,500,000 £1 ordinary shares for cash consideration of £23m. The additional £7m relates to capital contributions arising from share-based payments to employees of subsidiaries.

On 27 September 2022 the Company increased its investment in Prudential Financial Services Limited through the purchase of 10,500,000 £1 ordinary shares for cash consideration of £11m. The additional £1m relates to capital contributions arising from share-based payments to employees of subsidiaries.

(ii) Disposals

On 18 September 2023 the Company redeemed £10m of equity capital in its subsidiary Prudential Capital Holding Company Limited through the cancellation of 9,999,000 £1 ordinary shares.

(iii) Direct subsidiaries

The direct subsidiaries of the Company as at 31 December 2023 are listed below:

Company name	Country of incorporation or registration	Nature of business	% held
M&G Corporate Holdings Limited	United Kingdom	Holding company	100 %
M&G Group Regulated Entity Holding Company Limited	United Kingdom	Holding company	100 %
Prudential Capital Holding Company Limited	United Kingdom	Holding company	100 %
Prudential Capital Public Limited Company	United Kingdom	Service company	100 %
Prudential Financial Services Limited	United Kingdom	Holding company	100 %
Prudential Property Services Limited (In liquidation)	United Kingdom	Service company	100 %

Details of the Company's related undertakings are given in Note 39 of the Group financial statements.

(iv) Impairment

An impairment of £933m was recognised in relation to the Company's investment in M&G Group Regulated Entity Holding Company Limited (M&G REH) during the year ended 31 December 2023 (2022: none).

M&G REH is the main subsidiary of the Company and acts as the main holding entity for all of the Group's regulated businesses. An impairment assessment was undertaken in relation to the subsidiary by comparing its recoverable amount with the carrying value.

The recoverable amount of the subsidiary was based on its value in use. As the subsidiary acts as a holding company with no operations, the value in use was determined as the sum of the values in use of the underlying subsidiaries in which the subsidiary has investment in. At 31 December 2023, the M&G Group Limited (MGG) and The Prudential Assurance Company Limited (PAC) collectively represented 96% of the carrying value of M&G REH. The values in use of these material indirect subsidiaries were determined based on discounted cash flows and standard growth models based on management forecasts.

The impairment recorded this year partly includes the impact of write-downs in the value of the asset management and platform businesses, MGG and Investment Funds Direct Limited (IFDL) respectively, recorded in previous years. This was primarily due to the prevalent macroeconomic volatility and its impact on market valuations and consumer demand. These write-downs had previously been off-set by the headroom in the insurance business, PAC, which resulted in no impairment being required in the financial statements of the Company. However, this year, the headroom on the valuation of PAC has been eroded resulting in an impairment in the value of the business and the crystallisation of impairment losses previously recognised in respect of the investment in MGG and IFDL.

A. Investment in subsidiaries (continued)

The valuation of PAC has had to be reduced due to general decline in market multiples seen in the insurance sector during the year and the assumptions used to determine the terminal value in the value in use basis. Also, allowance has been made for uncertainty by risk adjusting the cash flows used in the terminal value due to the inherent uncertainties involved in the growth of the new Corporate Risk and Investments Solutions which includes the entry into the bulk purchase annuity market and other propositions launched that will be linked to the with-profits fund.

The value in use calculation of the underlying subsidiaries is based on a set of economic, market and business assumptions used to derive the cash flow forecasts. The calculation is particularly sensitive to a number of key assumptions as follows:

- In respect of MGG, the value in use was calculated using a standard growth model, using a discount rate of 11%, based on a weighted average cost of capital approach, and a long-term growth rate of 2%. A simultaneous increase of 50 bps in the discount rate and 50bps decrease in the growth rate would result in the carrying value of MGG reducing by £288m. This would result in an impairment of £288m recorded by the Company in respect of M&G REH.
- In respect of PAC, the value in use was calculated using a dividend discount model, using a discount rate of 11%, based on a cost of equity approach, and an implied price/own funds multiple of 0.67x to determine the terminal value. A simultaneous increase of 50bps in the discount rate and a 10% decrease in the price/own funds multiple would result in the carrying value of PAC reducing by £472m. This would result in an impairment of £472m recorded by the Company in respect of M&G REH.

No impairment was recognised in relation to any other of the Company's subsidiaries.

B. Tax

(i) Deferred tax assets and liabilities

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

Deferred tax in the statement of financial position

The table below shows movements on deferred tax assets during the year:

For the year ended 31 December	2023 £m	2022 £m
As at 1 January	**141**	90
Income statement	**(4)**	51
Equity and other comprehensive income	**1**	—
As at 31 December	**138**	141

Of the £138m (2022: £141m) deferred tax assets at 31 December 2023, £77m (2022: £83m) relates to short-term timing differences arising on the subordinated notes and £56m (2022: £55m) on tax losses carried forward. The remaining £5m (2022: £3m) relates to the deferred tax asset on share-based compensation. The prior year income statement movement primarily relates to £55m on unutilised tax losses carried forward and the amortisation of the subordinated liabilities in the period.

Unrecognised deferred tax

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

(ii) Current tax

For the year ended 31 December	2023 £m	2022 £m
Net corporation tax asset/(liability) as at 1 January	**8**	(5)
Income statement	**57**	20
Corporation tax paid	**(63)**	(7)
Net corporation tax asset as at 31 December	**2**	8

Net current tax assets at 31 December 2023 were £2m (2022: £8m) and are expected to be settled within 12 months.

C. Loans

As at 31 December 2023 the Company had provided loans to Prudential Capital plc, a direct subsidiary of the Company, of £804m (2022: £793m) which are repayable on demand. Accrued interest as at 31 December 2023 was £1m (2022: £1m) and is presented within accrued investment income and other debtors.

Notes to the Company financial statements continued

D. Accrued investment income and other debtors

As at 31 December	2023 £m	2022 £m
Amounts owed by Group undertakings	**2**	36
Other	**1**	1
Total accrued investment income and other debtors	**3**	37
Analysed as:		
Expected to be settled within one year	**1**	1
No contractual maturity	**2**	36
Total accrued investment income and other debtors	**3**	37

Amounts owed by Group undertakings are unsecured, interest free and are repayable upon demand with no fixed date of repayment, with the exception of accrued interest due on loans provided to Prudential Capital plc totalling £1m (2022: £1m).

E. Cash and cash equivalents

As at 31 December	2023 £m	2022 £m
Cash	**27**	23
Total cash and cash equivalents	**27**	23

F. Share capital and share premium

Details of the Company's share capital and share premium are given in Note 21 of the Group financial statements, including the impacts from the share buy-back programme undertaken in the prior year.

Details of the dividends paid on the ordinary shares by the Company are provided in Note 12 of the Group financial statements. Note 12 also includes information regarding the second interim dividend proposed by the Directors for the year ended 31 December 2023.

G. Shares held by employee benefit trusts and other treasury shares

Details of the Company's shares held by trusts and other treasury shares are given in Note 22 of the Group financial statements.

H. Subordinated liabilities and other borrowings

Details of the Company's subordinated liabilities are given in Note 26.1 of the Group financial statements. The Company has access to revolving credit facilities totalling £1.5bn which remain undrawn as at 31 December 2023. Further details are given in Note 26.2 of the Group financial statements.

I. Provisions

Provisions of £2m as at 31 December 2022 related to change in control costs arising from the demerger of the Group from Prudential plc in 2019. The change in control costs were expected to be incurred in the four years following separation and the remaining provisions were released during 2023.

J. Accruals, deferred income and other liabilities

As at 31 December	2023 £m	2022 £m
Amounts owed to Group undertakings	**35**	28
Accrued interest on subordinated debt	**42**	43
Other	**16**	10
Total accruals, deferred income and other liabilities	**93**	81
Analysed as:		
Expected to be settled within one year	**50**	45
Expected to be settled after one year	**8**	8
No contractual maturity	**35**	28
Total accruals, deferred income and other liabilities	**93**	81

Amounts owed to Group undertakings are unsecured, interest free and are repayable upon demand with no fixed date of repayment.

K. Related party transactions

The Directors and key management personnel of the Company are considered to be the same as for the Group. See Note 35 of the Group financial statements for further information.

There were no other related party transactions in the years ended 31 December 2023 and 31 December 2022 other than those noted in Note A, Note C, Note D and Note J of the Company financial statements.

L. Contingencies and related obligations

Details of the Company's contingencies and related obligations are given in Note 33 of the Group financial statements.

Intra-group capital support arrangements

The Company and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by the Company. While the Company considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

M. Share-based payments

Details of the Company's share-based payments are given in Note 37 of the Group financial statements.

Notes to the Company financial statements continued

Supplementary information

1.1 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). The Group also uses a number of alternative performance measures (APM), which are most commonly 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.

A list of the APMs used by the Group along with their definitions and how they can be reconciled to the nearest IFRS or Solvency II measure, where applicable, is provided in the table below.

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

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

Key performance measure	Type	Definition
IFRS result after tax	KPM	IFRS result after tax demonstrates to our shareholders the financial performance of the Group during the year on an IFRS basis.
Adjusted operating profit before tax	APM, KPM	Adjusted operating profit (AOP) before tax is the Group's non-GAAP alternative performance measure, which complements the IFRS GAAP measures and is useful as it allows a deeper understanding of the Group's performance over time. It is therefore key to decision-making and the internal performance management of our operating segments. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to the IFRS result before tax to determine adjusted operating profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, mismatches arising on the application of IFRS 17, costs associated with fundamental Group-wide restructuring and transformation, profits or losses arising on corporate transactions, impairment and amortisation in respect of acquired intangible assets, and, where relevant, profit/(loss) from discontinued operations. Included in the adjustments is the elimination on consolidation of the results of the intercompany buy-in transaction executed between the trustees of M&G Group Pension Pension Scheme (M&GGPS) and PAC in 2023 which are included in AOP before tax. AOP before tax does not include the impact of any margins on investment management fee earned by other Group entities and these are recognised in the Asset Management segment as they emerge. The AOP methodology has been updated following the adoption of IFRS 17 'Insurance contracts' and is described in Note 3.2, along with a reconciliation of AOP before tax to IFRS result after tax.
Operating change in CSM	APM, KPM	Operating change in Contractual Service Margin (CSM) is a new APM introduced on the adoption of IFRS 17 and supplements the AOP metric for the Life and Wealth segments. Operating change in CSM represents changes resulting from new business, interest accretion, experience changes and release of CSM but excludes the impact of short-term market movements and mismatches arising on the adoption of IFRS 17. The impact on these items also includes the intercompany buy-in transaction, consistent with AOP. For the VFA business, non-operating includes the variance between long-term expected returns and actual returns and the impact of the mismatch arising on the application of the GMM to the non-profits business written in the With-Profits Fund, similar to the methodology for AOP. The APM is a useful measure of economic value generated as it includes the impact of new business and management actions taken during the year, which are not included in AOP.
Net client flows (excluding Heritage)	APM, KPM	Net client flows represent gross inflows less gross outflows and provides useful insight into the growth of the business. Gross inflows are new funds from clients. Gross outflows are money withdrawn by clients during the period. This measure does not include the net outflows in our Heritage business, which is mostly closed to new clients, as it runs off but consists of net client flows in Asset Management, PruFund and Other Wealth. Net client flows includes flows on assets held on the Group's consolidated statement of financial position for our clients, and external client flows on assets belonging to wholesale and institutional clients outside of the Group which are not included in the Group's consolidated statement of financial position and as a result, this measure is not directly reconcilable to the financial statements.

Supplementary information continued

1.1 Alternative performance measures (continued)

Overview of the Group's key performance measures (continued)

Key performance measure	Type	Definition
Assets under management and administration (AUMA)	APM, KPM	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of clients at the end of each financial period and is a key indicator of the scale of the business. Assets managed by the Group include those managed on behalf of our institutional and wholesale clients. Assets administered by the Group include assets which we provide investment management services for, in addition to assets we administer where the client has elected to invest in a third party investment manager. Assets under advice are advisory portfolios where clients receive investment recommendations such as Strategic Asset Allocation & model portfolios but retain discretion over executing the advice. AUMA includes assets recognised in the Group's consolidated statement of financial position together with certain assets administered by the Group belonging to external clients outside of the Group which are therefore not included within the Group's statement of financial position and, as a result, this measure is not directly reconcilable to the financial statements.
Shareholder Solvency II coverage ratio	APM, KPM	Management focuses on a shareholder view of the Solvency II coverage ratio, which is considered to provide a more useful reflection of the capital strength of the Group. The shareholder view includes future with-profits shareholder transfers, but excludes the shareholders' share of the ring-fenced with-profits estate. The regulatory Solvency II capital position considers the Group's overall own funds and 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. Own funds 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. Both the shareholder view and the regulatory view reflect eligible own funds, in line with the thresholds set by the regulator that set out how much capital of each tier can be used to demonstrate solvency.
Underlying capital generation	APM	For insurance entities and their underlying subsidiaries, underlying capital generation includes the expected Solvency II surplus capital generated from in-force business and the impact of writing new life insurance business. For non-insurance entities, underlying capital generation is equal to adjusted operating profit before tax, with certain adjustments made in respect of items that do not reflect the underlying result. It also includes other items such as head office expenses and debt interest costs that contribute to the underlying capital position of the business.
Operating capital generation	APM, 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-operating items, including shareholder restructuring and other costs. Management use this as an indicator on the longer-term components of the movements in the Group's surplus capital as it is less affected by short-term market volatility and non-recurring items as total capital generation.
Total capital generation	APM, KPM	Total capital generation measures the change in surplus capital during the period, before dividends and capital movements. Management consider it to be integral to the running and monitoring of the business, our decisions on capital allocation and investment, and ultimately our dividend policy. Surplus capital is the amount by which eligible own funds exceed SCR under Solvency II.

Supplementary information continued

1.2 Adjusted operating profit before tax

(i) Reconciliation of adjusted operating profit/(loss) before tax by segment to IFRS profit before tax

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
Asset Management	**242**	264
Life	**586**	460
Wealth	**180**	158
Corporate Centre	**(211)**	(257)
Total segmented adjusted operating profit before tax	**797**	625
Short-term fluctuations in investment returns	**(171)**	(2,858)
Mismatches arising on application of IFRS 17	**(41)**	(244)
Amortisation of intangible assets acquired in business combinations	**(39)**	(35)
Restructuring costs and other	**(141)**	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**405**	(2,659)
IFRS profit attributable to non-controlling interests	**16**	19
IFRS profit/(loss) before tax attributable to equity holders	**421**	(2,640)

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

For the year ended 31 December	2023 £m	Restated[i] 2022 £m
Core Asset Management	**188**	213
Performance fees (including carried interest) and investment return	**54**	51
Total Asset Management	**242**	264
Traditional with-profits	**263**	200
Shareholder annuities	**331**	239
Europe	**(3)**	19
Other	**(5)**	2
Total Life	**586**	460
PruFund UK	**228**	190
Platform and Advice	**(32)**	(24)
Other	**(16)**	(8)
Total Wealth	**180**	158
Corporate Centre	**(211)**	(257)
Adjusted operating profit before tax	**797**	625

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

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

For the year ended 31 December	2023 £m	2022 £m
Fee-based revenue	**1,025**	1,051
Asset Management operating expenses	**(791)**	(763)
Investment return	**24**	(5)
Adjusted operating profit attributable to non-controlling interests	**(16)**	(19)
Adjusted operating profit before tax	**242**	264

Supplementary information continued

1.2 Adjusted operating profit before tax (continued)

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

Adjusted operating profit/(loss) before tax arising from with-profits business is further analysed below:

			Restated[i]	
	2023		2022	
	Life	Wealth	Life	Wealth
For the year ended 31 December	£m	£m	£m	£m
CSM release[ii]	**238**	**231**	186	154
Expected return on excess assets	**35**	**34**	19	21
Other	**(10)**	**(37)**	(5)	15
With-profits[iii]	**263**	**228**	200	190

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

ii The CSM release is included above on an expected basis, calculated as the CSM at start of the period updated to reflect long-term expected investment returns multiplied by the expected amortisation factor for the period.

iii With-profits represents traditional with-profits within the Life segment and PruFund UK within the Wealth segment.

Adjusted operating profit/(loss) before tax arising from shareholder annuities is further analysed in the table below:

		Restated[i]
	2023	2022
For the year ended 31 December	£m	£m
Expected return on excess assets	**205**	113
CSM release	**96**	89
Risk adjustment unwind	**19**	24
Asset trading and portfolio management actions	**2**	41
Experience variances	**9**	—
Other provisions and reserves	**—**	(28)
Shareholder annuities	**331**	239

i The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.2.1 for further information.

Supplementary information continued

1.3 Operating change in Contractual Service Margin (CSM)

The CSM balances split by line of business disclosed in Note 24 include the CSM attributable to policyholders arising from non-profit annuities written in the With-Profits Fund and the CSM in respect of M&G Group Limited (MGG) future profits from the management of PAC assets that arises on consolidation of the Group entities. The change during the year in the CSM attributable to policyholders and the CSM from the MGG future profits from the management of PAC assets is not included in operating change in CSM and is included in non-operating and other changes in the CSM.

The CSM arising on the underlying products based on the actual investment management charges applied to the policies and excluding the CSM attributable to policyholders is shown in the tables below. The amortisation factor for the CSM each year is based on the CSM in the table.

Operating change in CSM and reconciliation to total CSM is further analysed in the tables below:

	Life					Wealth		
	Traditional with-profits	Shareholder annuities	Europe	Other	Total Life	PruFund UK	Policyholder and group adjustments	Total
	2023	2023	2023	2023	2023	2023	2023	2023
	£m	£m	£m	£m	£m	£m	£m	£m
Opening CSM	**1,466**	**1,206**	**139**	**122**	**2,933**	**1,666**	**1,117**	**5,716**
Interest accreted on the CSM	142	30	16	—	188	128	—	316
Expected return CSM to adjusted operating profit before tax	167	—	—	—	167	202	—	369
Release of CSM to adjusted operating profit before tax	(238)	(96)	(19)	(6)	(359)	(231)	—	(590)
New business[i]	—	42	26	—	68	94	—	162
Assumption changes and variances	(4)	60	3	2	61	37	—	98
Operating change in CSM	**67**	**36**	**26**	**(4)**	**125**	**230**	**—**	**355**
Market and other impacts[i]	(239)	(21)	4	15	(241)	(309)	5	(545)
Release of CSM to non-operating	48	—	—	(8)	40	27	(110)	(43)
Non-operating and other changes in CSM	**(191)**	**(21)**	**4**	**7**	**(201)**	**(282)**	**(105)**	**(588)**
Closing CSM	**1,342**	**1,221**	**169**	**125**	**2,857**	**1,614**	**1,012**	**5,483**

	Life					Wealth		
	Traditional with-profits	Shareholder annuities	Europe	Other	Total Life	PruFund UK	Policyholder and group adjustments	Total
	2022	2022	2022	2022	2022	2022	2022	2022
	£m	£m	£m	£m	£m	£m	£m	£m
Opening CSM	1,201	1,171	102	156	2,630	1,331	1,073	5,034
Interest accreted on the CSM	28	24	4	—	56	20	—	76
Expected return CSM to adjusted operating profit before tax	229	—	—	—	229	166	—	395
Release of CSM to adjusted operating profit before tax	(186)	(89)	(13)	(12)	(300)	(154)	—	(454)
New business[i]	—	6	18	—	24	18	—	42
Assumption changes and variances	(48)	94	20	—	66	4	—	70
Operating change in CSM	23	35	29	(12)	75	54	—	129
Market and other impacts	280	—	8	(16)	272	314	163	749
Release of CSM to non-operating	(38)	—	—	(6)	(44)	(33)	(119)	(196)
Non-operating and other changes in CSM	242	—	8	(22)	228	281	44	553
Closing CSM	1,466	1,206	139	122	2,933	1,666	1,117	5,716

i Includes £22m in relation to the intra-group bulk purchase annuity transaction that occurred in 2023 which is eliminated on consolidation for IFRS purposes and appears as reconciling item in Market and other impacts in the table above. Furthermore, the margins on investment management fee earned by Group entities are excluded. Therefore, the numbers above for New business differ to the values for contracts initially recognised in the period in Note 24.2 analysis by measurement component.

Supplementary information continued

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

(i) Detailed AUMA and net client flows

	2023					
For the year ended 31 December	As at 1 January £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December £bn
Asset Management[i]	**154.2**	**33.1**	**(32.3)**	**0.8**	**(0.8)**	**154.2**
Institutional asset management	**99.2**	**14.8**	**(15.5)**	**(0.7)**	**(0.3)**	**98.2**
Wholesale asset management	**53.9**	**18.3**	**(16.8)**	**1.5**	**(0.4)**	**55.0**
Other asset management	**1.1**	**—**	**—**	**—**	**(0.1)**	**1.0**
Life[ii]	**103.0**	**2.2**	**(7.9)**	**(5.7)**	**3.6**	**100.9**
of which: Shareholder annuities	**15.4**	**0.7**	**(1.1)**	**(0.4)**	**0.8**	**15.8**
of which: Traditional with-profits	**67.5**	**0.3**	**(4.5)**	**(4.2)**	**1.7**	**65.0**
of which: Europe (non-UK PruFund)	**6.0**	**0.7**	**(0.6)**	**0.1**	**0.3**	**6.4**
Wealth[ii]	**83.4**	**9.0**	**(8.8)**	**0.2**	**3.5**	**87.1**
of which: PruFund UK	**52.3**	**6.3**	**(5.4)**	**0.9**	**1.6**	**54.8**
of which: Platform and Advice	**18.0**	**2.0**	**(1.7)**	**0.3**	**0.9**	**19.2**
Corporate assets	**1.4**	**—**	**—**	**—**	**(0.1)**	**1.3**
Total	**342.0**	**44.3**	**(49.0)**	**(4.7)**	**6.2**	**343.5**

	2022					
For the year ended 31 December	As at 1 January £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market / Other movements £bn	As at 31 December £bn
Asset Management[i]	156.7	29.1	(29.3)	(0.2)	(2.3)	154.2
Institutional asset management	103.1	13.1	(13.8)	(0.7)	(3.2)	99.2
Wholesale asset management	52.7	16.0	(15.5)	0.5	0.7	53.9
Other asset management	0.9	—	—	—	0.2	1.1
Life[ii]	126.9	1.1	(6.8)	(5.7)	(18.2)	103.0
of which: Shareholder annuities	22.2	—	(1.1)	(1.1)	(5.7)	15.4
of which: Traditional with-profits	81.4	0.2	(5.1)	(4.9)	(9.0)	67.5
of which: Europe (non-UK PruFund)	6.0	0.7	(0.5)	0.2	(0.2)	6.0
Wealth[ii]	84.2	8.0	(7.8)	0.2	(1.0)	83.4
of which: PruFund UK	52.4	5.4	(4.9)	0.5	(0.6)	52.3
of which: Platform and Advice	17.2	1.6	(1.4)	0.2	0.6	18.0
Corporate assets	2.2	—	—	—	(0.8)	1.4
Total	370.0	38.2	(43.9)	(5.7)	(22.3)	342.0

i £14.1 billion (2022: £12.7 billion) of total Asset Management AUMA relates to assets under advice.

ii £160.3 billion of AUMA of Life and Wealth is managed internally by the Group's Asset Management business (31 December 2022: £149.9 billion).

Our key performance measure, Net client flows (excluding Heritage), consists of Asset Management, Wealth (includes PruFund UK) and Life Europe (non-UK PruFund).

Supplementary information continued

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

(ii) AUMA by asset class

	2023									
	On-balance sheet AUMA[i]					External AUMA				Total
For the year ended 31 December	With-profits £bn	Unit-linked £bn	Shareholder backed annuities & other long-term business £bn	Corporate assets £bn	Total on-balance sheet £bn	Wealth £bn	Wholesale £bn	Institutional £bn	Total external £bn	Total AUMA £bn
Investment property	8.8	—	0.6	—	9.4	—	0.1	14.4	14.5	23.9
Reinsurance contract assets	—	0.1	1.2	—	1.3	—	—	—	—	1.3
Equity securities and pooled investment funds	78.1	9.9	—	0.2	88.2	4.4	27.7	14.4	46.5	134.7
Loans	0.6	—	1.3	—	1.9	—	—	8.9	8.9	10.8
Debt securities	31.8	2.0	12.7	1.0	47.5	1.2	25.8	56.7	83.7	131.2
of which Corporate	20.5	1.3	8.7	1.0	31.5	1.2	16.6	37.5	55.3	86.8
of which Government	10.3	0.7	3.4	—	14.4	—	10.7	8.7	19.4	33.8
of which ABS	1.0	—	0.6	—	1.6	—	(1.5)	10.5	9.0	10.6
Derivatives[ii]	0.1	—	(1.3)	(0.1)	(1.3)	—	0.3	(0.4)	(0.1)	(1.4)
Deposits[iii]	7.8	1.2	1.5	—	10.5	—	—	—	—	10.5
Cash and cash equivalents	0.9	0.2	0.6	0.8	2.5	0.1	1.1	4.2	5.4	7.9
Other	1.0	0.1	0.3	0.4	1.8	—	—	—	—	1.8
Other AUMA										22.8
Total[iv]	129.1	13.5	16.9	2.3	161.8	5.7	55.0	98.2	158.9	343.5

i On balance sheet AUMA does not include consolidated funds included in the segmented statement of financial position by business type in Note 32.1.

ii Derivative assets are shown net of derivative liabilities.

iii Deposits are shown net of unsettled reverse repos.

iv Included in total AUMA of £343.5 billion (2022: £342.0 billion) is £14.1 billion (2022: £12.7 billion) of assets under advice.

Supplementary information continued

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

(ii) AUMA by asset class (continued)

	2022										
	On-balance sheet AUMA[i]					External AUMA				Total
For the year ended 31 December	With-profits £bn	Unit-linked £bn	Shareholder backed annuities & other long-term business £bn	Corporate assets £bn	Total on-balance sheet £bn	Wealth £bn	Wholesale £bn	Institutional £bn	Total external £bn	Total AUMA £bn
Investment property	9.1	—	0.9	—	10.0	—	0.8	16.0	16.8	26.8
Reinsurance contract assets	—	—	1.0	—	1.0	—	—	—	—	1.0
Equity securities and pooled investment funds	69.3	9.7	—	0.2	79.2	3.6	28.6	18.1	50.3	129.5
Loans	1.1	—	1.4	—	2.5	—	—	9.4	9.4	11.9
Debt Securities	32.3	2.5	12.4	1.2	48.4	2.1	22.7	51.6	76.4	124.8
of which: Corporate	23.5	1.8	8.7	1.2	35.2	2.1	14.4	34.8	51.3	86.5
of which: Government	7.5	0.6	3.1	—	11.2	—	7.1	8.7	15.8	27.0
of which: ABS	1.3	0.1	0.6	—	2.0	—	1.2	8.1	9.3	11.3
Derivatives[ii]	0.1	—	(1.5)	(0.1)	(1.5)	—	0.3	0.3	0.6	(0.9)
Deposits[iii]	14.5	1.2	1.4	—	17.1	—	—	—	—	17.1
Cash and cash equivalents	1.5	0.3	0.6	0.7	3.1	—	1.5	3.8	5.3	8.4
Other	1.0	0.2	0.2	0.4	1.8	—	—	—	—	1.8
Other AUMA										21.6
Total[iv]	128.9	13.9	16.4	2.4	161.6	5.7	53.9	99.2	158.8	342.0

(iii) AUMA by geography

For the year ended 31 December	**2023 £bn**	2022 £bn
UK	**260.6**	264.1
Rest of Europe	**56.8**	52.7
Asia-Pacific	**12.5**	11.1
Middle East and Africa	**11.4**	12.7
Americas	**2.2**	1.4
Total AUMA[i]	**343.5**	342.0

i Included in total AUMA of £343.5 billion (2022: £342.0 billion) is £14.1 billion (2022: £12.7 billion) of assets under advice.

Supplementary information continued

1.5 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 supervisory 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. Available own funds reflect all capital available to the Group and eligible own funds are net of restrictions applied in line with the thresholds set by the regulator that limit the amount of each tier of capital that can be used to demonstrate solvency. The SCR is calculated using the Group's Internal Model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

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

As at 31 December	2023 £bn	2022 £bn
IFRS shareholders' equity	**4.1**	4.3
Deduct goodwill and intangible assets	**(1.5)**	(1.6)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**12.2**	12.8
Impact of introducing Solvency II risk margin (net of transitional measures)	**(0.3)**	(1.0)
Impact of measuring assets and liabilities in line with Solvency II principles	**1.0**	0.9
Recognise own shares	**0.1**	0.1
Other	**0.1**	—
Solvency II excess of assets over liabilities	**15.7**	15.5
Subordinated debt capital	**3.1**	3.0
Ring-fenced fund restrictions	**(7.2)**	(6.6)
Deduct own shares	**(0.1)**	(0.1)
Eligible own funds restriction	**(0.2)**	—
Solvency II eligible own funds	**11.3**	11.8

The key items in the reconciliation are explained below:

- 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 17 and Solvency II. One of the key drivers of the increase in equity moving from IFRS 17 to Solvency II is the requirement to hold a CSM and risk adjustment under IFRS 17; these are removed under Solvency II. In addition, IFRS 17 captures the shareholder share of surplus assets on the With-Profits Fund in shareholder equity whereas 100% of with-profits surplus assets are captured in Solvency II excess of assets over liabilities, however this is subsequently restricted by the ring-fenced fund restrictions. This increase in equity is partially offset by differences in the liability discount rate; the IFRS17 discount rate includes an illiquidity premium which is slightly higher than the Solvency II matching adjustment on annuity business, resulting in slightly higher annuity liabilities under IFRS 17.
- 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 requirement from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.
- There are limits, prescribed by the regulator, on the amount of different types of own funds that can be used to demonstrate solvency. As at 31 December 2023, the sum of capital classed as Tier 2 and Tier 3 exceeds 50% of the regulatory Group Solvency Capital Requirement by £216 million. While this capital remains available to the Group, as it is above this regulatory threshold own funds must be restricted by this amount to determine eligible own funds.

Supplementary information continued

1.5 Solvency II capital position (continued)

Composition of own funds

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

As at 31 December	2023 £bn	2022 £bn
Tier 1 (unrestricted)	**7.9**	8.2
Tier 2	**3.1**	3.0
Tier 3	**0.5**	0.6
Eligible own funds restriction	**(0.2)**	—
Total eligible own funds	**11.3**	11.8

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 26. 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 £0.5bn (2022: £0.6bn) relates to deferred tax asset balances.

As stated above, the eligible own funds restriction reflects the fact that the sum of Tier 2 and Tier 3 capital exceeds the threshold set by the regulator for the purpose of demonstrating solvency, although the capital above this threshold remains available to the Group.

Estimated shareholder view of the Solvency II capital position

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

The estimated shareholder Solvency II capital position for the Group is shown below:

As at 31 December	2023 £bn	2022 £bn
Shareholder Solvency II eligible own funds	**8.9**	9.3
Shareholder Solvency II SCR	**(4.4)**	(4.7)
Solvency II surplus	**4.5**	4.6
Shareholder Solvency II coverage ratio[i]	**203%**	199%

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 With-Profits Fund view of the Solvency II capital position' section.

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

- A Solvency Capital Requirement which has been calculated using the Group's Internal Model.
- Transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation Authority.
- M&G Group Limited and other undertakings carrying out financial activities consolidated under local sectoral or notional sectoral capital requirements.

Supplementary information continued

1.5 Solvency II capital position (continued)

Breakdown of the shareholder Solvency II SCR by risk type

The shareholder undiversified capital requirement is presented by risk type below.

As at December	2023 £bn	2022 £bn
Equity	**1.7**	1.7
Property	**0.7**	0.9
Interest rate	**0.4**	0.6
Credit	**1.4**	1.6
Currency	**1.0**	1.1
Longevity	**1.1**	0.9
Lapse	**0.4**	0.5
Operational and expense	**2.2**	1.3
Sectoral[i]	**0.6**	0.7
Total undiversified	**9.5**	9.3
Diversification, deferred tax, and other	**(5.1)**	(4.6)
Shareholder SCR	**4.4**	4.7

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

Sensitivity analysis of the Group's Solvency II surplus and 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 and recalculation of the eligible own funds restriction.

	2023		2022	
For the year ended 31 December	Surplus £bn	Shareholder coverage ratio %	Surplus £bn	Shareholder coverage ratio %
Base (as reported)	**4.5**	**203%**	4.6	199%
20% instantaneous fall in equity markets	**3.9**	**189%**	4.0	187%
20% instantaneous fall in property markets	**4.1**	**193%**	4.2	190%
50 bps reduction in interest rates[i]	**4.4**	**196%**	4.4	191%
100 bps widening in credit spreads	**4.3**	**200%**	4.3	196%
20% credit asset downgrade[ii]	**4.3**	**198%**	4.4	194%

i Future residential house price growth rates are assumed to move in line with interest rates; there may be economic reasons why this is not borne out in practice.

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

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

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

The estimated Solvency II capital position for the Group under the With-Profits Fund view is shown below:

As at 31 December	2023 £bn	2022 £bn
With-Profits Fund Solvency II own funds	**9.6**	9.1
With-Profits Fund Solvency II SCR	**(2.4)**	(2.5)
With-Profits Fund Solvency II surplus	**7.2**	6.6
With-Profits Fund Solvency II coverage ratio[i]	**403%**	362%

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

Supplementary information continued

1.5 Solvency II capital position (continued)

Estimated regulatory view of the Solvency II capital position

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

As at 31 December	2023 £bn	2022 £bn
Solvency II eligible own funds	**11.3**	11.8
Solvency II SCR	**(6.8)**	(7.2)
Solvency II surplus	**4.5**	4.6
Solvency II coverage ratio[i]	**167%**	164%

i Solvency II coverage ratio has been calculated using unrounded figures. On a regulatory approved transitional measures on technical provisions basis, the surplus is £4.5bn (2022: £4.8bn) and the solvency coverage ratio is 167% (2022: 168%).

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2022, the recalculated measures did not align to the latest approved regulatory position and therefore the estimated Solvency II capital position differed from the position disclosed in the formal regulatory Quantitative Reporting Templates and the Group Solvency and Financial Condition Report of the same date. As at 31 December 2023, the recalculated and regulatory positions are aligned.

1.6 Capital generation

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

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

Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations. As set out in the overview of the Solvency II capital position, as at 31 December 2023 eligible own funds has been restricted by £216m (2022: £Nil) as the sum of tier 2 and tier 3 capital is above the threshold set by the regulator, although the capital remains available to the Group.

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 and other costs as defined under adjusted operating profit before tax. It has two components:

i 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 regulatory capital movements from Asset Management; and other items, including head office expenses and debt interest costs.

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

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

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.0% for the year ended 31 December 2023 (2022: 4.1%). For annuity business, the assumed average return on assets backing capital was 6.6% for the year ended 31 December 2023 (2022: 2.2%).

The Group's capital generation results in respect of the years ended 31 December 2023 and 31 December 2022 are shown below alongside a reconciliation of the total movement in the Group's Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in the previous section of this supplementary information.

Supplementary information continued

1.6 Capital generation (continued)

	Asset Management		Life		Wealth		Corporate Centre		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
For the year ended 31 December	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Underlying capital generation	**246**	246	**574**	486	**163**	155	**(231)**	(259)	**752**	628
Other operating capital generation	**50**	(33)	**147**	67	**82**	127	**(35)**	32	**244**	193
Operating capital generation	**296**	213	**721**	553	**245**	282	**(266)**	(227)	**996**	821
Market movements									**(507)**	(1,225)
Restructuring and other									**49**	(166)
Tax									**36**	173
Eligible own funds restriction									**(216)**	—
Total capital generation									**358**	(397)

		2023			2022		
		Own funds[i]	**SCR**[i]	**Surplus**	Own funds[i]	SCR[i]	Surplus
For the year ended 31 December		**£m**	**£m**	**£m**	£m	£m	£m
Underlying capital generation							
Asset Management	Asset Management	**215**	**31**	**246**	268	(22)	246
	Asset Management underlying capital generation	**215**	**31**	**246**	268	(22)	246
Life	Traditional with-profits	**165**	**17**	**182**	138	54	192
	Shareholder annuities and other	**332**	**18**	**350**	201	50	251
	Europe	**50**	**(8)**	**42**	43	—	43
	Life underlying capital generation	**547**	**27**	**574**	382	104	486
Wealth	PruFund UK	**305**	**(98)**	**207**	233	(53)	180
	of which: in force	**223**	**6**	**229**	187	29	216
	of which: new business	**82**	**(104)**	**(22)**	46	(82)	(36)
	Platform and Advice	**(31)**	**2**	**(29)**	(21)	(4)	(25)
	Other wealth	**(13)**	**(2)**	**(15)**	2	(2)	—
	Wealth underlying capital generation	**261**	**(98)**	**163**	214	(59)	155
Corporate Centre	Interest & head office cost	**(237)**	**6**	**(231)**	(267)	8	(259)
Underlying capital generation		**786**	**(34)**	**752**	597	31	628
Other operating capital generation							
	of which Asset Management	**15**	**35**	**50**	7	(40)	(33)
	of which Life	**59**	**88**	**147**	87	(20)	67
	of which Wealth	**(82)**	**164**	**82**	101	26	127
	of which Corporate Centre	**(17)**	**(18)**	**(35)**	(1)	33	32
Operating capital generation		**761**	**235**	**996**	791	30	821
	Market movements	**(417)**	**(90)**	**(507)**	(2,259)	1,034	(1,225)
	Restructuring and other	**16**	**33**	**49**	(173)	7	(166)
	Tax	**(46)**	**82**	**36**	652	(479)	173
	Eligible own funds restriction	**(216)**	**—**	**(216)**	—	—	—
Total capital generation		**98**	**260**	**358**	(989)	592	(397)
Dividends and capital movements		**(440)**	**(1)**	**(441)**	(1,151)	(15)	(1,166)
Total (decrease)/increase in Solvency II surplus		**(342)**	**259**	**(83)**	(2,140)	577	(1,563)

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

Supplementary information continued

1.7 Financial ratios

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

(i) Cost/income ratio

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

For the year ended 31 December	2023 £m	2022 £m
Total Asset Management operating expenses	**791**	763
Adjustment for revaluations[i]	**(5)**	2
Total Asset Management adjusted costs	**786**	765
Total Asset Management fee-based revenue	**1,025**	1,051
Less: Performance fees and carried interest	**(30)**	(56)
Total Asset Management underlying fee-based revenues	**995**	995
Cost/income ratio	**79%**	77%

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

(ii) Average fee margin

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

	2023			2022		
For the year ended 31 December	Average AUMA[i] £bn	Revenue[ii] £m	Revenue margin[iii] bps	Average AUMA[i] £bn	Revenue[ii] £m	Revenue margin[iii] bps
Wholesale Asset Management	**54**	**310**	**58**	52	299	58
Institutional Asset Management	**96**	**376**	**39**	102	390	38
Internal	**155**	**309**	**20**	157	306	19
Total Asset Management	**305**	**995**	**33**	311	995	32

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

ii Fee margin is calculated by annualising underlying fee-based revenues earned, which excludes performance fees, in the period divided by average AUMA for the period. Fee margin relates to the total margin for internal and external revenue.

1.8 Credit risk

The Group's exposure to credit risk primarily arises from the annuity portfolio, which hold substantial volumes of public and private fixed income 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 of business. However, the shareholder is indirectly exposed to credit risk from these components of business in relation to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business. 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.

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, appetite statements, limits and triggers (including relevant governance and controls); investment constraints and limits on the asset portfolios, in relation to credit rating, seniority, sector and issuer, and counterparties in particular for derivatives, reinsurance and cash; and a robust credit rating process.

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Supplementary information continued

1.8 Credit risk (continued)

Exposure of debt securities by sector

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

As at 31 December	2023 £m	Restated[i] 2022 £m
Financial	**2,852**	2,759
Government	**3,470**	3,098
Real Estate	**2,906**	2,860
of which residential	**1,735**	1,845
of which commercial	**1,171**	1,015
Utilities	**1,772**	1,794
Consumer	**387**	424
Industrial	**370**	424
Communications	**315**	313
Other	**685**	727
Total	**12,757**	12,399

i The sector information used has been amended to utilise that of the group issuing the debt rather than the individual entity as this provides a clearer view of the industry exposure.

Other information

M&G plc maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Company's financial calendar: www.mandg.com

Annual General Meeting

M&G plc's Annual General Meeting (AGM) is expected to be held at our offices at 10 Fenchurch Avenue, London EC3M 5AG on 22 May 2024 at 10:00. A poll will be called on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website. Full details will be included in the AGM Notice.

In accordance with relevant legislation, shareholders holding 5% or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the General Counsel and Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM. Inspection of these documents may also be undertaken virtually. Please email Group Secretariat at GroupSecretariat@mandg.com if you wish to view any of these documents and arrangements will be made with you.

Company constitution

M&G plc is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles) which are available on the Company's website. The Company's Articles state that the Board may appoint Directors but that those Directors are required to offer themselves up for re-election annually at the AGM. The Articles can only be amended with shareholder approval.

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or other correspondence from the Company.

Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrar, Equiniti, offer a postal dealing facility for buying and selling M&G plc ordinary shares; please see the Equiniti address opposite. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling M&G plc shares. For telephone sales, call +44 (0)345 603 7037 between 08:00 and 16:30, Monday to Friday, and for internet sales log on to: www.shareview.co.uk/dealing.

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686).

The relevant share transfer form may be obtained from Equiniti.

Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org.

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrar:

Registrar

M&G plc's share register is managed and administered by Equiniti.

By post

Equiniti Limited, Aspect House, Spencer Road Lancing, West Sussex, BN99 6DA, UK

By telephone

Tel +44 (0)371 384 2543

Lines are open from 08:30 to 17:30 (UK), Monday to Friday.

Glossary

Term	Definition
Adjusted operating profit before tax	Adjusted operating profit before tax is one of the Group's key alternative performance measures. It is defined in the key performance measure section on page 366.
Alternative performance measure (APM)	An APM is a financial measure of historic or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations.
Asset-backed security (ABS)	A security whose value and income payments are derived from and collateralised (or backed) by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.
Asset Management cost/ income ratio	Represents total operating expenses, excluding revaluation of provisions for employee performance awards divided by total fee-based revenues, excluding performance fees.
Assets under management and administration (AUMA)	Represents the total market value of all financial assets managed, administered or advised on behalf of clients.
Average fee margin	Is calculated from fee-based revenues earned in the period, excluding performance fees, divided by average AUMA for the period. It demonstrates the revenue margin that was earned on the assets we manage and administer.
Board	The Board of Directors of the Company.
Bonuses	Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus: – Regular bonus: expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus. – Final bonus: an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.
Business Plan	A written document that describes our business, containing objectives, strategies, sales, marketing and financial forecasts.
Chief Operating Decision Maker	The Group Executive Committee.
Climate Action 100+ (CA100+)	CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
Climate Bonds Initiative (CBI)	CBI works to mobilise global capital for climate change solutions, promoting investment in projects and assets that enable transition to a low-carbon, climate-resilient economy. Its primary activities include the definition of standards for climate-aligned investments, support for governments launching climate finance policies, and market intelligence.
Company/Parent Company	M&G plc, a public limited company incorporated in England and Wales with registered number 11444019 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
Contractual Service Margin (CSM)	Represents unearned profit on contracts, recognised in profit or loss as the service is provided over the life of the contracts.
Demerger	The demerger from the Prudential Group in October 2019.
Director	A Director of the Company.
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 after tax by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year, after deducting treasury shares and shares held by the employee benefit trust. Diluted EPS adjusts the weighted average number of ordinary shares outstanding, after deducting treasury shares and shares held by the employee benefit trust, to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.
Employee benefit trust (EBT)	Is a trust set up to enable its Trustees to purchase and hold shares to satisfy employee share-based incentive plan awards.
Energy Attribute Certificates (EAC)	EACs allow businesses to track the origin of electricity, prove the consumption of renewables, and meet clean energy targets.
Enterprise Value Including Cash (EVIC)	Is the sum of a company's market capitalisation and total debt. Market capitalisation is the total value of a company's outstanding shares.
ESG	ESG stands for Environmental, Social, and Governance. ESG is a framework that helps stakeholders understand how an organisation is managing risks and opportunities related to environmental, social, and governance criteria.

Glossary continued

Term	Definition
Expected Credit Loss (ECL)	Expected credit loss (ECL) impairment loss being the present value of the difference between contractual cash flows due and expected to be received, based on the lifetime probability of default. It applies to all credit exposures not measured at fair value through profit or loss.
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 income statement.
Financial Conduct Authority (FCA)	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.
FRC Stewardship Code	The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. It comprises a set of 12 'apply and explain' principles for asset managers and asset owners, and a separate set of six principles for service providers.
Group	The Company and its subsidiaries.
Group Executive Committee (GEC)	Is composed of board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.
Institutional Investor Group on Climate Change (IIGCC)	Works with business, policy makers and fellow investors to help define the investment practices, policies and corporate behaviours required to address climate change.
International Financial Reporting Standards (IFRS)	Are accounting standards issued by the International Accounting Standards Board (IASB). Our consolidated financial statements are prepared in accordance with UK adopted International Accounting Standards (IAS). Any reference to IFRS refers to those which have been adopted for use in the UK unless specified otherwise.
Intergovernmental Panel on Climate Change (IPCC)	Created to provide policymakers with regular scientific assessments on climate change, its implications and potential future risks, as well as to put forward adaptation and mitigation options.
International Sustainability Standards Board (ISSB)	The IFRS Foundation announced the formation of the ISSB in November 2021 at COP26; the intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
Key performance measure (KPM)	The Group measures its financial performance using the following key performance measures: IFRS profit after tax, adjusted operating profit before tax, net client flows (excluding Heritage), AUMA, shareholder Solvency II coverage ratio, total capital generation and operating capital generation.
Leverage ratio	The leverage ratio is calculated as the nominal value of debt as a percentage of the Group's shareholder Solvency II available 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 Alternatives Investment Management Limited (MAGAIM)	MAGAIM is a private limited company incorporated in England and Wales with registered number 02059989 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
M&G Group Limited (MGG)	MGG is a private limited company incorporated in England and Wales with registered number 00633480 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom. MGG is the holding company of the Group's asset management business, M&G Investments.
M&G Investment Management Limited (MAGIM)	MAGIM is a private limited company incorporated in England and Wales with registered number 00936683 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
MandG Investments Southern Africa (Pty) Ltd (MGSA)	On 4 July 2021, M&G FA Limited, a wholly-owned subsidiary of M&G plc, acquired a controlling stake in Prudential Portfolio Managers (South Africa) (Pty) Ltd (PPMSA). We previously accounted for the investment as an associate using the equity method. As we now have a controlling interest, the acquisition has been accounted for using the acquisition accounting method. Rebranded as MandG Investments Southern Africa (MGSA).
Net client flows (excluding Heritage)	Represents gross inflows less gross outflows. Gross inflows are new funds from clients. Gross outflows are withdrawals made by clients during the period.

Glossary continued

Term	Definition
Net promoter score (NPS)	Net promoter score is a measure of the willingness of a company's clients to recommend its products or services to others.
Network for Greening the Financial System (NGFS)	Is a group of central banks and supervisors committed to sharing best practices, contributing to the development of climate and environment-related risk management in the financial sector and mobilising mainstream finance to support the transition toward a sustainable economy.
Net-Zero Asset Owner Alliance (NZAOA)	Is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.
Non-profit business	Contracts where the policyholders are not entitled to a share of the company's profits and surplus, but are entitled to other contractual benefits. Examples include pure risk policies (such as fixed annuities) and unit-linked policies.
Operating capital generation	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.
Operating change in Contractual Service Margin	Operating change in Contractual Service Margin (CSM) is one of the Group's key alternative performance measures and is defined in the key performance measure section on page 366.
Own funds	Own funds refers to the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments. Available own funds reflect all capital available to the Group. Eligible own funds are net of restrictions applied in line with the thresholds set by the regulator that limit the amount of each tier of capital that can be used to demonstrate solvency.
Paris Agreement	Is an agreement within the United Nations Framework Convention on climate change, dealing with greenhouse gas emissions mitigation, adaptation, and finance, agreed in 2015.
Partnership for Carbon Accounting Financials (PCAF)	Is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas emissions (GHG) associated with their loans and investments.
Powering Past Coal Alliance (PPCA)	Is a coalition of national and subnational governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.
Principles for Responsible Investment (PRI)	PRI is a United Nations-supported international network of financial institutions. It works together to understand the investment implications of ESG factors and support its network of investor signatories in incorporating these factors into their investment and ownership decisions.
Prudential Regulation Authority (PRA)	Is the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
Prudential Assurance Company (PAC)	The Prudential Assurance Company Limited (PAC) is 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.
PruFund	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
Renewable Energy Guarantees of Origin (REGO)	The REGO scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable generation.
Sustainability Accounting Standards Board (SASB)	Is a framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.
Science Based Targets initiative (SBTi)	The SBTi defines and promotes best practice in science-based target setting. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. Science-based targets show organisations how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change.
Scope 1 emissions	Emissions from: fuel combustion; company vehicles; fugitive emissions.
Scope 2 emissions	Emissions from: purchased electricity, heat and steam.
Scope 3 emissions	Emissions from: purchased goods and services; business travel; employee commuting; waste disposal; use of sold products; transportation and distribution (up and downstream); investments; leased assets; and franchises.

Glossary continued

Term	Definition
Scottish Amicable Insurance Fund (SAIF)	Was a ring-fenced sub-fund of the With-Profits Fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. On 1 April 2021 SAIF merged with PAC's main with-profits sub-fund and the assets and liabilities of SAIF combined with those of the with-profits sub-fund.
Sustainable Finance Disclosure Regulation (SFDR)	The EU's SFDR is a regulation designed to make it easier for investors to distinguish and compare between the many sustainable investment strategies that are now available within the European Union; the framework classifies asset managers' funds as either an article 6, 8, or 9 funds depending on their level of sustainability, and regardless if they are promoting their fund as an ESG investment.
Shareholder Solvency II coverage ratio	Is the ratio of eligible own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from our ring-fenced With-Profits Fund.
Société d'investissement à Capital Variable (SICAV)	A SICAV is an open-ended investment fund offered by European financial companies, similar to the UK's unit trust. SICAVs are effectively share companies aimed at collectively investing the assets collected through the public offering of shares, whose value amounts to the net worth of capital account divided by their number.
Solvency capital requirement (SCR)	SCR 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 SCR is calculated using our Solvency II Internal Model.
Solvency II	A regime for the prudential regulation of insurance companies that was introduced by the EU on 1 January 2016.
Solvency II surplus	Solvency II surplus represents the eligible Own Funds that we hold less the solvency capital requirement.
Taskforce on Nature-Related Financial Disclosures (TNFD)	Is an international initiative that builds on a model developed by the TCFD. Its mission is to provide a framework for how organisations can address nature-related risks and opportunities with the ultimate goal of channelling capital flows into positive action.
Task Force on Climate-Related Financial Disclosures (TCFD)	Created by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures. The FCA require all premium listed companies to disclose, on a comply or explain basis, against the recommendations of the TCFD. The TCFD has now been disbanded with the IFRS Foundation (ISSB) taking over the monitoring of companies climate-related disclosures from the FSB.
Total capital generation	Is the total change in Solvency II surplus capital, on an eligible own funds basis, before dividends and capital movements, and capital generated from discontinued operations.
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)	Transitional measures on technical provisions are an adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January 2016. This decreases linearly over 16 years following the implementation of Solvency II, but may be recalculated in certain cases, subject to agreement with the PRA.
UK Corporate Governance Code (The Code)	Corporate Governance is the system of rules, practices and processes that are put in place to manage and control a company. It is underpinned by the UK Corporate Governance Code issued in 2018.
UK Sustainable Investment and Finance Association (UKSIF)	The UKSIF exists to bring together the UK's sustainable finance and investment community and support members to expand, enhance and promote this key sector. UKSIF represents a diverse range of financial services firms committed to these aims and aims to drive growth and new opportunities for members as global leaders in the sustainable finance industry.
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 business	Contracts where the policyholders have a contractual right to receive, at the discretion of the Company, additional benefits based on the profits of the fund, as a supplement to any guaranteed benefits.
With-Profits Fund	The Prudential Assurance Company Limited's fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. It is also known as a participating fund as policyholders have a participating interest in the With-Profits Fund and any declared bonuses.

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M&G plc is incorporated and registered in England and Wales. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.

Disclaimer on forward-looking statements

This document may contain certain 'forward-looking statements' with respect to M&G plc (M&G) and its affiliates (the Group), its plans, its current goals and expectations relating to future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'could', '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 which are current 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, forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may not be entirely within M&G's control. A number of factors could cause M&G'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:changes in domestic and global political, economic and business conditions; 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; investment portfolio-related risks, such as the performance of financial markets generally; legal, regulatory and policy developments, such as, for example, new government initiatives and regulatory measures, including those addressing climate change and broader sustainability-related issues, and broader development of reporting standards; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G'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; changes in environmental, social and geopolitical risks and incidents, pandemics and similar events beyond the Group's control; the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change and broader sustainability-related issues effectively; 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'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 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 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. This report has been prepared for, and only for, the members of M&G, as a body, and no other persons. M&G, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Information provided in climate and sustainability disclosures

Climate and sustainability-related disclosures are subject to greater uncertainty than other disclosures, given challenges with current data availability and reliability, the nascent and evolving nature of relevant models and methodologies and other factors, such as the developing regulatory landscape and market practice. As such, the disclosures included in this Annual Report and Accounts may be amended and updated, as market practice and data quality and availability develop, and underlying judgements, assumptions and estimates change. These factors could also lead to actual achievements, results, performance or other future events or conditions differing from those stated, implied and/or reflected in any forward-looking statements or metrics included in our climate and sustainability disclosures.

Disclaimer

In preparing the climate and sustainability content included within the Group's Annual Report and Accounts, we have:

- made key judgements, estimations and assumptions, for example in relation to financed emissions, measurement of climate risk and scenario analysis.
- used climate and sustainability models, methodologies and data most appropriate and suitable as at the date on which they were used, but which are subject to certain limitations. These limitations relate to (but are not limited to): the nascent and evolving nature of methodologies in this area which results in limited availability of reliable climate and sustainability-related data; data gaps; limited ability to rely on historical data; the limited standardisation of climate and sustainability-related data; and future uncertainty (due to, amongst other factors, changing projections arising from technological development and legal, regulatory and policy change).
- used climate and sustainability models, methodologies and data in this Annual Report and Accounts that may have been made available by third parties or other public sources – The methodologies, interpretations or assumptions underpinning that information may not be capable of being independently verified and may therefore be inaccurate. Whilst the Group bears primary responsibility for the information included in this annual report, it does not accept responsibility for the external input provided by any third parties for the purposes of developing the information included in this Annual Report and Accounts;
- noted that there are external factors which are outside of our control, such as changes in accounting and/or reporting standards, improvements in data quality and data availability, or updates to methodologies and models and/ or updates or restatements of data by third parties, which could affect the climate and sustainability content within the Annual Report and Accounts. In particular, we note that, as climate and sustainability-related models, methodologies and data, market principles and reporting standards evolve and mature, and data quality and availability in this area improves, this may impact the metrics, data, and targets included in the climate and sustainability content within this Annual Report and Accounts. As such, we may look to review and further develop our approach accordingly to reflect such developments. In future reports, we may present some or all of the information for this reporting period, using updated or more granular data or improved models or methodologies. We may also need to re-baseline, restate, revise, or recalculate information included in our climate and sustainability-related data on the basis of such updated information.

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