Our financial performance

Strong capital generation and diversified sources of earnings provide a solid base for our strategic priorities

Our results for 2021 demonstrate our consistent strength in proactively and efficiently managing our balance sheet, with total capital generation of £1,822 million (2020: £995 million). This strong performance has resulted in the achievement of our total capital generation target of £2.2 billion by the end of 2022, a year earlier than planned. The increase in total capital generation has led to an increase in our shareholder Solvency II coverage ratio to 218% (2020: 182%) after paying dividends of £466 million, with other capital movements providing a net benefit of £32 million in the year.

We have also announced a new target to deliver £2.5 billion of cumulative operating capital generation by 2024.

Adjusted operating profit before tax of £721 million (2020: £788 million) demonstrates the benefits from our diversified sources of earnings, resulting from being an asset manager and an asset owner against the backdrop of an increasingly competitive environment.

Total AUMA increased to £370.0 billion (2020: £367.2 billion) with positive market and other movements offsetting the £9.6 billion transfer to Rothesay Life PLC. We returned to net client inflows (excluding Heritage) of £0.6 billion compared to net client outflows (excluding Heritage) of £6.6 billion in 2020. The main driver of the improvement being £2.0 billion of net client inflows in our Asset Management business in the year, a significant increase on 2020 which saw a £6.8 billion net client outflow.

We have surpassed our £145 million target by achieving £167 million of annual run-rate shareholder cost savings at the end of the year, delivering one year early against our commitment to deliver by the end of 2022 through our five-year merger and transformation programme. Since 2017 when we made the commitment we have continued to carefully balance additional savings potential with the associated investment to achieve, recognising the changes in the dynamics of the business.

As a consequence, we have invested further in the business beyond the original scope of the merger and transformation programme, resulting in the over-achievement of the target one year earlier than anticipated. The shareholder investment over four years has been £385 million against an expected initial investment of approximately £250 million, driven by the incremental cost saving initiatives identified, and reflecting both additional projects and some unanticipated costs of delivering the original merger and transformation programme. We will remain focused on driving operational efficiencies across the business as we continue to deliver against our strategic priorities.

As described in the Our business model section, following a change in management structure our operating segments have been revised in the year to "Asset Management" and "Retail and Savings".

Paul Cooper
Interim Chief Financial Officer

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2021	2020
Core Asset Management	**277**	283
Performance fees (including carried interest) and investment income	**38**	47
Asset Management	**315**	330
Wealth	**41**	(11)
Heritage	**620**	699
Other	**(1)**	13
Retail and Savings	**660**	701
Corporate Centre	**(254)**	(243)
Adjusted operating profit before tax	**721**	788

Adjusted operating profit before tax was £721 million for the year ended 31 December 2021 (2020: £788 million).

In Asset Management, revenue and operating expenses have remained relatively stable, and the reduction in adjusted operating profit to £315 million (2020: £330 million) is mainly driven by lower performance fees and carried interest.

In Retail and Savings, the total with-profits shareholder transfer net of hedging and other gains/losses has increased by £47 million to £268 million, primarily as a result of improved market conditions leading to positive unit price adjustments being made to PruFund and higher outflows from Retirement Account.

However, this has been offset by a lower benefit from longevity assumption changes on annuities leading to a reduction in Retail and Savings adjusted operating profit to £660 million (2020: £701 million). Head office costs of £95 million (2020: £101 million) have remained broadly stable and the movement in Corporate Centre is largely driven by adverse foreign exchange movements on the USD subordinated debt.

Adjusted operating profit before tax to IFRS profit after tax

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

£m	For the year ended 31 December 2021	2020
Total fee-based revenues	**1,254**	1,220
Annuity margin	**369**	438
With-profit shareholder transfer net of hedging and other gains/losses	**268**	221
Adjusted operating income	**1,891**	1,879
Adjusted operating expenses	**(1,063)**	(1,020)
Other shareholder loss	**(101)**	(77)
Share of profit from joint ventures and associates	**6**	10
Adjusted operating profit attributable to non-controlling interests	**(12)**	(4)
Adjusted operating profit before tax	**721**	788
Short-term fluctuations in investment returns	**(537)**	678
Profit/(loss) on corporate transactions	**35**	–
Restructuring and other costs	**(146)**	(73)
Amortisation of intangibles acquired in business combinations	**(4)**	–
IFRS profit attributable to non-controlling interests	**12**	4
IFRS profit before tax attributable to equity holders	**81**	1,397
Tax credit/(charge) attributable to equity holders	**11**	(255)
IFRS profit after tax attributable to equity holders	**92**	1,142

IFRS profit after tax

IFRS profit after tax attributable to equity holders decreased to £92 million compared to £1,142 million in 2020. This £1,050 million variance is reflective of a £537 million loss in the year (2020: £678 million gain) from short-term fluctuations and an increase of £73 million in restructuring and other costs, offset by profit on corporate transactions in the year and a reduction in tax attributable to equity holders.

Market conditions have led to losses from short-term fluctuations in investment returns in 2021 as financial markets recover and the sizeable gains seen in 2020 from the derivatives held to protect the Solvency II capital position are reversed. These losses primarily comprise a £99 million loss (2020: £286 million gain) from the annuity portfolio, including fair value movements on the surplus assets and a £103 million loss (2020: £118 million gain) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates, both due to rising yields in the period.

In addition, there was a £248 million loss (2020: £235 million gain) as stock markets recovered in the period on the equity hedges used to protect the value of future shareholder transfers from the With-Profits Fund on PAC's Solvency II balance sheet. While these hedges protect the Solvency II balance sheet, there is no corresponding item to protect on the IFRS balance sheet, and therefore when the fair value of the derivatives fall as interest rates increase and equity markets improve, there are no offsetting fair value gains on an IFRS basis.

Profit on corporate transactions relates to the gain on acquisition of a controlling interest in PPMSA, previously an associate, of £51 million in July 2021 and a £16 million loss in respect of the Part VII transfer of annuities to Rothesay Life PLC.

Restructuring and other costs includes costs that relate to the transformation of our business. In the year to 31 December 2021, these costs include £48 million in respect of changes required to adapt to future ways of working, of which £29 million is an impairment of the lease for one of our offices. Restructuring and other costs also include £45 million in relation to the integration of Ascentric as we build out the new capabilities across our business and £35 million relating to the merger and transformation programme.

The equity holders' effective tax rate for the year ended 31 December 2021 was negative 13.6% (resulting in a tax credit) compared to a positive rate of 18.3% for the year to 31 December 2020. The equity holders' effective tax rate of negative 13.6% is lower than the UK statutory rate of 19% (2020: 18.3%). The basis for a tax credit (negative effective tax rate) when the Group is profitable is due to beneficial tax adjustments for both recurring and non-recurring items. Excluding non-recurring items, the equity holders effective tax rate is 9.9% (2020: 18.8%) which is primarily due to the utilisation of tax capital losses on which no deferred tax was previously recognised and non-taxable income, partially offset by adverse effects from non-deductible expenses. The impact of the beneficial tax adjustments on the effective tax rate is more significant than the prior period due to the lower profit base.

Further information on tax is provided in Note 9 of the consolidated financial statements.

Capital generation

The following table shows an analysis of total capital generation:

£m	For the year ended 31 December 2021	2020
Asset Management underlying capital generation	**313**	311
Retail and Savings underlying capital generation	**459**	552
Corporate Centre underlying capital generation	**(288)**	(286)
Underlying capital generation	**484**	577
Other operating capital generation	**633**	735
Operating capital generation	**1,117**	1,312
Market movements	**917**	(118)
Restructuring and other	**(181)**	(73)
Tax	**(31)**	(126)
Total capital generation	**1,822**	995

Total capital generation was £1,822 million for the year ended 31 December 2021 (2020: £995 million). Market movements in 2021 have resulted in a positive impact of £917 million (2020: negative £118 million) as a result of improved equity market conditions and increased yields; offset by a loss on the surplus assets in the annuity portfolio.

Underlying capital generation fell to £484 million (2020: £577 million). This was primarily driven by Retail and Savings which was impacted by lower expected returns on surplus assets in the annuity portfolio given the falls in yields over 2020, and higher new business strain due to a change in our hedging strategy during the year.

Other operating capital generation has benefited from management actions of £468 million (2020: £408 million) and a release of capital driven by a reduction in the SCR following the Major Model Change approved by the PRA in December and other smaller model changes. However, these have been partly offset by lower benefit from assumption changes over 2021, a reduced contribution from the Corporate Centre due to the impact of updates to the measurement approach of the Group's leases in 2020, and provision releases in 2020 which have not repeated in 2021, leading to other operating capital generation of £633 million (2020: £735 million).

Restructuring and other costs of £181 million reflects the impact on the capital position of transformation costs, including the integration of Ascentric and changes to our future ways of working and associated changes to our office space.

Capital position

M&G plc's Solvency II surplus increased to £6.2 billion as at 31 December 2021 (2020: £4.8 billion), equivalent to a shareholder Solvency II coverage ratio of 218% (2020: 182%), driven by total capital generation of £1,822 million (2020: £995 million) combined with a deduction of £466 million (2020: £562 million) from dividends paid to shareholders in the year, and an increase of £32 million (2020: £121 million) from other capital movements.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 302%. This is higher than the 242% reported at 31 December 2020, driven by a £357 million increase in surplus from management actions over the year.

The regulatory Solvency II coverage ratio of M&G plc as at 31 December 2021 was 168% (2020: 144%). This view of solvency combines the shareholder position and the With-Profits Fund but excludes all surplus within the With-Profits Fund.

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

Financing and liquidity

The following tables shows key financing and liquidity information:

£m	As at 31 December 2021	2020
Nominal value of subordinated debt	**3,216**	3,216
Shareholder Solvency II own funds	**11,409**	10,643
Leverage ratio	**28%**	30%

The key metric we use to manage our debt is the leverage ratio, defined as nominal value of debt as a percentage of M&G plc's shareholder Solvency II own funds. For further detail on shareholder Solvency II own funds see Note 37.2.2. Our leverage ratio of 28% at 31 December 2021 has fallen from 30% at 31 December 2020 as shareholder Solvency II own funds increased.

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

£m	2021	2020
Opening cash and liquid assets at 1 January	**1,040**	1,274
Cash remittances from subsidiaries	**1,458**	737
Corporate costs	**(112)**	(45)
Interest paid on core structural borrowings	**(186)**	(189)
Cash dividends paid to equity holders	**(466)**	(562)
Acquisition of subsidiaries	**–**	(86)
Shares purchased by employee benefit trust	**–**	(105)
Capital injections into subsidiaries	**(25)**	–
Other shareholder income	**–**	16
Closing cash and liquid assets at 31 December[i]	**1,709**	1,040

i Closing cash and liquid assets at 31 December 2021 included a £1,651 million (2020: £1,001 million) inter-company loan asset with Prudential Capital plc, which acts as M&G plc's treasury function.

Movements in cash and liquid assets held by the Parent Company for the year ended 31 December 2021 represent the remittances and payments that arise in the normal course of business. Total cash and liquid assets have increased with cash remittances of £1,458 million (2020: £737 million) received from our subsidiaries, more than covering the cash dividend payments to equity holders of £466 million (2020: £562 million) and interest paid on structural borrowings of £186 million (2020: £189 million).

The remittance received from PAC in the year to 31 December 2021 was higher than the prior year, driven by PAC's higher solvency ratio at 31 December 2020 than the year before, and in line with our Active Capital Management policy.

The current levels of capital and liquidity reflect the continued market uncertainty. We continue to monitor the short-term volatility in the strength of the balance sheet to make sure we deploy this capital in the best interests of our shareholders. In line with this, we have announced our intention to return £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly and to complete within 12 months.

Dividends

We paid dividends of 12.2 pence per share, equal to £310 million, on 28 April 2021. In addition, we paid an interim ordinary dividend of 6.1 pence per share, equal to £156 million, in line with our policy of paying one-third of the previous year total dividend, on 29 September 2021. A second interim dividend of 12.2 pence per share, equal to roughly £311 million, will be paid on 28 April 2022.

One M&G

Accelerating growth

M&G Wealth was formed in 2020 as a new force in the fast-growing market for UK wealth management services.

We continued to invest in this business, with the completion of our acquisition of Sandringham Financial Partners in January 2022, to accelerate the growth of our advisory capability across the UK.

Sandringham brings more than £2.5 billion of assets under advice to M&G Wealth's existing advice, platform and investment businesses, and relationships with around 180 IFA Partners acting on behalf of more than 10,000 individual clients.

Active Capital Management and Operational Efficiency

Our seventh strategic priority is Active Capital Management and Operational Efficiency.

Our strategic priorities

1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

Active Capital Management

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 plc's solvency position and the quality of capital held.

When deploying additional capital, we prioritise investments in the business that can generate long-term sustainable earnings growth. Any investment will always be measured against the financial attractiveness of capital returns, as well as our Risk Appetite Framework which sets out key trigger points for the management of solvency, liquidity, and dividend volatility.

During the year we have delivered total capital generation of £1,822 million increasing our shareholder Solvency II coverage ratio to 218%.

Our total capital generation result includes a £468 million benefit from management actions, driven by a contribution of £287 million from asset trading and optimisation, as well as £91 million from changes to our equity and interest rate hedges.

We have met our three-year total cumulative capital generation target of £2.2 billion to the end of 2022. We have also announced a new target to deliver £2.5 billion of cumulative operating capital generation by 2024.

We continue to deploy our capital to expand the business with an aggregate investment of approximately £260 million expected in 2022 in respect of investments in Sandringham, TCF Investment, Moneyfarm and responsAbility.

In addition, we have announced our intention to return £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly and to complete within 12 months.

Operational Efficiency

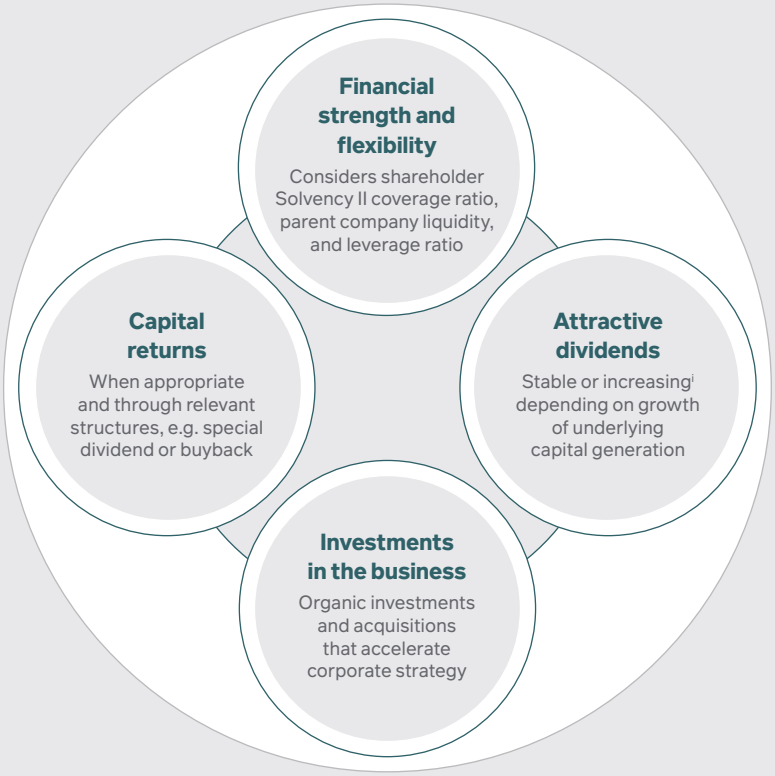
We remain focused on driving operational efficiencies across the business as we continue to deliver against our strategic priorities.

As part of that, we have surpassed our £145 million target by achieving £167 million of annual run-rate shareholder cost savings at the end of the year, delivering one year early against our commitment to deliver by the end of 2022 through our five-year merger and transformation programme.

We continue to transform the business, and have entered contracts with State Street and Accenture in 2021 to outsource Investment Middle Office and IT Application Services respectively. These deals combined deliver significant annual savings whilst providing scalable and flexible services and new innovation to enable future growth.

We are also focused on ensuring we deliver the best possible outcomes and service for our customers. This year we have helped over 180,000 additional Heritage customers register for an online account so they can benefit from the self service and digital channel capability available.

Capital Management Framework



i Starting from 2021 total dividend per share of 18.3p (interim + second interim).

Asset Management

Our Institutional Asset Management business continues to perform strongly as we reposition our Retail Asset Management business for sustainable growth

Assets under management and administration and net client flows

£bn	Net client flows For the year ended 31 December 2021	2020	AUMA[i] As at 31 December 2021	2020
Retail Asset Management	**(3.8)**	(11.9)	**52.7**	58.1
Institutional Asset Management	**5.8**	5.1	**103.1**	85.5
Other	**–**	–	**0.9**	0.8
Total Asset Management	**2.0**	(6.8)	**156.7**	144.4

i £7.9 billion of total asset management AUMA relates to assets under advice (2020: £6.5 billion).

Our Asset Management business saw a significant improvement in net client flows with net client inflows of £2.0 billion compared to net client outflows of £6.8 billion in 2020.

Retail Asset Management flows improved in 2021 with a reduction in net client outflows to £3.8 billion (2020: £11.9 billion), of which only £0.8 billion were attributable to the second half of 2021. There were two one-off outflows in 2021 with the re-opening of the M&G Property Portfolio Fund in May resulting in initial net client outflows of £0.9 billion, and a further £0.9 billion of one-off outflows from our European Strategic Value fund due to withdrawals by Prudential plc. The improvement in Retail flows in the year was largely driven by a reduction in net client outflows in the international channel, which together with UK wholesale accounted for the majority of outflows in both periods.

This was supported by positive flows into the impact and sustainability focused fund ranges – with net client inflows of £0.2 billion and £1.1 billion respectively. Investment performance also improved year-on-year. In addition, our partnerships with European distributors continued to deliver strong inflows within our Investment Solutions business, with net inflows of £1.1 billion in the year.

Retail Asset Management AUMA decreased £5.4 billion to £52.7 billion due to net client outflows in the year, and in part due to the partial reallocation of PPMSA to Institutional Asset Management based on a reassessment following the acquisition of a controlling stake.

Institutional Asset Management AUMA increased to £103.1 billion driven by net client inflows of £5.8 billion, as well as market and other movements including the acquisition of a controlling interest in PPMSA.

Our Institutional business has continued to perform strongly, with some large wins in the year in our Public Debt business, with £4.4 billion of net client inflows in 2021 and solid investment performance in 2021.

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 increased 15% to £71.8 billion of AUMA as at 31 December 2021 (2020: £62.3 billion).

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2021	2020
Fee-based revenues[i]	**976**	989
Adjusted operating income	**976**	989
Adjusted operating expenses	**(672)**	(669)
Other shareholder profit	**17**	4
Share of profit from joint ventures and associates	**6**	10
Adjusted operating profit attributable to non-controlling interests	**(12)**	(4)
Adjusted operating profit before tax	**315**	330

i £303 million of the fee-based revenues is in respect of assets managed on behalf of Retail and Savings (2020: £228 million).

Adjusted operating profit before tax from our Asset Management activities has decreased 5% to £315 million in the year ended 31 December 2021 (2020: £330 million) primarily driven by lower carried interest received on Infracapital funds in 2021, offset by favourable market returns on seed capital investments and units held to hedge management incentive schemes.

Revenue earned by Institutional Asset Management has increased to £539 million (2020: £481 million) as AUMA continues to grow. However, we have continued to experience the impact of downward pressure on retail margins and net client outflows on the revenue earned by Retail Asset Management which has fallen to £414 million (2020: £466 million).

The lower pricing structure applied to our UK OEICs in February 2021 contributed to a £41 million reduction along with a £13 million fall following the lower administration fees on our SICAVs applied in November 2020.

Adjusted operating expenses are broadly stable year-on-year.

The Asset Management average fee margin of 32 basis points (bps) was four bps lower at 31 December 2021 compared to 31 December 2020. This reduction largely reflects the new sustainable pricing structure implemented in Retail Asset Management, resulting in a decrease of 11 bps to 39 bps at 31 December 2021. Average revenue margins in the Institutional Asset Management business remained broadly stable at 27 bps (2020: 28 bps).

The cost/income ratio for Asset Management business decreased slightly to 70% (31 December 2020: 71%) with fee-based revenues and operating expenses broadly stable in the year.

In July 2021, we acquired a controlling interest in PPMSA – the share of profit on joint ventures and associates represents the profit on PPMSA up to the date of acquisition. Post-acquisition, PPMSA is presented within fee-based revenues and operating expenses, with non-controlling interests removed to arrive at adjusted operating profit before tax.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2021	2020
Underlying capital generation	**313**	311
Other operating capital generation	**15**	(2)
Operating capital generation	**328**	309

Operating capital generated by Asset Management increased marginally to £328 million (2020: £309 million) as a result of increases in other operating capital generation.

This increase reflects a reduction in capital requirements as a result of a decrease in fixed cost base over 2020.

Retail and Savings

We are continuing to make good progress on building our Wealth business

Assets under management and administration and net client flows

£bn	Net client flows For the year ended 31 December 2021	2020	AUMA[i] As at 31 December 2021	2020
Wealth	**(1.4)**	0.1	**84.2**	79.5
Heritage	**(6.9)**	(6.6)	**117.8**	133.7
Other	**–**	0.1	**9.1**	8.4
Total Retail and Savings	**(8.3)**	(6.4)	**211.1**	221.6

i £169 billion of AUMA is managed internally by the Group's Asset Management business (2020: £140 billion).

Wealth AUMA increased to £84.2 billion with positive market and other movements offsetting net client outflows of £1.4 billion. Wealth net client outflows were driven by an increase in drawdowns as the retirement products mature, as well as impacts from increased transfers out due to changes in market dynamics, such as consolidation in the market and a shift to digital post COVID-19.

The trends underscore the importance of broadening the proposition offered in our Wealth business.

The acquisition of Sandringham will provide our customers with access to whole of market advice, and our partnership with Moneyfarm will provide direct investment services to our UK customers. To complete our offering, we have also announced our intention to acquire TCF Investment, a provider of model portfolio services.

Heritage AUMA decreased to £117.8 billion driven by the £9.6 billion transfer to Rothesay Life PLC following successful appeal in November 2021 and net client outflows of £6.9 billion in the year (2020: £6.6 billion), in line with expectations, as the Heritage business continues to run off.

Other Retail and Savings AUMA increased to £9.1 billion (2020: £8.4 billion) benefiting from positive market movements.

PruFund is an investment solution offered to customers of both Wealth and Other Retail and Savings. PruFund AUMA increased by 5% to £58.4 billion as a result of positive investment returns, offset partially by net client outflows of £1.3 billion.

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2021	2020
Fee-based revenues	**278**	231
Annuity margin	**369**	438
With-profits shareholder transfer net of hedging and other gains/losses	**268**	221
Adjusted operating income	**915**	890
Adjusted operating expenses	**(296)**	(250)
Other shareholder profit	**41**	61
Adjusted operating profit before tax	**660**	701

Adjusted operating profit before tax from our Retail and Savings business reduced to £660 million (2020: £701 million) primarily driven by a reduction in the annuity margin.

Fee-based revenues relate primarily to revenues from Ascentric, M&G Wealth Advice (formerly Prudential Financial Planning) and the unit-linked business. The increase of £47 million to £278 million includes an additional £24 million due to the recognition of a full year of revenue from Ascentric compared to four months in 2020.

Annuity margin is down £69 million predominantly due to a lower benefit from longevity assumption changes in 2021 than those reflected in 2020.

The with-profits shareholder transfer increased to £366 million (2020: £308 million), primarily as a result of improved market conditions leading to upward unit price adjustments being made within PruFund and increased claims on our Retirement Account product.

This increase was offset by larger fair value losses of £60 million (2020: £57 million loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers in the year, and an expense overrun of £38 million in 2021 (2020: £31 million) on new business written in the With-Profits Fund due to recent lower sales volumes.

Adjusted operating expenses have increased £46 million to £296 million of which £30 million reflects a full year of costs for Ascentric.

Other shareholder profit is down on 2020 which benefited primarily from insurance reserve releases in relation to a number of legacy remediation programmes and other one-off items that were not repeated in 2021.

Adjusted operating profit before tax sources of earnings

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

£m	For the year ended 31 December 2021	2020
Wealth	**41**	(11)
Heritage	**620**	699
– of which Annuities	**369**	438
– of which traditional with-profits	**205**	202
Other Retail and Savings	**(1)**	13
Adjusted operating profit before tax	**660**	701

Adjusted operating profit before tax from our Wealth business increased to profit of £41 million (2020: £11 million loss) driven by an improvement in the net result from business written in PruFund to £63 million (2020: £22 million). The with-profits shareholder transfer in respect of PruFund was £115 million (2020: £54 million), which was partially offset by fair value losses on hedges and the expense overrun on new business.

Wealth also benefitted from a reduction in the losses on its unit-linked and other businesses. However, the loss from its platform and advice business increased slightly to £4 million (2020: £2 million loss) which includes the full year results from Ascentric.

Heritage adjusted operating profit decreased 11% to £620 million (2020: £699 million) largely driven by the reduction in the annuity margin.

Traditional with-profits business net result was stable in the year at £205 million (2020: £202 million).

Other Retail and Savings is down £14 million, primarily driven by a £16 million cost in 2021 in relation to an estimated future shareholder payment to reimburse the With-Profits Fund for its contribution to the cost to set-up and grow the business written in Poland.

The following table provides further analysis of the annuity margin:

£m	For the year ended 31 December 2021	2020
Return on excess assets and margin release	**172**	188
Asset trading and portfolio management actions	**10**	59
Longevity assumption changes	**125**	217
Other	**62**	(26)
Annuity margin	**369**	438

Recurring sources of earnings from the annuity book, primarily the return on assets held to back capital requirements and the release of the margins held in respect of credit risk, mortality and expenses, decreased by 9% to £172 million (2020: £188 million).

This was mainly due to a switch from debt securities held in surplus assets of the annuity portfolio to cash to pay remittances to the holding company. During 2021, we earned £10 million from asset trading and portfolio management actions, a reduction from 2020 impacted by losses on property disposals in the year due to the impact on the valuation of annuity liabilities.

Longevity assumption changes are down £92 million on 2020 due to the significant favourable benefits in 2020 not being repeated in 2021.

Other includes a £31 million benefit from the release of the annuity sales practices review provision in the year compared to £38 million of additional costs in 2020.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2021	2020
Wealth	**49**	75
– of which with-profits	**60**	88
– In-force	**112**	99
– New business	**(52)**	(11)
Heritage	**378**	446
– of which with-profits	**142**	105
– of which Shareholder annuity and other	**236**	341
Other Retail and Savings	**32**	31
Underlying capital generation	**459**	552
Model improvements	**116**	(32)
Assumption changes	**18**	167
Management actions and other (incl experience variances)	**487**	514
Other operating capital generation	**621**	649
Operating capital generation	**1,080**	1,201

Underlying capital generation for the year ended 31 December 2021 fell to £459 million (2020: £552 million), with a reduction in contribution from both Wealth and Heritage businesses.

In Wealth, the contribution from in-force with-profits business increased to £112 million (2020: £99 million) due to the gap between expected return and risk-free rates widening as yields fell during 2020. This increase was offset by a reduction from new with-profits business driven by increased new business strain as a result of changes in our hedging strategy. Capital generation across the remainder of the Wealth business also fell marginally over the period reflecting a full year of Ascentric losses. The combined impact across the Wealth business was a reduction in capital generation to £49 million (2020: £75 million).

Within the Heritage business, traditional with-profits business generated underlying capital of £142 million during the year to 31 December 2021 (2020: £105 million) again increasing as a result of the widening of the gap between expected returns and risk-free rates, partly offset by a reduction in the value of equity hedges as equity markets improved.

There also continued to be significant, although reduced, capital generation from the shareholder annuity and other business, contributing £236 million (2020: £342 million). The reduction in underlying capital generation for the annuity business is driven by a reduction in the expected return on surplus assets in the annuity portfolio as a result of falls in yields over 2020.

Other operating capital generation decreased to £621 million (2020: £649 million), reflecting lower impacts from assumptions changes in 2021 than over the previous year.

This reduction is primarily in relation to longevity assumption changes as discussed in the adjusted operating profit section, which were not as high in 2021.

Management actions and other generated capital of £487 million, including a £287 million impact from asset trading in the annuity portfolio, a £91 million impact from the rebalance of the equity and interest rate hedges, and the release of counterparty credit risk of £153 million following the Part VII transfer to Rothesay Life PLC. This was partially offset by a reduction in capital generation of £21 million following the merger of the SAIF with-profits sub fund with the main with-profits sub fund in April. Additionally, there was a reduction in capital of £26 million as a result of credit downgrades. In 2020 there was significant benefit of £413 million from a series of management actions taken to strengthen the solvency position in response to adverse market conditions.

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. The main output of this process, on which this assessment is based, is the "Business Plan" which covers the period to December 2024. The Business Plan was approved by the Board in December 2021, 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 18 of this report. 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 72 to 78 of this report. We assess these risks and uncertainties through stress and scenario testing as discussed later in this statement.

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 2024 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 impact of various severe, but plausible stresses and scenarios on the ability to deliver the Business Plan.

The individual stresses are developed by the Risk and Resilience team, with the Investment Office and Finance providing input into the development of the relevant scenarios. The process is overseen by the Group Risk Committee.

The following individual stresses were considered as part of the Business Plan:

- 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).

In addition, the Business Plan was subjected to various combined risk scenarios to assess the resilience of our financial position.

The impact of scenarios related to COVID-19 was an area of key focus for last year's strategic and financial planning process and we continue to monitor the ongoing impacts of the pandemic on our business. As the situation has evolved, we updated our scenarios in the Business Plan as follows based on potential outcomes for the global economy.

- Optimistic – Positive developments allow for a faster pace of global vaccination and a wide reopening of economies globally.
- Baseline – Vaccines to be rolled out in line with current projections, varying by region, and for economic recovery to continue as economies reopen.
- Pessimistic – Vaccination roll-out is further disrupted, possibly by the emergence of new strains of the virus, delaying the timing of any activity normalisation.

As economies begin to reopen and a recovery takes hold, post the unprecedented policy stimulus from both governments and central banks, higher inflation in the medium term remains an area to consider.

As part of the Business Plan, we have also tested the resilience of our financial position in a high inflationary environment and the economic implications resulting from it.

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 and another in which only market risks were stressed.

The derived scenarios indicated that the Group had the ability to withstand severe events while still meeting its capital requirements.

Climate risk has been an area of focus for the Board and although not covered specifically in the Business Plan, it has been 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:

- Early action – The transition to a net zero economy starts in 2021 so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions are reduced to net zero by around 2050.
- Late action – The implementation of policy to drive the transition to a net zero economy is delayed until 2031 and is therefore more sudden and disorderly.
- No additional action – The scenario primarily explores physical risks from climate change. Here, there are no new climate policies introduced beyond those already implemented.

In assessing viability, the Board also considered the availability of the £1.5 billion syndicated revolving credit facility which matures in 2024. As at 31 December 2021, the facility remained undrawn. In addition, the Group can access an active £10 billion Medium Term Note (MTN) programme to meet any immediate liquidity requirements.

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 2024.